REPORT ON ACTIVITIES

OF BANK HANDLOWY W WARSZAWIE SA

IN 2003

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I. The Polish economy in 2003

1. Main macroeconomic trends

After two years of stagnation, the Polish economy entered a revival phase in 2003. GDP grew by 3.7% versus 1.4% in 2002. In the face of slow recovery of investments and weaker dynamism of consumption in comparison with GDP, the main stimulator of economic growth in 2003 was exports.

On the supply side, the motor of growth was the industrial sector, and above all the manufacturing sector. Sold industrial output increased in 2003 by 8.7% in comparison with 1.1% in 2002, and the pace of its growth accelerated from quarter to quarter; in 1Q the increase was 4.4%, and in 4Q – 12.1%. Manufacturing industry output grew even faster – throughout 2003 by 10.5% and in the last quarter by 14.6%. The most rapid growth was in the industrial sectors producing for export; the production of automotive vehicles grew by almost 31%, furniture grew by 23%, machinery and electric appliances grew by almost 23%. Labour efficiency in the industrial sector grew by 12% with a concurrent drop of average employment by almost 3%.

The construction industry was slowly overcoming the recessive trends. Although in 2003 the pace of growth of the construction was still negative, its reduction was almost twice lower than in 2002 (5.9% versus 11.6%, respectively).

The growing pace of economic activity did not allow a substantial improvement of the labour market situation. Although the number of registered jobless decreased by 41,300 to 3.18 million (in 2002 it increased by 101,900), the registered unemployment rate in December 2003 remained unchanged from December 2002, i.e. 18.0% of the total workforce. According to unemployment data verified as of the end of 2003 (the verification concerned the number of professionally active people which was reduced as a result of the decrease in the number of persons employed in agriculture) the unemployment rate was 20% at the end of 2003, i.e. unchanged from the end of 2002.

In 2003, the balance of payments improved considerably. The current account deficit lowered from USD 6.7 billion in 2002 to less than USD 4 billion, and as measured in relation to GDP shrank from 3.5% to 1.9%. That resulted above all from a very high surplus in unregistered trade (USD 6.9 billion in 2003 in comparison with USD 4.1 billion in 2002), i.e. mainly in the suitcase and bazaar trade. Moreover, owing to the very high rate of export growth and moderate rate of import growth, the negative trade balance was reduced (by almost USD 700 million to USD 9.2 billion). Export in terms of payment grew by 31.5% year on year as expressed in USD, while import grew by 21.4% year on year. Such high growth rate of export was to a substantial degree an effect of sharp euro appreciation in 2003 (nominally by almost 21% against the dollar on average). As expressed in the European currency, the increase in export was lower (8.7%), but all the more impressive, considering the very small and slow upsurge in the economies of our main trade partners – the European Union Member States. The GDP in the euro zone increased in 2003 by as little as 0.4% year on year (estimation of the European Commission), and in Germany it was reduced according to the preliminary data by 0.2% year on year. Export acceleration in such difficult external conditions evidences an increase in competitiveness of Polish goods abroad, achieved not only as a result of euro appreciation, but also as a result of structural reforms performed in the Polish economy in 1990's with high participation of foreign capital.

The improvement of the current account balance was accompanied by an improvement in the structure of its financing. In 2003, the current account deficit was fully financed by the inflow of direct foreign investment, while in 2002 its participation was less than 50%.

The official currency reserves increased in 2003 by USD 4.18 billion and attained almost USD 34 billion as of the end of December, and thus they were maintained at a safe level in relation to import and foreign short-term debt.

In 2003 there was a marked decrease in inflationary pressure. The annual growth in consumer prices was 0.8% versus 1.9% in 2002. Disinflation was primarily an effect of lower annual increase in housing prices (including especially the prices of energy carriers) and prices of clothes and footwear. The growth in consumer prices was 1.7% December-on-December and in spite of the fact that it was higher than one year ago (0.8%), it did not reach the lower limit of the inflation target of the NBP (2-4%). The increase was caused mainly by the increase in food prices as a result of drought, while in 2002 food prices were reduced. On the other hand, the increase in prices of sold industrial output was higher than in 2002 – annually by 2.6% (1.0% one year ago), and as measured in December-on-December – by 3.7% (2.2%) – which was substantially affected by zloty depreciation.

Moderate dynamics of monetary aggregates and wages contributed to the control of inflation. The money supply, as measured by M3 aggregate, increased in 2003 by 5.5%. On the other hand, a rapid pace of increase in cash on hand was sustained (growth by 17.1% year on year) – an effect of decreasing interest rate on deposits. The average nominal gross wages in the enterprise sector increased in 2003 by 2.8% versus an increase by 3.4% in the previous year, and its real growth was 2.0% versus 1,5% in the previous year.

As of the end of December 2003, the budgetary deficit amounted to PLN 37 billion (i.e. 95.5% of the figure planned), i.e. 4.5% in relation to the GDP (5.0% in 2002). The reduction in the budgetary deficit was possible mainly due to the lower-than-planned level of service of domestic and foreign debt. The expenses for debt service have been playing the role of a hidden reserve in balancing of the annual budget for years. As a result, the advancement of total budgetary expenditure was 97.3% in 2003. Budgetary income attained 97.7% of the figure planned, and the lowest advancement was represented by personal income tax (93.9%). The revenue from indirect taxes – which constitute the highest position in budgetary revenue, with almost 63% share, was 98.2%, and from corporate income tax – 98.7%, of the annual plan.

BASIC MACROECONOMIC INDICATORS

	2003	2002	2001	Change 2003/2002
	% change over previous year			
Gross domestic product (growth in real terms)	3.7	1.4	1.0	2.3
Personal consumption	3.1	3.3	2.1	-0.2
Gross capital formation	(0.9)	(5.8)	(8.8)	4.9
Industrial sales (growth in real terms)	8.7	1.1	0.6	7.6
Net corporate margin (%)	1.7	(0.2)	(0.3)	1.9
Registered unemployment rate (%, December)	20.0	20.0	19.4	0.0
Inflation rates	**December/December**			
CPI	101.7	100.8	103.6	0.9
PPI	103.7	102.2	101.6	1.5
	% GDP			
Budgetary deficit	4.5	5.0	4.3	(0.5)
Current account deficit	1.9	3.5	3.8	(1.6)
	USD million			
Export of goods	42,809	32,945	30,275	9,864
Import of goods	52,478	43,297	41,950	9,181
Trade balance	(9,669)	(10,352)	(11,675)	683
Current account balance	(4,018)	(6,700)	(7,166)	2,682

2. Money and FX markets

In June 2003, the cycle of easing the monetary policy that started in 2001 ended. In the first half of 2003, the Monetary Policy Council ('MPC') cut its base rates six times, due to the low level of inflation and inflation expectations and a slow pace of economic recovery. The main reference rate – i.e. for 14-day reverse repo operations – was lowered by 1.5% to the level of 5.25%. In the second half of 2003, the MPC did not change the level of base rates, but lowered the rate of obligatory reserve of banks by 1% to 3.5% (and thus banks obtained in the region of PLN 3 billion worth of free funds), in lieu of a small cut in interest rates.

The continuation of small steps policy with respect to the base rates of the central bank – they were adjusted each time by one-quarter of a percentage point – caused sustained expectations of subsequent reductions throughout the whole first six months. A result of the market discounting subsequent expected base rates reductions was the decreasing tendency of inter-bank interest rates, which translated into a reduction of interest rates on deposits and loans by commercial banks. In the second half of 2003, the downward trend of market rates reversed and as a result there were increasing fears of the financial market about the possibility of financing the higher budgetary deficit in 2004 and the execution of the medium-term fiscal reform programme. These fears resulted in the abrupt outflow of portfolio capital from the debt securities market.

The consequence of these opposing tendencies was a very moderate reduction in WIBOR rates, especially longer-term maturities. WIBOR 1M was lowered in 2003 by 1.57%, WIBOR 3M - by 1.27%, and WIBOR 12M only by 0.39%; at the end of December 2003, these rates were 5.41%, 5.60% and 5.78%, respectively. The drop in average rates was more substantial – for example, the average WIBOR 3M dropped in 2003 to 5.69% from 9.0% in 2002.

The level of inter-bank interest rates changed under the influence of open market operations, which were mainly of absorbing nature due to excess liquidity prevailing in the banking sector. On the annual scale, the balance of open market operations (basic operations) was, however, reduced to PLN 6 billion from PLN 7.3 billion at the end of 2002, which reflects a progressive fall in the excess operating liquidity of the sector. In 2003, the NBP conducted also operations reducing excess structural liquidity (outright operations), selling at auctions converted State Treasury bonds issued in 1999 for the purpose of exchanging the indebtedness towards the Central Bank into market securities. Such operations were conducted during the first four months, and the value of the bonds sold was PLN 1.3 billion.

In the first six months of 2003, the downward trend of the yield on T-bills was maintained due to the very high demand (over 2.5 times higher than the supply of bills) resulting mainly from the expected reductions in base interest rates. In the second half of 2003, the budgetary and fiscal fears, the increasing political risk in the country, and also financial market fluctuations in Hungary made investors withdraw from the debt securities market, causing a slump in prices and an increase in yield on Treasury bills and bonds. As a result, the weighted average yield on T-bills dropped to 4.86% at the end of June from 5.73% at the end of December 2002, and in the second half of 2003 systematically increased, attaining 5.97% at the end of the year.

The events in the debt securities market had a determining impact on the situation in the FX market, although also other factors influenced the changes in the zloty exchange rate, in particular political ones (chronologically: collapse of the ruling coalition, war with Iraq, positive result of the accession referendum, risk of failure of the medium-term fiscal reform programme as a result of failure of its adoption or marked reduction by parliament). Violent changes in the direction of foreign portfolio investment translated into a marked increase in destabilisation of the zloty exchange rate, which was further intensified as a result of changes of USD/EUR relation. The dominating trend was nominal and real zloty depreciation, while due to the strong appreciation of euro in the world FX market the nominal dollar/euro exchange rate increased by 21% in the period between January and December 2003 – zloty depreciated above all with respect to the European currency. In relation to the dollar, zloty depreciation was substantially smaller, and periodically the Polish currency appreciated markedly in relation to the US currency.

The average euro exchange rate increased from 3.8552 PLN/EUR in 2002 to 4.3979 PLN/EUR in 2003, which means depreciation of the Polish currency in relation to euro by 14.1%. The average nominal dollar exchange rate was reduced from 4.0811 PLN/USD to 3.8902 PLN/USD, respectively, and thus zloty appreciated by 4.7% in relation to dollar. In relation to the virtual currency basket (55% euro and 45% dollar) zloty lost 5.6%. In 2003, real depreciation of zloty took place. The data of the Bank of International Settlements (BIS) demonstrate that the index of the real effective zloty exchange rate was reduced to the 1999 level after growth in 2001 and 2002.

3. Capital market

2003 was very favourable for investors investing in shares of companies listed on the Warsaw Stock Exchange (WSE). In response to the stronger and stronger symptoms of economic upsurge, almost all indices of the share market recorded significant growth. The main stock exchange index, WIG, grew from 14,367 points at the end of 2002 to 20,820 points at the end of 2003, i.e. by 45%, nearing its level from the first months of 2000, the period of previous economic prosperity. The highest boom was observed among smaller companies, which was demonstrated by the lower growth of indices of large and medium-sized companies than the main index – WIG20 and MIDWIG indices increased in the period described at the same pace of 34%. Investors had renewed interest in companies active in the advanced technology sector, which was signalled by the growth in the TechWIG index by 61% and WIG-INFORMATYKA index by 43%. Strong increases in share prices were also noted in the food processing sector, manifested by the increase in the sectoral index WIG-SPOŻYWCZY by 49%. Against this background, the listings of stock-listed banks appeared not so favourable, since the sectoral index WIG-BANKI gained only 9%. Also the weaker increase in prices of stock-listed companies in the telecommunication sector was disappointing – the WIG-TELEKOMUNIKACJA index gained 27%.

Stock exchange indices of the equity market as of 31 December

	2001	Change (%)	2002	Change (%)	2003
WIG20	1,208.34	(2.7)	1,175.64	33.9	1,574.04
MIDWIG	1,020.49	(6.9)	950.24	33.6	1,269.34
WIG	13,922.16	3.2	14,366.65	44.9	20,820.07
TechWIG	590.21	(39.7)	356.07	60.6	571.86
NIF	59.01	1.3	59.76	(1.8)	58.71
WIRR	1,763.73	(22.6)	1,365.62	100.7	2,740.68
WIG-PL	13922.16	3.2	14366.65	44.9	20,825.02
Sectoral sub-indices					
BANKI	20,456.77	17.8	24,091.01	8.8	26,221.76
SPOŻYWCZY	8,579.60	47.7	12,668.41	48.8	18,850.71
BUDOWNICTWO	12,214.32	(11.0)	10,876.41	36.5	14,847.47
INFORMATYKA	10,060.76	(6.6)	9,394.70	43.1	13,446.12
TELEKOMUNIKACJA	7,983.22	(24.0)	6,068.25	27.2	7,718.5

Source: WSE, Dom Maklerski Banku Handlowego S.A.

The return of boom on the WSE resulted in a substantial increase in the turnover in the equity market. After the drop of this turnover in 2001 and 2002, its value in 2003 increased by 23% to PLN 82.8 billion. The value of turnover on bonds increased threefold, to PLN 12.7 billion.

At the end of 2003, 203 companies were listed on the WSE. During the previous year, the Warsaw Stock Exchange market was left by 19 issuers, although 6 new companies appeared, including Bank Austria Creditanstalt – the first foreign company on the WSE.

The improvement of situation in the equity market had a positive effect on the market of future contracts for the WIG20 index. The number of contracts executed increased from 3.1 million in 2002 to 4.1 million in 2003 (up 35%), and the value of turnover increased from PLN 75.2 billion to PLN 113.7 billion (up 51%).

In spite of the general improvement of the situation on the stock exchange in 2003, and in particular of the increase in turnover, the number of brokers decreased from 24 to 21.

4. Banking sector

The gross profit earned by the banking sector increased from PLN 3.827 million in 2002 to PLN 4.651 million in 2003, i.e. by 22%. The net profit of the sector was PLN 2,512 million in 2003, which in comparison with PLN 2,338 million in 2002 reflected 7% growth. The slower growth in net profit in comparison with gross profit resulted mainly from the lowering of the corporate income tax rate from 1 January 2004 from 27% to 19%, which resulted in the necessity to recalculate deferred tax assets on the basis of the new tax rate. The negative difference from this recalculation on the scale of the whole sector reduced the net profit. Also gross and net losses disclosed by one of the stock exchange-listed banks, amounting to PLN 1,262 million and PLN 1,567 million, respectively, on the unit basis had an important impact on the level of profit of the sector in 2003. With the exclusion of these losses, the gross and net financial result of the sector would have increased by 42% and 48%, respectively.

The main factor contributing to the increase in the financial result of the sector was the reduction in the balance of net charges to provisions from PLN 6.5 billion to PLN 4 billion, which corresponded to the stabilisation of quality of the loan portfolio of the sector. As of the end of 2003, the share of problem loans in the loan portfolio was 20.9% versus 21.1% at the end of 2002. Stabilisation of the portfolio quality was an effect of an improvement in the economic situation in 2003, with a corresponding increase in profitability of enterprises.

In 2003 there was a slight increase in the growth of loans granted: loans for private persons increased by 17% in comparison with 14% in 2002, and the increase in loans for corporate customers was 3% in comparison with 1% in 2002. The main factor behind the growth in the portfolio of receivables from private customers were housing loans, which increased by 48%, exceeding the amount of PLN 30 billion. As of the end of 2003, the total value of the portfolio of receivables from the non-financial sector was PLN 233 billion, 7% higher than one year ago.

After the decrease by almost 3% in 2002, deposits of the non-financial sector increased in 2003 by 4% to PLN 288 billion. This increase was an effect of the growth – by as much as 21% in comparison with 0% in 2002 – in corporate deposits with the concurrent reduction of the rate of decrease in private customers' deposits to 2% in comparison with 3% in 2002. Accumulation of funds on corporate accounts is characteristic for the initial phase of the economic cycle that existed in 2003. In the case of the corporate sector, this phase brings about an increase in revenue from sale and profitability despite limited investment activity. The rate of decrease in private customers' deposits reduced to -2% from -7% in the first half of 2003, which resulted mainly from re-transferring by private investors some of their money from funds investing in bonds to bank accounts, in reaction to the drop in prices of debt securities in the second half of 2003.

II. Basic balance sheet data and financial results of Bank Handlowy w Warszawie SA

1. Summarised financial data of Bank Handlowy w Warszawie SA

PLN million	1997	1998	1999	2000	2001	2002	2003
Balance sheet total	17,020.1	17,744.4	19,159.9	21,002.5	33,150.4	32,181.6	33,268.6
Equity*	2,040.8	2,557.8	2,758.4	3,034.8	5,742.1	5,726.4	5,704.5
Loans**	8,546.9	9,292.7	10,208.8	10,054.1	14,200.0	13,540.4	13,256.0
Deposits**	5,460.9	7,084.0	8,733.9	10,166.3	17,370.1	16,699.3	18,504.4
Profit on banking activity	1,353.3	1,191.8	1,330.9	1,555.3	2,074.5	2,099.4	1,891.0
Net profit	577.5	301.5	472.5	204.7	163.6	242.7	242.5
Earnings per share or convertible bond (in PLN)	6.21	3.24	5.08	1.57	1.25	1.86	1.86
Dividend per share or convertible bond (in PLN)	1.40	1.00	2.00	1.00	1.25	1.85	1.85
Dividend payout ratio	22.51%	30.84%	39.37%	63.83%	99.81%	99.60%	99.67%
Capital adequacy ratio	12.7%	13.7%	14.5%	15.6%	21.2%	18.5%	16.0%

** Excluding net profit for the current period.*
*** Non-financial and public sector.*

2. Financial results of the Bank in 2003

2.1 Income statement

In 2003, Bank Handlowy w Warszawie SA ("the Bank") reported profit before taxation of PLN 392.2 million, which was up PLN 31.2 million or 8.6% from 2002.

The net profit of the Bank for 2003 was PLN 242.5 million and was at a level close to that attained in the previous year (PLN 242.7 million). The difference between the rate of increase in profit before taxation and net profit resulted mainly from the increase in the income tax charge on profit from PLN 125.6 million in 2002 to PLN 178.0 million in 2003.

The main factors contributing to the increase in the Bank's profit before taxation were a decrease of net charges to specific provisions and revaluation of financial assets. In 2003, these charges amounted to PLN 187.7 million, down PLN 256.3 million or 57.7% from 2002.

The total revenue of the Bank, represented by the profit on banking activity and other operating income, decreased by PLN 198.6 million or 9.2% to PLN 1,968.9 million in 2003, while total expenses consisting of other operating expenses, general expenses and depreciation and amortisation increased to by PLN 26.5 million or 1.9% to PLN 1,389.0 million.

INCOME STATEMENT

PLN '000	2003	2002	Change PLN '000	%
Interest income	1,373,643	1,780,798	(407,155)	(22.9%)
Interest expense	(628,444)	(1,095,028)	466,584	(42.6%)
Net interest income	745,199	685,770	59,429	8.7%
Net fee and commission income	522,151	503,807	18,344	3.6%
Income on shares, other securities and other financial instruments with variable income securities	64,750	7,933	56,817	716.2%
Gains on financial operations	77,566	388,900	(311,334)	(80.1%)
Foreign exchange profit	481,361	512,981	(31,620)	(6.2%)
Profit on banking activity	**1,891,027**	**2,099,390**	**(208,363)**	**(9.9%)**
Other operating income	77,865	68,043	9,822	14.4%
Other operating expenses	(41,314)	(39,048)	(2,266)	5.8%
General expenses	(1,119,779)	(1,088,173)	(31,606)	2.9%
Depreciation and amortisation	(155,445)	(162,770)	7,325	(4.5%)
Goodwill amortisation	(72,445)	(72,445)	-	-
Net charges to provisions and revaluation	(187,708)	(444,021)	256,313	(57.7%)
Operating profit	**392,201**	**360,976**	**31,225**	**8.7%**
Extraordinary items	-	1	(1)	(100.0%)
Profit before taxation	**392,201**	**360,977**	**31,224**	**8.6%**
Corporate income tax	(178,030)	(125,580)	(52,450)	41.8%
Participation in net profit/(loss) of subordinated entities accounted for under the equity method	28,339	7,292	21,047	288.6%
Net profit	**242,510**	**242,689**	**(179)**	**(0.1%)**

2.1.1 Profit on banking activity

In 2003, Bank reported profit on banking activity of PLN 2,099.4 million, down by PLN 208.4 million or 9.9% from 2002, mainly reflecting lower gains on financial operations, which decreased PLN 311.3 million or 80.1% to PLN 77.6 million. Such a marked reduction in this result was caused by the following factors:

- the fall in the result on the sale and revaluation of debt securities, which followed the unprecedented boom in the market of Treasury bonds in 2002, by 158.0 or 93.8% to PLN 10.4 million in 2003; the direct cause was the reversal of the downward trend in the market interest rates in the second half of 2003, and the consequent reduction in the price of debt securities. In order to protect itself against the potential continuation of falling prices of debt securities, the Bank executed special hedging IRS transactions in the last months of 2003.

- the fall in the result on financial instrument transactions – including the profit on Forward Rate Agreement transactions, Interest Rate Swap, Cross-currency Interest Rate Swap, Interest Rate Option, Equity Option, Commodity Option and other derivatives – by PLN 210.8 million or 93.6% to PLN 14.5 million in 2003

The negative impact exerted on gains on financial operations by the fall in the prices of debt securities and financial instruments was compensated to a certain degree by an increase in the result on minority investments which amounted to a gain of PLN 52.6 million in 2003, compared to a loss of PLN 12.9 million in 2002.

In 2003, net interest income amounted to PLN 745.2 million, up PLN 59.4 million or 8.7% from 2002. This increase was obtained by maintaining, and in some cases – such as credit cards – even increasing the interest margin on loan products, which outweighed the effect of narrowing interest margin on current accounts and deposits.

Net fee and commission income was PLN 522.2 million, up PLN 18.3 million or 3.6% from 2002. The growth was driven by fee and commission income on insurance products, transactional banking, fees for issuance and use of payment and credit cards, and fees for services provided by the Regional Processing Centre, Olsztyn.

2.1.2 Expenses

OPERATING EXPENSES

			Change	
PLN '000	**2002**	**2002**	**PLN '000**	**%**
Salaries	448,760	399,473	49,287	12.3%
Social security and other benefits	82,907	80,155	2,752	3.4%
Total personnel expenses	**531,667**	**479,628**	**52,039**	**10.8%**
Administrative expenses	568,963	538,603	30,360	5.6%
Taxes and fees	8,060	8,845	(785)	(8.9%)
Contributions and payments to the Bank Guarantee Fund	11,089	8,638	2,451	28.4%
Total general expenses	**1,119,779**	**1,035,714**	**84,065**	**8.1%**
Depreciation	155,445	162,770	(7,325)	(4.5%)
Total operating expenses	**1,275,224**	**1,198,484**	**76,740**	**6.4%**
Restructuring charge – personnel costs	-	29,332	(29,332)	(100.0%)
Restructuring charge – other general expenses	-	23,127	(23,127)	(100.0%)
Total expenses	**1,275,224**	**1,250,943**	**24,281**	**1.9%**

Total expenses of PLN 1,275.2 million in 2003 were up by PLN 24.3 or 1.9% from in 2002. The increase in operating expenses reflected additional costs connected with new agreements entered into with Citibank N.A. for the provision of IT system services and the Internet transaction service CitiDirect, and the agreement concerning the participation of the Bank's employees in incentive schemes of Citigroup Inc. An additional factor stimulating the increase in expenses was the intense development of consumer banking activity in CitiFinancial.

The main factors which contributed to the increase of personnel expenses by 10.8% include:

- execution of the NBP recommendations to recruit by contract of employment those persons who had worked for the Bank in an outsourcing scheme, which in particular concerned persons working in the CitiPhone call centre of the Consumer Banking Sector (190 persons) and a number of direct sales agents in the Small Business Division (13 persons).
- hiring new employees to the CitiFinancial Division;
- the April increase in salaries in the Bank by 4% on average;
- costs of severance benefits for persons managing the Bank;
- booking an accrual for expenses connected with the participation of the Bank's employees in incentive schemes of Citigroup Inc.

In 2003, the Bank continued restructuring aimed at lowering operating expense and the improvement of profitability. The most important undertakings conducted in 2003 were the reorganisation of the network of Bank branches (described in Chapter III section 15.2 of this Report) and the execution of a subsequent phase of staff reduction. The financial results of these activities will be fully visible in the next few years.

At the beginning of 2003, the Bank started a subsequent phase of staff reduction, contingent on the full implementation of Flexcube system for the Corporate and Investment Banking Sector, which was eventually completed in December 2002. By the end of May 2003, 470 persons in total were subject to employment restructuring, including 343 persons in Operations and Technology. The employees who were made redundant were offered severance packages and vocational training, in pursuance of an agreement made on 19 December 2002 between the Bank and labour unions operating within the Bank.

In spite of the execution of a subsequent phase of group staff reductions, employment in the Bank increased from 4,902 full time equivalents in December 2002 to 4,985 full time equivalents in December 2003. This was due to the above-described insourcing of a group of CitiPhone employees and direct sales agents, as well as an increase in employment in CitiFinancial.

2.1.3 Provisioning charges and financial assets revaluation

NET CHARGES TO PROVISIONS AND REVALUATION

			Change	
in PLN ‘000	**2003**	**2002**	**PLN ‘000**	**%**
Specific provisions	168,350	359,703	(191,353)	(53.2%)
- financial institutions	(28,024)	17,994	(46,018)	(255.7%)
- non-financial sector	123,158	316,251	(193,093)	(61.1%)
- subordinated loans	68,961	10,410	58,551	562.4%
- other	2,944	-	2,944	-
- off-balance sheet contingent liabilities	1,311	15,048	(13,737)	(91.3%)
Provision for general risk	-	-	-	-
Revaluation of financial assets	19,358	84,318	(64,960)	(77.0%)
Total net charges to provisions and net revaluation difference	**187,708**	**444,021**	**(256,313)**	**(57.7%)**

2003 brought about a considerable reduction of pressure on net provisioning cost, reflecting the relative stabilisation of the quality of Bank’s loan portfolio, acquisition of new collateral for exposure towards subsidiary companies of international corporations, as well as high level of provision coverage of receivables achieved in prior periods. Such substantial level of reduction in net provisioning cost was determined by the reduction in the net balance on charges to specific provisions for receivables from the non-financial sector from PLN 316.3 million to PLN 123.2 million, i.e. by 61.1%.

Revaluation of financial assets of PLN 19.4 million included charges for investments in the following companies: Wschodni Bank Cukrownictwa S.A. (“WBC S.A.”, PLN 10.4 million), Biuro Informacji Kredytowej S.A. (PLN 0.8 million), PPU Spomasz Sp. z o.o. (PLN 4.1 million) and Mostostal Zabrze Holding S.A. (PLN 8.6 million), and offset by a release in the provision for exposure in Budowa Centrum Plac Teatralny Sp. z o.o. (PLN 4.6 million). The creation of a provision for exposure in WBC S.A. was a result of the Bank’s participation in the Rehabilitation Programme of WBC S.A., whereby the Bank took a 7.39% holding in the equity if WBC S.A. The acquisition of WBC S.A. shares for PLN 14.8 million was financed on preferential terms by the Bank Guarantee Fund. Meanwhile, the release of the provision for the investment in BCPT Sp. z o.o. was a result of the company’s liquidation and its assets were taken over as fixed assets of the Bank.

Furthermore, the Bank created also additional specific provisions at the amount of PLN 69.0 million for subordinated loans financing the activity of special purpose investment vehicles Handlowy Investments S.A. and Handlowy Investments S.a.r.l.

2.1.4 Income tax

Net profit for 2003 was significantly affected by the increase in the income tax charge on profit by PLN 52.4 million in comparison with 2002. This increase was predominantly an effect of corporate income tax reduction from 27% to 19% from 1 January 2004, which resulted in the necessity to recalculate deferred tax assets on the basis of the new tax rate. The decrease in deferred tax assets from this recalculation amounted to PLN 49.7 million. The Bank did not utilise the tax relief earmarked for 2007-2009 pursuant to the Agreement of 30 October 2003 signed by the Polish Banks Association, the Minister of Economy, Labour and Social Affairs and the Minister of Finance. Instead, it undertook activities aimed at reducing the adverse impact of the reduction of CIT rate on the net profit by a comprehensive tax review of specific provisions.

2.1.5 Accounting for subordinated entities

In 2003, the participation in net profit/(loss) of subsidiaries accounted for under the equity method was PLN 28.3 million, up PLN 21.0 million or 288.6% from 2002, 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 Banku Handlowego S.A., Handlowy Inwestycje Sp. z o.o., Handlowy Inwestycje II Sp. z o.o., Handlowy Investments S.A., Handlowy Inwestments II S.a.r.l., Bank Rozwoju Cukrownictwa S.A., Polskie Pracownicze Towarzystwo Emerytalne DIAMENT S.A., PKO/ Handlowy Powszechne Towarzystwo Emerytalne S.A., Handlowy-Heller S.A., KP Konsorcjum Sp. z o.o. The most significant were Citileasing Sp. z o.o. totalling PLN 17,4 million and Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A totalling PLN 7.0 million.

2.1.6 Ratio analysis

In general, Returin on Owners' Equity (ROE) and Return on Assets were maintained at 2002 level, reflecting stabilisation of all financial parameters used for the calculation of these ratios, i.e. of net profit and average balance of equity and balance sheet total. The increase in interest margin on assets reflected the increase in net interest income. The cost/income ration deteriorated mostly due to a drop of profit on banking activity. In spite of that, its value was at a level close to the average for the whole banking sector in Poland.

PROFITABILITY AND COST EFFICIENCY RATIOS

	2003	2002
Return on owners' equity (ROE)*	4.1%	4.1%
Return on assets (ROA)*	0.8%	0.8%
Net interest margin (NIM)**	2.3%	2.2%
Cost/Income****	66.9%	59.5%

** Net profit divided by average equity and retained earnings (including current period's net profit) 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 expenses, depreciation and other operating expenses (excluding goodwill amortisation) to the sum of the profit on banking activity and other operating income.*

2.2 Balance sheet

At December 31, 2003 total assets were PLN 33.3 billion, an increase of PLN 1.1 billion or 3.4% from the prior year. The increase in total assets was to a substantial extent a result of the dynamic increase in liabilities due to the non-financial sector, which increased from PLN 16.1 million to PLN 18.0 billion, reflecting the effect of an increase in funds deposited on accounts of enterprises which in general noted in 2003 an increase in revenue from the sale of goods and services, but at the same time still did not decide to substantially increase investment spending.

BALANCE SHEET

	As of		Change	
PLN '000	**31/12/2003**	**31/12/2002**	**PLN '000**	**%**
Cash, operations with the Central Bank	1,186,514	979,308	207,206	21.2%
Due from the financial sector*	8,722,903	5,408,047	3,314,856	61.3%
Due from the non-financial sector	13,252,870	13,535,347	(282,477)	(2.1%)
Due from the public sector	3,131	5,096	(1,965)	(38.6%)
Debt securities*	3,371,706	4,296,398	(924,692)	(21.5%)
Equity investments*	459,721	598,164	(138,443)	(23.1%)
Other financial assets*	3,624,437	4,523,450	(899,013)	(19.9%)
Intangible assets	1,295,012	1,377,477	(82,465)	(6.0%)
- including: goodwill	1,243,645	1,316,091	(72,446)	(5.5%)
Tangible fixed assets	764,145	816,655	(52,510)	(6.4%)
Other assets	588,148	641,665	(53,517)	(8.3%)
TOTAL ASSETS	**33,268,587**	**32,181,607**	**1,086,980**	**3.4%**
Due to the Central Bank	41,145	121,940	(80,795)	(66.3%)
Due to the financial sector	3,826,082	3,448,194	377,888	11.0%
Due to the non-financial sector	18,039,260	16,062,959	1,976,301	12.3%
Due to the public sector	465,145	636,294	(171,149)	(26.9%)
Other liabilities arising from financial instruments	3,362,332	4,182,578	(820,246)	(19.6%)
Other liabilities	1,140,325	1,315,138	(174,813)	(13.3%)
Provisions	447,331	445,395	1,936	0.4%
Equity and retained earnings	5,704,457	5,726,420	(21,963)	(0.4%)
Net profit	242,510	242,689	(179)	(0.1%)
TOTAL LIABILITIES	**33,268,587**	**32,181,607**	**1,086,980**	**3.4%**

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

2.2.1 Assets

The increase in funds held by enterprises also had an effect on the asset side of the Bank's balance sheet. A surplus in these funds was deposited on the inter-bank market, which resulted in a significant increase in receivables from the financial sector. The increase in financial resources of corporate customers of the Bank also had an effect on the level of receivables from the non-financial sector, which decreased. This resulted mainly from the reduction of overdraft balances of corporate customers.

In 2003, the Bank decided to shorten its position on debt securities. This decision was made following unfavourable events in the market of these securities in the second half of 2003.

The growth of corporate debt securities followed from the Bank's active involvement in the commercial paper origination market, where it occupied a leading position.

DEBT SECURITIES PORTFOLIO*

	As of		Change	
PLN '000	**31/12/2003**	**31/12/2002**	**PLN '000**	**%**
Treasury bonds	2,351,931	3,101,129	(749,198)	(24.2%)
NBP bonds	384,884	644,489	(259,605)	(40.3%)
Treasury bills	146,106	94,534	51,573	54.6%
Certificates of deposit and bonds issued by banks	57,221	79,229	(22,008)	(27.8%)
Issued by other financial institutions	297	2,691	(2,394)	(89.0%)
Issued by non-financial sector	431,266	374,326	56,940	15.2%
T O T A L	**3,371,706**	**4,296,398**	**(924,692)**	**(21.5%)**

** Convertible bonds issued by Handlowy Investments S.A. have been reclassified to equity investments.*

The strategy of gradual reduction of the Bank's equity investments and the creation of additional provisions for subordinated loans financing the Bank's investment companies contributed to a further reduction in the balance sheet value of the equity investments portfolio in 2003.

At the end of 2003, the asset side of the Bank's balance sheet was characterised by high liquidity. A relatively high share of by assets had a very short maturity date – for example inter-bank deposits – and or represented tradable assets – such as government debt securities. Such an asset profile constitutes a good base for the future development of granting loans for customers.

2.2.2 Liabilities and equity

The main method of financing the Bank's assets was through liabilities to non-financial customers. In 2003, these liabilities increased owing to successful corporate deposits acquisition – a market in which the Bank held the leader position. A particularly rapid growth in these deposits was observed in the last months of the year, which was connected with the increasing financial liquidity of Polish enterprises.

In 2003, liabilities to financial customers were lower than receivables from this sector. At the end of the year this difference exceeded PLN 5 billion, reflecting high excess liquidity in the Bank.

Equity and retained earnings were almost unchanged in comparison with the end of 2002 as a result of distributing almost the entire 2002 profit as a dividend to shareholders.

An important factor on the size of the Bank's balance sheet is the level of unrealised profit/loss on derivatives transactions, which reflects the scale of off-balance sheet purchase/sale transactions carried out by the Bank. Derivatives in a net receivable position are reported as "Other financial assets" and derivatives in a net payable position are reported as "Other liabilities arising from financial instruments".

2.3 Equity and capital adequacy

In 2003, the equity of the Bank was maintained at a stable level, which resulted from the distribution of almost the entire 2002 profit as a dividend to shareholders (PLN 241.7 million). Only a small part of the profit amounting to PLN 1.0 million increased the reserve capital.

An important event in 2003 was the change in the structure of equity in the period described was an increase in authorised capital by PLN 21,736,000 through a share conversion of 5,434,000 Special Participating Convertible Bonds owned by Powszechny Zakład Ubezpieczeń S.A.

On 25 June 2003 the Ordinary General Meeting of Shareholders of Bank Handlowy w Warszawie SA adopted a resolution to utilise the reserve capital to cover loss of PLN 31.3 million resulting from the application – for the first time as of January 1, 2002 – of the valuation of investments in subordinated entities using the equity method. The financial statements of the Bank as of 31 December 2002 report this loss under profit/(loss) from previous years.

EQUITY

	As of		Change	
PLN '000	31/12/2003	31/12/2002	PLN '000	%
Authorised capital	522,638	500,902	21,736	4.3%
Capital surplus	3,044,585	3,044,585	-	-
Reserve capital	1,725,273	1,754,547	(29,274)	(1.7%)
Revaluation reserve	21,961	45,968	(24,007)	(52.2%)
General risk fund	390,000	390,000	-	-
Other supplementary capital*	-	21,736	(21,736)	(100.0%)
Profit (loss) from previous years	-	(31,318)	31,318	(100.0%)
Total equity	**5,704,457**	**5,726,420**	**(21,963)**	**(0.4%)**
Core capital	5,682,496	5,658,716	23,780	0.4%
Supplementary capital	21,961	67,704	(45,743)	(67.6%)

** Special Participating Convertible Bonds.*

At the end of 2003, in terms of total equity, 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.

As of 31 December 2003 the only shareholder holding at least 5% of the Bank's authorised capital and of total voting rights at the General Meeting of Shareholders was Citibank Overseas Investment Corporation ("COIC") based in Newcastle, United States, a subsidiary of Citibank N.A. It then held 116,717.574 shares in the Bank, i.e. 89.33% interest in the Bank's authorised capital entitling it to exercise 89.33% votes at the General Meeting of Shareholders. In 2003, the holding of COIC decreased as a result of the dilution of the authorised capital due to the conversion of 5,434,000 Special Participating Convertible Bonds held by Powszechny Zakład Ubezpieczeń S.A. into ordinary series B bearer shares. The increase of the authorised capital of the Bank as a result of the above operation was registered on 16 June 2003 by the District Court for the Capital City of Warsaw, 19th Commercial Register Department.

CAPITAL ADEQUACY RATIO

	As of	
PLN '000	31/12/2003	31/12/2002
Balance sheet value of capital funds	**5,704,457**	**5,726,420**
Deductions, of which:	1,113,992	780,685
- goodwill	746,187	394,827
- other intangible fixed assets	30,820	18,415
- investments in subordinated financial institutions	344,544	352,070
- financial assets revaluation reserve fund	(7,559)	15,373
Eligible capital	**4,590,465**	**4,945,735**
Risk-weighted assets and contingent liabilities (bank portfolio)	**20,098,770**	**21,525,850**
Total capital requirement, of which:	**2,289,828**	**2,134,678**
- capital requirement for credit risk	1,607,902	1,722,068
- capital requirement due to the excess of credit concentration limit	317,650	-
- total capital requirement for market risks	364,276	412,610
Capital Adequacy Ratio	**16.04%**	**18.53%**

As of the end of 2003, the capital adequacy ratio of the Bank was 16.04% compared with 18.53% at the end of 2002. The decrease was mainly due to the increase in the deduction rate applicable to intangible assets from 30% in 2002 to 60% in 2003 (in 2004 the said rate will further increase to 100%, according to the applicable legal regulations).

Another factor, which contributed to the decrease in the capital adequacy ratio, was the creation of an additional capital requirement due to exceeding by the Bank the credit concentration limit towards a related entity from the banking sector. The limit was exceeded by receivables arising from trading book transactions and thus permissible by applicable regulations.

In spite of the decrease, the capital adequacy ratio should be considered relatively high, and the level of equity as ensuring the security of funds deposited in the Bank by its customers.

III. The Bank's activities

1. *Lending and other risk exposures*

1.1 Lending

In 2003, the Bank continued its prudent lending policy, applying the rules of credit risk evaluation taken over from Citibank. In spite of the increase in exposure in the first half of 2003, over the whole year a decrease in the size of loan portfolio occurred. As of the end of the year, gross lending to non-bank customers stood at PLN 15,213.8 million, down by PLN 291.4 million or 1.9% from the end of 2002.

Lending to non-bank customers (gross)

	As of		**Change**	
PLN '000	**31/12/2003**	**31/12/2002**	**PLN '000**	**%**
Loans to non-financial customers	14,079,865	14,344,867	(265,002)	(1.8%)
Loans to financial institutions	1,131,309	1,155,708	(24,399)	(2.1%)
Loans to public sector	2,636	4,664	(2,028)	(43.5%)
Total	**15,213,810**	**15,505,239**	**(291,429)**	**(1.9%)**
Non-financial corporate customers	12,578,169	12,874,634	(296,465)	(2.3%)
Non-bank financial institutions	1,131,309	1,155,708	(24,399)	(2.1%)
Individual customers	1,486,250	1,365,152	121,098	8.9%
Other non-financial entities	15,446	105,081	(89,635)	(85.3%)
Public sector	2,636	4,664	(2,028)	(43.5%)
Total	**15,213,810**	**15,505,239**	**(291,429)**	**(1.9%)**
Loans in PLN	10,627,752	10,604,932	22,820	0.2%
Loans in foreign currencies	4,586,058	4,900,307	(314,249)	(6.4%)
Total	**15,213,810**	**15,505,239**	**(291,429)**	**(1.9%)**

Gross loans, excluding interest receivable.

Similarly as in previous years, lending to non-financial corporate customers formed the core of the gross loan portfolio. The gross value of these receivables fell by PLN 296.5 million or 2.3% to PLN 12,578.2 million at the end of 2003, mainly as a result of reduction in overdrafts of corporate customers in December 2003. The Bank's share in the corporate loans market was reduced from 9.7% to 9.1%.

The majority of the Bank's credit exposure to non-bank financial institutions was attributable to the funding of the Bank's leasing subsidiaries Handlowy-Leasing S.A. and Citileasing Sp. z o.o. As of 31 December 2003, the total value of credit exposure to those entities amounted to PLN 785.8 million, down PLN 89.9 million or 11.9% from the end of 2002. Lending to the Bank's Capital Group entities is based on the same terms as to third-party customers.

In 2003, the upward trend in lending to individuals, represented mainly by debt on credit cards used by customers, was maintained. At the end of December 2003, the gross value of receivables in respect of credit cards was PLN 835.9, up PLN 83.3 million or 11.1% from end of 2002. The increase in the portfolio of loans to individuals was also supported by very good results of sale of Personal Instalment Loans offered by the Consumer Banking Sector and CitiFinancial loans. The Bank's share in the market of loans for individual measured by the value of gross receivables (excluding housing loans which were not included in the Bank's offer in 2003) increased in 2003 from 3.3% to 3.5%.

In 2003, only slight changes were observed in the currency composition of the credit portfolio. The share of foreign currency loans decreased from 31.6% to 30.1%, while it should be remembered that a large part of these loans is denominated in euro, which appreciated in 2003 in relation to zloty by as much as 17.3%. The Bank grants foreign currency loans to customers who can provide a natural hedge against FX risk in the form of foreign currency cash flows from exports or customers who, in the Bank's opinion, are able to absorb the risk of depreciation of the Polish currency without a significant deterioration of their financial position.

The Bank monitors the concentration of its exposure portfolio on a regular basis, seeking to avoid a situation where the portfolio is dependent on a limited group of customers. As of 31 December 2003, the bank portfolio did not include any exposure exceeding the exposure limits laid down by the law. The largest exposure was related to the financing of a leasing company owned by the Bank.

1.2 Quality of loan portfolio

In 2003, the Bank noted a relative stabilisation of the quality of its loan portfolio. The share of classified loans in total loans (gross) rose slightly during the period – from 29.4% to 29.8%.

QUALITY OF LOAN PORTFOLIO

	As of			
	31/12/2003		31/12/2002	
Gross loans to non-bank customers*				
by classification:	PLN '000	% share	PLN '000	% share
Normal	9,053,548	59.5%	9,245,925	59.7%
Watch	1,625,103	10.7%	1,694,536	10.9%
Problem	4,535,159	29.8%	4,564,778	29.4%
- substandard	709,186	4.7%	1,096,069	7.1%
- doubtful	1,935,282	12.7%	1,889,792	12.2%
- loss	1,890,691	12.4%	1,578,917	10.2%
Total	**15,213,810**	**100.0%**	**15,505,239**	**100.0%**

** Excluding interest receivable.*

A significant proportion of loans were classified as problem owing to the uncertain financial position of borrowers, irrespective of whether their debt was serviced on a timely basis or whether the loans were secured by guarantees from high-rated companies. This is confirmed by the share of overdue loans (i.e.

characterised by a delay in payment exceeding 30 days) in the gross loan portfolio, which for the non-bank sector amounted at the end of the year to 11.6%, much below the share of classified loans.

Another useful measure of quality of the Bank's credit portfolio is the amount of loans under restructuring or in collection, which as of the end of December 2003 was PLN 2,117 million, down PLN 15 million of 0.7% from the end of December 2002, more than twice below the level of total problem loans. Overall, the headcount in the units responsible for managing such loans, i.e. the Restructuring Department in the Risk Management Division and the Restructuring and Collections Unit in the Small- and Medium Enterprises Division, totalled 29 people. In the period described, the Restructuring Department obtained particularly good results, as it managed to recover substantial amounts of bad debt.

SPECIFIC PROVISIONS FOR LOANS TO NON-BANK CUSTOMERS

	As of		Change from	
PLN '000	**31/12/2003**	**31/12/2002**	**PLN '000**	**%**
Specific provisions for:	1,505,931	1,470,434	35,497	2.4%
- watch loans	-	-	-	-
- problem loans	1,505,931	1,470,434	35,497	2.4%
General risk provision	300,000	300,000	-	-
Total provisions	**1,805,931**	**1,770,434**	**35,497**	**2.0%**
Provision coverage of the total loan portfolio	11.9%	11.4%		
Provision coverage of problem loans	39.8%	38.8%		

As of 31 December 2003, the amount of specific provisions for problem loans was PLN 1,505.9 million and met the requirements specified by the regulations of the National Bank of Poland. The Bank also maintained general risk provision in the amount of PLN 300 million, created in previous years, which provided an additional security against risk not covered by specific provisions. The ratios of coverage of receivables with provisions were maintained at a stable level. It should be noted that the level of these ratios is particularly affected by the fact that the Bank has high exposure towards customers, which are subsidiaries of international corporations (so-called Global Relationship Banking segment). In accordance with NBP requirements in force in 2003, these companies were classified from the point of view of credit risk as stand-alone entities, irrespectively of the fact that the receivables from this group of customers were usually secured by guarantees obtained from their foreign parent companies. As a result, as of 31 December 2003, PLN 1,262 million of gross exposure towards GRB customers was classified as sub-standard or problem loans.

In 2003, the Bank wrote-off loan losses against previously created provisions for bads debt amounting to PLN 54.6 million.

1.3 Off-balance sheet exposures

In 2003, the Bank noted a significant increase in off-balance sheet exposures. This was largely due to the inclusion of forward placements totalling PLN 3,179.4 million, representing inter-bank deposits pending funds transfer.

The increase in undrawn credit lines of PLN 1,371.8 million or 20.6% reflected the decrease in overdrafts, as a result of which the utilisation of credit limits available to holders of current accounts decreased.

CONTINGENT LIABILITIES EXTENDED

PLN '000	As of 31/12/2003	31/12/2002	Change PLN '000	%
Guarantees	3,020,936	2,738,719	282,217	10.3%
Letters of credit issued	160,337	187,117	(26,780)	(14.3%)
Confirmed letters of credit	16,969	12,013	4,956	41.3%
Undrawn credit lines	8,034,233	6,662,409	1,371,824	20.6%
Forward placements	3,179,425	-	3,179,425	---
Other financing	646,991	-	646,991	---
Total	**15,058,891**	**9,600,258**	**5,458,633**	**56.9%**
Provisions for contingent liabilities	145,019	145,307	(288)	(0.2%)
Provision coverage	0.96%	1.51%		

The decrease in the value of letters of credit issued reflects the declining demand for this instrument, which corresponds to an increasing use of simpler methods of payment of trade accounts, such as direct debit.

2. *External Funding*

As of 31 December 2003, the total value of external funding of the Bank was PLN 22,287.7 million and was higher by PLN 2,116.6 million or 10.5% than at the end of 2002. Liabilities due to the non-financial sector increased by PLN 1,991.9 million (12.5%), and were the component of the increase of external funding of the Bank's operations, reflecting the increase in corporate deposits in the last month of 2003, connected with the increasing surplus of financial liquidity of this sector. An additional factor supporting the acquisition of corporate deposits was the traditionally extensive transactional banking offer in which the Bank traditionally holds the position of market leader.

EXTERNAL FUNDING

PLN '000	As of 31/12/2003	31/12/2002	Change PLN '000	%
Due to the central bank	**40,816**	**121,344**	**(80,528)**	**(66.4%)**
Due to financial institutions	**3,806,003**	**3,430,715**	**375,288**	**10.9%**
Current	2,343,320	1,886,237	457,083	24.2%
Term deposits	1,462,683	1,544,478	(81,795)	(5.3%)
- interbank deposits	611,635	472,923	138,712	29.3%
- interbank loans	545,332	522,103	23,229	4.4%
- term deposits of non-bank financial institutions	305,716	549,452	(243,736)	(44.4%)
Due to non-financial sector	**17,976,054**	**15,984,177**	**1,991,877**	**12.5%**
Current	8,877,277	7,548,770	1,328,507	17.6%
Term deposits	9,098,777	8,435,407	663,370	7.9%
Due to the public sector	**464,801**	**634,793**	**(169,992)**	**(26.8%)**
Current	304,107	410,686	(106,579)	(26.0%)
Term deposits	160,694	224,107	(63,413)	(28.3%)
Total external funding	**22,287,674**	**20,171,029**	**2,116,645**	**10.5%**

Excluding accrued interest.

The upward trend in the market of corporate deposits proved to be so strong, that time deposits, which in a low interest rate environment usually display a decreasing trend (visible in the first six months of 2003), increased.

The increase in liabilities towards non-financial corporate customers occurred in the whole banking sector in 2003 and the Bank's share in this market remained at 15%, the top position in the sector.

The declining trend in deposits from individuals, attributable to interest rate cuts and the introduction of withholding tax on interest income obtained by individuals, was contained in 2003. The renewed surge in savings of individual customers to the Bank was associated mainly with the withdrawal of consumers from investments into debt security investment funds. The customers were discouraged by the lower and lower rates of return on these funds – caused predominantly by the drop in bond prices in the second half of 2003.

In total, the Bank's share in the market of consumer deposits increased in 2003 from 2.9% to 3.0%.

DEPOSITS FROM NON-BANK CUSTOMERS

	As of		Change	
PLN '000	**31/12/2003**	**31/12/2002**	**PLN '000**	**%**
Individual customers	5,977,170	6,013,546	(36,376)	(0.6%)
Non-financial corporate customers	11,133,152	9,066,496	2,066,656	22.8%
Non-profit organisations	830,607	890,373	(59,766)	(6.7%)
Non-bank financial institutions	1,802,576	1,363,253	439,323	32.2%
Public sector	464,801	634,793	(169,992)	(26.8%)
Suspense account liabilities	35,126	13,762	21,364	155.2%
Total	**20,243,432**	**17,982,223**	**2,261,209**	**12.6%**
Current	10,678,242	8,773,258	1,904,984	21.7%
Term deposits	9,565,190	9,208,965	356,225	3.9%
Total	**20,243,432**	**17,982,223**	**2,261,209**	**12.6%**
PLN	14,927,513	12,985,687	1,941,826	15.0%
Foreign currency	5,315,919	4,996,536	319,383	6.4%
Total	**20,243,432**	**17,982,223**	**2,261,209**	**12.6%**

Excluding accrued interest.

The drop in deposits from the public sector in 2003 resulted to a large extent from the increasing competition from banks controlled by the State Treasury. Among other things, public sector entities were relieved of the obligation to tender for banking services if they chose to contract such services to state-owned Bank Gospodarstwa Krajowego S.A. The Bank's share in the public sector deposit market decreased during the reported period from 3.1% to 2.3%.

3. Transactional banking

In terms of cash management and transactional services for enterprises, 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. Development of this kind of activity is conducted in cooperation with Citigroup Global Transaction Services.

In 2003, the Bank's offering of cash management and transactional services for enterprises included the following product groups:

- electronic and Internet banking

- receivables management
- liquidity management
- payments
- trade finance
- trade servicing

3.1 Electronic and Internet banking

In the area of electronic banking, the Bank experienced a rapid increase in the use of transactional platform *CitiDirect*, a key component of the Internet cash management service for corporate customers. At the end 2003 the Bank had 5,957 *CitiDirect* terminals installed compared to 3,170 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 expanded reporting as well as data import/export functionality. Security is maintained by the latest data encoding techniques. It is planned that all corporate customers using the former electronic banking products (such as *Goniec* and *MTMS32* offered before the merger by Bank Handlowy w Warszawie SA and Citibank (Poland) S.A., respectively) eventually will be serviced by *CitiDirect*. At the end of 2003, the Bank serviced in total 13,000 Internet banking terminals installed at corporate customers. All electronic banking systems used by the Bank's customers were adjusted to the requirements of the NRB/IBAN standard. The high level of the offer of Internet banking for customers was appreciated by experts of the prestigious Global Finance magazine, who once again nominated the Bank as "Best Corporate/Institutional Internet Bank in Poland 2003".

In 2003, intensive activities aimed to limit the exchange of paper documents between the Bank and its customers took place. A significant achievement was the introduction of electronic distribution of bank statements to corporate customers of the Bank in March and the conversion of about 20% of the total number of statements into this method during the year. The array of services of electronic distribution of statements included *e-statements* – i.e. distribution of statements in the PDF format via the *CitiDirect* platform, *Wyciągi e-mail* (*e-mail statements*) – i.e. the dispatch of statements in the PDF format via e-mail, and also *Elektroniczne Archiwum Wyciągów and Awiz* (*Electronic Archive of Statements and Postal Delivery Notifications*) – i.e. archiving of statements on a CD-ROM. In December 2003, these services were used by over 2,500 customers of the Bank, of whom 2,000 via the *CitiDirect* platform.

3.2 Receivables management

In the area of receivables management, the Bank developed *Unikasa - Sieć Obsługi Płatności* (Unikasa Payment Servicing Network), a new product implemented at the turn of 2002 and 2003, which allows making utility bills payments by individuals at the occasion of a visit, for example, in a hypermarket, or at a petrol station. In 2003 the Unikasa network encompassed several hundred locations. Cooperation was commenced with such networks as Geant Polska, Leader Price and Tesco. Moreover, in cooperation with PKN Orlen and Statoil Polska, a pilot programme making it possible to accept payments also at petrol stations was launched. Currently, almost 100 points at petrol stations operate, which under the sign "Unikasa – here you will pay your bills" make it possible to pay invoices of mass creditors. In order to enlarge the array of bills which can be paid in Unikasa, the Bank entered into cooperation with the largest mass creditors in Poland.

In 2003, there was a further significant increase in the use of the *Speedcollect* system for mass payments. This system enables corporate customers of the Bank to automatically allocate payments made by their clients to appropriate accounts and to reconcile account balances. The system is offered to mobile and cable telecom operators, cable TV providers, distributors of gas and power supply and insurance companies. In 2003, a significant increase in the number of transactions processed and in fee income on this product was noted. The number of transactions processed in 2003 as part of *SpeedCollect* services was 121.6 million, up 34.6 million or 40% from 2002. The *SpeedCollect* system was fully adjusted for processing transactions in the new bank account format – IBAN/NRB. The functionality of the system was enlarged by a new module – *SpeedCollect Plus* – a system which makes it possible to reconcile in the Bank's office so-called "problem payments". Currently, owing to the comparison of payments expected by the customer with payments recorded on his account, the Bank corrects payments which have not been recognised, for example due to erroneous data, collective recording, or partial payments.

2003 was also marked by the strong development of so-called *Polecenie Zapłaty* (*Direct Debit*). The Bank co-created and actively participates in a coalition for Direct Debit. This coalition is a joint initiative undertaken by service providers who offer Direct Debit to their customers. These are banks servicing Direct Debit and National Clearing House under the patronage of the Association of Polish Banks. The objective of this coalition is to promote and inform about direct debit as a service. In 2003, the Bank launched a Direct Debit service for a number of new customers, including telephone operators, distributors of gas and power supply, and insurance companies. The joint initiative of Global Transaction Services and Consumer Banking resulted in the implementation of Direct Debit by telephone. The Bank is the first to introduce this type of service in Poland. The effect of these activities was the doubling of the number of transactions serviced by the Bank to 2.85 million, which enabled the Bank to reinforce its position of leader in the market of Direct Debits, with 57% share in December 2003.

3.3 Liquidity management

2003 was also an important year one for liquidity management products. In 2003 it was observed that some depositors started to attach more value to the optimisation of their funds and decided to buy participation units in investment funds. In order to meet customer expectations, the Bank entered into a distribution agreement with TFI Banku Handlowego S.A. Under this agreement, the customers can open via the Bank registers in the investment fund CitiPłynnościowy SFIO, an alternative for depositing funds in several-day or overnight deposits. In the past year the Bank acquired a number of customers who invested in the new product characterised by high liquidity and the possibility of diversification of the funds invested. In order to attract other customers, the Bank has introduced a new product – "Lokata MIX" ("MIX Deposit"), which is a combination of investing financial surpluses of customers in time deposits and in participation units in CitiPłynnościowy SFIO.

A product used to manage liquidity of globally active customers who manage their liquidity at an international level is *Cross-Border Pooling*. Citibank London manages this product through the virtual concentration of funds originating from individual companies active in the whole area of the European Union and other countries of Europe takes place. The product is based on a system of automatic accounting reclassifications between Citibank in London and Citibank in the country of origin of the company. In 2003, the Bank introduced *Cross-Border Pooling* to its customers, thus becoming the only Polish bank offering such a product in the Polish market.

3.4 Payments

In connection with the increasing necessity of securing transactions in economic trade, the Bank introduced *Escrow Accounts* into the portfolio of its services. The purpose of this service is to secure both purchaser's and supplier's interests. The funds deposited on an Escrow Account are freed to one party to the transaction upon the satisfaction of conditions specified in the Escrow Account agreement. The decision to pay out the funds is made by the Bank which undertakes an obligation to verify the documents constituting the basis for the payment of funds.

In 2003, the product offer in the area of cash service was widely enlarged. An additional service increasing the competitiveness and completeness of the product was introduced – cash transportation. The Bank entered into cooperation with a cash transportation company, which collects cash from the customer's premises and deposits it in units of the Bank. In March 2003, a promotional offer of cash depositing for the Small-and-Medium Enterprises Sector was implemented and 118 new cash collection agreements were signed by the end of 2003. The Bank noted also an increase in the amount of counted cash by 22% in comparison with 2002. Moreover, the Bank extended its cooperation with a company providing cash counting and sorting services. As a result, the company took over the service of 13 cash counting offices, while 3 more remained with the Bank. The corresponding figures in 2002 were 5 and 16 respectively.

In 2003, the Card Products Management Department supplemented the offer of Citibank Business cards by the *Debit Citibank Business Card*. This event was of very high importance due to the fact that such a product was issued for the first time globally within Citigroup. Moreover, there was further development of *Pre-Paid Payment Cards*. 13 new agreements for the issuance of Pre-Paid Payment Cards within the framework of loyalty-building and promotional programmes were signed, which resulted in issuance of 12,329 cards. In addition 66 agreements for the issuance of Electronic Trading Stamps and 105,856 cards were issued within the framework of these projects. In total, 80 corporate customers of the Bank used pre-paid cards in loyalty-building programmes or used the option of the electronic trading stamp. They included such institutions as Amica Wronki, Carlsberg Okocim, Nestle Polska, Polfa Kutno S.A., ICI Polska Sp. z o.o., Electrolux Poland Sp. z o.o., Bosch-Siemens, British American Tobacco Polska, General Motors/Opel, Śnieżka S.A., JVC Poland, Pekaes Multi-Spedytor. The Bank's customer specifies the number of pre-paid cards to issue, the method of their supply with funds, and distribution, and also the final graphic form of the card. The Bank issues pre-paid Visa Electron cards for enterprises with a one-year, two-year, or three-year validity period.

An important business achievement of the Bank in the period described was the issuance of 55,000 Visa Electron cards for members the cooperative savings and loans society Krajowa Spółdzielcza Kasa Oszczędnościowo-Kredytowa ("SKOK"). Cooperation in issuance of Visa Electron cards for SKOK members commenced in 1998, but the number of card customers acquired did not exceed 3,000 In 2003, a new agreement was concluded in which SKOK guaranteed the issuance of a minimum of 50,000 new cards. The process of issuance of new cards commenced in August 2003 and lasted to mid-September 2003. In total, in 2003 the Card Products Management Department issued almost 200,000 various payment cards in the Visa system.

In January 2003, the Polish edition of the "Business Week" magazine granted the Portfolio of the Year award for the most innovative product of 2002 – *Prepaid Cards*.

In 2003, the *CitiConnect* Internet payment authorisation functionality handled 14,300 transactions for the total amount of PLN 2.6 million. CitiConnect is a settlement system, which accepts both payment and virtual cards. At the end of June 2003 *CitiConnect* served 116 Internet shops.

3.5 Trade service and finance

The Bank maintains a leading position in the trade finance market. It is based on an extensive customer base and long-standing experience in financial services provided to Polish enterprises, particularly exporters and importers. In 2003, 2,500 customers used in total the trade service and financing products.

A key strength of the Bank in the trade service market is the complete range of products offered, which includes both traditional trade service and financing products such as letters of credit, guarantees, documentary collections, sureties, bills of exchange, bill discounting, bankers' acceptances, and discounting of invoiced receivables, as well as newer products reflecting the needs of the foreign and domestic trade settlement market, such as factoring on the electronic platform, Paylink cards, Channel Finance programme, or trade pre-financing transactions. The highest share in the total number of trade transactions related to guarantees (44% by value), importation letters of credit (14%) and factoring (12%). The Bank is one of the few banks in Poland which offers the possibility of using electronic products for trade servicing.

The unit of the Bank responsible for factoring services is the Trade Finance Department. In May 2003, the Bank's factoring product range was expanded to include non-financial factoring, under which the Bank settles payments in respect of receivables transferred by an assignor without discounting them at the same time. The customer who does not need funds in respect of discount, and only requires the management and monitoring of payments, is provided by the Bank with detailed reports on the payment of receivables and sends dunning letters to debtors. The total value of invoices acquired in 2003 was PLN 1,374 million, and the value of the bank's factoring portfolio at the end of 2003 attained the level of PLN 246.5 million.

There has been increased use of the electronic platform for factoring – in 2003, 50% of factoring customers used this solution, and the value of invoices acquired via e-factoring represented about 60% of the total value of invoices acquired. In addition, 40% of all Paylink Card transactions were executed with the use of the electronic platform.

In 2003, the Bank actively developed transactions within the framework of the "Programme of financing export to OECD countries" on the basis of the KUKE S.A. insurance policy. This product makes it possible to combine short-term financing with insurance of the risk of the lack of payment, and special terms and conditions of the insurance contract negotiated by the Bank are much more advantageous than the terms and conditions which would be granted to the customer, should he insure his receivables directly with KUKE. Another product introduced on the basis of the KUKE policy is the Loan for the Purchaser. The financing offered within the framework of this product includes loans for the purchaser with a financing term of up to 6.5 years up to an amount of USD 10 million. This product is not complementary with the offer of the Investment Banking Department which offers loans above this amount for syndicated transactions. In 2003, in total 817 transactions were executed on the basis of the KUKE S.A. policy, and the number of transactions increased from quarter to quarter.

According to NBP data, the value of foreign trade turnover serviced in 2003 by the Bank was EUR 20,592 million, of which EUR 8,940 million was spent on export transactions, and EUR 11,652 million was spent on import transactions, representing a total market share at the level of 25%, and 24% and 25% market share in export and import respectively.

3.5.1 Activity of Handlowy-Heller S.A.

Within the framework of the Bank's Capital Group, factoring services are also provided by Handlowy-Heller S.A., in which the Bank has a 50% interest (25% indirectly through Handlowy Inwestycje Sp. z o.o.). The Bank's partner in the second undertaking is the Dutch branch investor NMB Heller Holding N.V. (50% interest).

Handlowy-Heller S.A. carries on factoring business for its own account, i.e. without cooperation with the Bank. As of 31 December 2003, the amount of loans granted to Handlowy-Heller S.A. by the Bank was PLN 21.3 million.

In 2003, the Handlowy-Heller S.A. reported a record-breaking increase in the value of receivables acquired, which resulted from an increase in demand for factoring services generated by higher corporate sales. In total, the value of receivables acquired in 2003 was PLN 1,344.8 million, up PLN 395.2 million or 41.6% from 2002. Amongst six largest factoring companies, Handlowy-Heller S.A. recorded the highest increase in sales. The number of the Company's customers increased during the period from 104 to 146, and the number of new contracts from 50 to 73. The increase in the Company's turnover translated into an increase in sales by 12.1% and the increase in net profit by ca. 600% to PLN 2.9 million. In 2003 the company's share in the factoring market increased by 1% to 10%.

In response to the upturn in the factoring services market, Handlowy-Heller S.A. focused on improving its distribution structures in 2003, which included the opening of new regional representative offices in Katowice, Wrocław and Gdynia, and the creation of the Key Account position. The product offering of Handlowy-Heller was supplemented by Factoring for SMEs and Domestic and Export Factoring with Foreign Currency Financing.

The Company undertook cooperation with the collection firm Credit Control, which resulted in a significant improvement of the quality and effectiveness of collection services, and commenced the implementation of a comprehensive customer relations management programme.

3.6 Custody services

In the provision of custody services to its customers, the Bank's Custody Department complies with Polish as well as international standards set in respect to these services. This enables it to meet the requirements of the largest and most demanding corporate clients. The Custody Department forms an integral part of the global Citigroup structure known as Global Transaction Services, which offers trade finance services, including trading in securities.

The Bank 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.

As part of its statutory activities, pursuant to the respective licence of the Securities and Exchange Commission, the Custody Department operates securities accounts, settles securities transactions, handles dividend and interest payments, portfolio valuation, individual reports, 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 on foreign markets.

The Bank actively participates in industry-wide efforts to further improve 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, the Bank's employees work closely with the Polish SEC (Komisja Papierów Wartościowych i Giełd), the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych S.A.), the WSE and the Insurance and Pension Funds Supervision Commission (Komisja Nadzoru Ubezpieczeń i Funduszy Emerytalnych) in introducing new systemic solutions.

In 2003, the Bank completed the implementation of a new method of servicing foreign financial brokers. The new transaction settlement process based on principles laid down by Article 34a of the Act on Public Trade in Securities contributed to an increase in safety of assets registered by the Bank on securities accounts.

As of 31 December 2003, the Bank operated 5,287 securities accounts.

In 2003, the Bank acted as depository for seven open-ended pension funds:

- Commercial Union OFE BPH CU WBK
- AIG OFE
- SAMPO OFE
- OFE Pocztylion
- Pekao OFE
- Generali OFE
- ING Nationale Nederlanden Polska OFE

and for the employee pension fund Pracowniczy Fundusz Emerytalny Telekomunikacji Polskiej S.A.

An important achievement of the Custody Department was the commencement of provision of custody services for the second large pension fund in Poland, ING Nationale-Nederlanden Polska OFE. The transfer of the fund's assets worth almost PLN 10 billion took place on 1 October 2003, as a result of which the Bank reinforced its leader position in the market of custody services for pension funds with a share of 70%.

In 2003, the Bank acted as depository for nineteen 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.
- DWS Polska TFI S.A.

4. FX and money market activity

Bank Handlowy is the leading participant in the Polish FX and money market, acting as a market-maker in standard FX and interest rate dealings.

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

- the large number of the Bank's major customers using FX transactions (5,000 companies) and derivative products (500 companies),
- the large number and volume of operations executed by the Bank on its own account as a result of the need to manage the Bank's surplus liquidity,
- extensive, flexible and innovative product offer,
- leading position in servicing foreign trade settlements,
- dynamic and experienced team of employees,
- excellent reputation on the Polish FX market and the esteem shown both by domestic and foreign market players,
- the support and assistance of the Bank's strategic investor, Citigroup, in accessing international financial markets, implementing new products and managing market risk.

The Bank was a member of the group of 12 banks selected by the Ministry of Finance to act in 2003 as the Treasury Securities Dealer, which facilitates access to the primary market for such instruments, and the group of 12 banks selected by the National Bank of Poland to act in 2003 as the Money Market Dealer, which ensures access to open market operations conducted by the central bank. The estimated share of the Bank in the market of transactions in debt securities executed with customers was 8% in 2003.

The Treasury Division actively acquired new customers in 2003 and foreign currency sales to customers increased by over 10%. The sales team has implemented a system supporting active customer service, which increased efficiency and improved specialised contact with customers tailored to their needs (orders for transaction execution, frequency of contact and differentiated offer of financial market analysis and news). As estimated by the Treasury Division, the Bank's share in the market of foreign currency transactions with customers in 2003 was 22%.

2003 was characterised by an increase in customers' demand for products hedging against FX and interest rate risk. The base of customers who conclude currency option transactions with the Bank increased by 205 companies; the Bank also acquired 40 new customers executing derivative interest rate transactions. In order to meet customers' expectations, the Treasury Division offered 15 new option structures and 13 new interest rate and hybrid products in 2003. The product range was supplemented by complex structures based on interest rate options with the use of both *plain vanilla* as well as barrier option transactions. Some of the solutions offered contained a combination of interest rate and FX transactions. The achievements described strongly contributed to the reinforcement of the Bank's leading position in the market of customer operations on derivatives with a share reaching 35%.

5. Commercial paper origination

For several years Bank Handlowy has been one of the top participants in the primary market for debt securities issued by corporations and financial institutions. In 2003 the Investment Banking, Securities and Capital Markets Department took part in launching new issue programmes for the following entities:

- a 3-year bond issue programme (in physical format) for Geant Sp. z o.o. of PLN 300 million. The Bank acted as arranger, principal payments agent and depository for the programme.

- a 5-year bond and CD issue programme (in electronic format) for Rabobank Polska S.A. of PLN 600 million. The Bank acted as arranger, issue agent, dealer, payment agent and depository for the programme.

- a 3-year bond issue programme (in electronic format) for the companies Electrolux Poland Sp. z o.o. and Electrolux Production Poland Sp. z o.o. of USD 10 million. The Bank was the arranger, issue agent, dealer, payment agent and depository for the programme.

- a 2-year bond issue programme (in electronic format) for a company in the construction sector of PLN 300 million. The Bank was the arranger, issue agent, dealer, payment agent and depository for the programme.

- a 2-year bond issue programme (in electronic format) for a company in the construction sector of PLN 15 million. The Bank was the arranger, issue agent, dealer, payment agent and depository for the programme.

- an unlimited-term bond issue programme for Browary Żywiec S.A. of PLN 500 million. The Bank was the arranger, issue agent, dealer, payment agent and depository for the programme.

- a 1-year bond issue programme for Echo Investment S.A. of PLN 50 million. The Bank was the arranger, issue agent, dealer, payment agent and depository for the programme.

- a 5-year bond issue programme for Lafarge Cement Polska S.A. of PLN 150 million. The Bank was the arranger, issue agent, dealer, payment agent and depository for the programme.

- a 1-year bond issue programme for Mitex S.A. of PLN 40 million. The Bank was the arranger, issue agent, dealer, payment agent and depository for the programme.

The launching of such a large number of issue programmes in 2003 enabled the Bank to increase its already dominant position in the market. As of 31 December 2003, the Bank operated 33 Issue Programmes, and the total debt in respect of the short-term debt securities (STDS) placed through the

Bank reached PLN 2,598.3 million, which translated into a market share of 23.5% (at the end of 2002 PLN 2,542.0 million and 22.0%, respectively).

6. Syndicated loans

In 2003, the Bank remained an active player in the syndicated loan market, taking the third position in terms of the number of arranged syndications. During 2003, the Bank participated in the arrangement of 9 loan syndicates, which are described below. The Bank's own exposure arising from this participation totalled PLN 1,043 million, which represented market share of 9%.

- 31 month syndicated facility for Polskie Górnictwo Naftowe i Gazownictwo S.A. (Polish Gas and Oil Co.) of USD 150.0 million (equivalent to PLN 570.4 million); the Bank acted as Authorised Arranger and Agent for the facility with own participation of PLN 75.7 million;
- the opening, together with a bank syndicate, of a 5-year liquidity line for Telekomunikacja Polska S.A. (Poland's largest telecom operator) of EUR 400 million (equivalent to PLN 1,770.3 million); the Bank acted as Authorised Arranger and Agent for the facility with own participation of EUR 39.3 million (equivalent to PLN 174.1 million)
- funding the activity of Polskie Koleje Państwowe S.A. (Polish State Railroads) with a 2-year loan for EUR 190 million; the Bank played the role of the Co-Arranger of the Syndicate, with its own share of EUR 18,100,000.
- granting to Kronospan Sp. z o.o. a term loan for the period of 8 years and 3 months for the development of production capacity of the chipboard production facility of EUR 100 million. The own share of the Bank which played the role of the Loan Co-Arranger, was EUR 20 million.
- granting to Polskie Górnictwo Naftowe and Gazownictwo S.A. a 2-year loan of EUR 600 million. The own share of the Bank which played the role of the Authorised Main Arranger, was EUR 50 million.
- refunding of the existing debt of KGHM Polska Miedź S.A. by granting a 5-year loan of USD 200 million. The Bank's own share was USD 25 million. The Bank played the role of the Authorised Leading Arranger of the Loan.
- refunding for the period of 5 years the existing debt and general activity of PKN Orlen S.A. in the form of a term loan of EUR 350 million and a revolving facility for EUR 150 million. The Bank's own share was EUR 43.5 million. The Bank played the role of the Authorised Main Arranger of the Loan.
- granting a 3-year loan for general objectives of Bank Przemysłowo-Handlowy PBK S.A. The Bank's own share was EUR 10 million. The Bank played the role of the Co-Arranger of the Loan.
- granting a 3-year loan of EUR 75 million for payment of the existing indebtedness of Polskie Linie Lotnicze LOT S.A. The Bank's own share was EUR 5.0 million. The Bank played the role of the Authorised Main Arranger of the Loan.

Other major credit transactions made in 2003:

- 6 year working capital facility for Telekomunikacja Polska S.A. of PLN 150.0 million earmarked for funding of the current capital of the company;
- three loans granted to Stocznia Szczecińska Nowa sp. z o.o. totalling PLN 180.6 million to finance the building of ships intended for export; two container ships for a Vietnamese customer and one for a German customer; the facilities are secured in part by guarantee agreements made with the State Treasury represented by the Minister of Finance.

7. Small enterprise banking

In 2003, the Bank continued to pursue the strategy of strengthening its position in the market for services provided to small companies, defined as those having annual sales below USD 2 million (PLN 8 million). As from 2002, services to customers in this group are provided under the *Inter Biznes* product offer, which consists of two service packages: *Inter Konto* and the *Tele Konto* package offered in 2Q 2003.

Package	Target market	Range of services within package	Access channels
Tele Konto	Business entities with annual income up to PLN 4 million (Tier 0)	• opening and maintenance of a current account • opening and maintenance of 3 additional accounts • telephone banking – Inter Centrum	• telephone • branch network
Inter Konto	Corporate customers with annual income between PLN 4 and PLN 8 million	• opening and maintenance of a current account • opening and maintenance of 3 additional accounts • issue of up to 2 bank cards – Citibusiness Visa Electron charge cards • telephone banking – Inter Centrum • Internet banking – CitiDirect	• Internet • telephone • branch network

In addition, the Inter Konto package is offered to customers who achieve annual sales of not less than PLN 2 million if they are credit customers.

The improving position of the Bank in credit services to small enterprises is confirmed by an increase in the Bank's market share in lending to sole entrepreneurships, which increased in 2003 from 6.2% to 6.8%.

In May 2003 the Management Board of the Bank took a decision to make certain organisational changes related to the transfer of services provided to ca. 15,000 small enterprises (so-called Tier 0 sub-segment) from the Corporate and Investment Banking Sector to the Consumer Banking Sector. Pursuant to that decision, on 1 June 2003 the Small Business Division and the Commercial Credit Division were established within the Consumer Banking Sector. The *Tele Konto* service package became the basic product of SED. In 2003 work commenced on the implementation and adaptation of IT systems intended to ultimately provide a basis for serving customers of the Small Business Division, i.e. Systematics – as a financial/accounting system, Citibank OnLine – Internet banking, and NAS and PeopleSoft – as credit risk supporting systems. Gradual conversion of small enterprise group customers to the above systems and commencement of their service by the Consumer Banking Sector for 2004. The purpose of work connected with the migration of small enterprises to the Consumer Banking Sector is to improve the effectiveness of the Bank's operations and to provide these customers with greater functionality and a denser network of consumer branches.

8. Leasing

Leasing services are provided by two subsidiary companies of the Bank: Handlowy-Leasing S.A. and Citileasing Sp. z o.o. The offering of Handlowy-Leasing S.A. and Citileasing Sp. z o.o. is primarily aimed at corporate customers serviced by the Bank. The range of products includes the leasing of truck-tractors, complete trucks, trailers and semi-trailers, delivery vans, machinery and equipment, as well as other fixed assets. The companies service small and medium value transactions (so-called small/medium-ticket leasing) as well as large value transactions (so-called big-ticket leasing) and support to sales programmes of equipment manufacturers and suppliers (so-called vendor financing).

The merger of the two leasing companies is planned to take place in the future, in relation to which on 19 August 2003, as a result of a sequence of transactions, Citileasing Sp. z o.o. become the sole shareholder of Handlowy-Leasing S.A., while Handlowy Inwestycje Sp. z o.o. took over 2.53% of shares in Citileasing Sp. z o.o. from Bank Handlowy w Warszawie SA. The Bank remained a holder of the remaining 97.47% stock in Citileasing Sp. z o.o. Both leasing companies continued their work on the harmonisation of internal procedures and the improvement of rules of cooperation with branches of the Bank.

In 2003, the Bank's leasing subsidiary companies, led by Handlowy–Leasing S.A., signed 1,458 new leasing contracts for PLN 456.0 million in comparison with 1,228 leasing contracts for the total amount of PLN 420.3 million signed in 2002 (an increase in the total value of agreements signed by 9%). At the end of 2003, the portfolio of the leasing companies included 4,260 agreements signed with 1,922 customers.

The activity of the leasing companies can be illustrated in their share in the leasing market at the level of 3.9% and ninth place in the market of movable asset leasing. In the area of plant and machinery, the leasing companies took sixth position, attaining market share of 8.2% (source: Association of Leasing Enterprises).

On 25 November 2002, a lease finance agreement was finalised between Handlowy-Leasing S.A. and the European Investment Bank. Under this agreement as well as an agreement between Citileasing Sp. z o.o. and the European Investment Bank of 20 May 2000, the Companies were granted a line of credit up to EUR 15 million, carrying interest at LIBOR for EUR plus 15 basis points. As of 31 December 2003, the easing companies had drawn-down the whole limit assigned to them, using this amount for the financing of 112 leasing contracts in total. The maturity date for loan repayment is 15 December 2010.

As in the previous years, the main source of financing for the leasing operations were credit lines drawn from the Bank. As of 31 December 2003, the total value of the Bank's credit receivables from both leasing companies amounted to PLN 733.8 million.

In order for the Bank to avoid exceeding the exposure concentration limit towards subsidiary entities, on 3 June 2003 Handlowy-Leasing S.A. entered into a long-term loan agreement with Citibank N.A., Bahrain Branch, for the purpose of financing lease transactions. Pursuant to the loan agreement, Citibank N.A., Bahrain Branch made available to Handlowy-Leasing S.A. a loan equivalent to USD 100 million, bearing an interest on the basis of LIBOR 1M for EUR plus 5 basis points per annum. As of 31 December 2003, Handlowy-Leasing S.A. drawn-down the first and the second tranches of the loan, for the total amount of EUR 55 million. The final loan drawn-down deadline is 31 December 2004, and the loan repayment date is 31 December 2006.

9. Equity investments

In 2003, the Bank continued its equity investment policy, designed by the Bank's Capital Group, to optimise the performance of equity transactions and minimise risks attached to such transactions. In 2003, the most significant transactions were as followes:

- sale of shares held in Zakłady Odzieżowe Bytom S.A. by the Group's dominant company and the investment company Handlowy Inwestycje II Sp. z o.o. The equities sold represented 27.64% of the authorised capital of the company (sold by the Bank – 18.46% and sold by Handlowy Inwestycje II Sp. z o.o. – 9.18%, respectively),

- sale of the entire stakeholding in the subsidiary company Bytom Collection Sp. z o.o. based in Radzionków, representing a 100% share in the authorised capital and attached voting rights;

- sale of the whole shareholding held in the subsidiary Handlowy Leasing S.A. based in Warsaw within the Bank's Capital Group, for the subsidiary undertaking Handlowy Inwestycje Sp. z o.o. The shareholding sold by the Bank represented a 0.01% stake in the capital of this undertaking. As a result of this transaction, Handlowy Inwestycje Sp. z o.o. held 100% stake in capital and the same number of votes at the general meeting of shareholders of Handlowy Leasing S.A;

- claim by Handlowy Inwestycje Sp. z o.o. of the stakes in the increased authorised share capital of Citileasing Sp. z o.o. The claim of stakes was covered by a contribution in kind of shares in Handlowy Leasing S.A. As a result of this transaction, Handlowy Inwestycje Sp. z o.o. holds a 2.53% stake in the capital of Citileasing Sp. z o.o. and the same number of votes at the general meeting of shareholders of this enterprise, and Citileasing Sp. z o.o. holds a 100% stake in the capital of Handlowy Leasing S.A. and the same number of votes at the general meeting of shareholders of this enterprise;

- reimbursement to the Bank of supplementary payment made by the Bank for the subsidiary Handlowy Inwestycje Sp. z o.o., of PLN 27.0 million, pursuant to the resolution of the Extraordinary General Meeting of Shareholders of Handlowy Inwestycje Sp. z o.o. of 2 April 2003;

- reimbursement to the Bank of supplementary payment made by the Bank for the subsidiary Handlowy Inwestycje II Sp. z o.o., of PLN 15.0 million, pursuant to the resolution of the Extraordinary General Meeting of Shareholders of Handlowy Inwestycje Sp. z o.o. of 2 April 2003;

- sale of all shares held in Globe Trade Centre, representing 7.79% of the authorised company and the same number of votes at the general meeting of shareholders;

- sale of the entire shareholding in the joint venture PKO/Handlowy Powszechne Towarzystwo Emerytalne S.A. having its registered office in Warsaw, in which the Bank held a 50% stake in capital and the same number of votes at the general meeting of shareholders.

- takeover by the Bank of the assets of its subsidiary Budowa Centrum Plac Teatralny Sp. z o.o. in liquidation, in which the Bank held a 61.25% stake in capital and the same number of votes at the general meeting of shareholders, due to the winding up of this subsidiary.

Equity investment portfolio

	As of		Change	
in PLN '000	**31/12/2003**	**31/12/2002**	**PLN '000**	**%**
Investments in subsidiaries	338,218	371,271	(33,053)	(8.9%)
Investments in joint-ventures	5,323	20,072	(14,749)	(73.5%)
Investments in associated companies	12,388	19,942	(7,554)	(37.9%)
Other direct equity investments	23,633	23,512	121	0.5%
Investment fund units (1)	-	4,000	(4,000)	(100.0%)
Subordinated loans (2)	10,000	99,572	(89,572)	(90.0%)
Convertible bonds of Handlowy Investments (3)	70,159	59,795	10,364	17.3%
Total	**459,721**	**598,164**	**(138,443)**	**(23.1%)**

(1) *In the financial statements disclosed in item "Other securities and other financial assets"*

(2) *In the financial statements disclosed in item "Due from financial sector"*

(3) *In the financial statements disclosed in item "Debt securities"*

On 30 June 2003 the District Court in Kielce declared bankrupt the associated company PIA PIASECKI S.A. (construction sector), in which the Bank holds a 36.52% interest. Following the prudent valuation principle, in 2002 the Bank made a value adjustment in respect of the balance sheet value of the shareholding, as a result of which the value was reduced to nil.

10. Brokerage activity

The Bank operates in the capital market through its wholly-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.

2003 was an excellent year for DMBH with respect to the pace of development of its business. The total value of transactions on securities and financial instruments settled by DMBH increased from PLN 7.3 billion in 2002 to PLN 15.5 billion in 2003, an increase of 113%. The number of transactions increased from 350,112 to 390,841, i.e. by 12%, respectively, which suggests a marked increase in the mean value of transactions settled, connected with the leading position of DMBH in the segment of institutional customers.

The increase in stock exchange trade settled by DMBH was significantly higher than the increase in the whole market, owing to which the company increased its market share and reinforced its leader position. In 2003, the total value of trade in securities at the Warsaw Stock Exchange settled by DMBH was PLN 12,345.6 million, versus PLN 5,267.5 million in 2002, i.e. by 134% more, which translated into the increase in the equity market from 11.0% to 18.6%, respectively. From February 2003, the company retained the position of the absolute leader in this market. The value of trade in shares executed by the company on the WSE was lower than in 2002 and amounted to PLN 444.4 million (fall from PLN 485.4 million, i.e. by 8%), which translated into the reduction in share in the bonds market from 12.2% to 5.7%. The main cause of this drop was entrusting by the Ministry of Finance the function of the Issue Agent conducting the sale and service of Treasury bonds in the consumer sector network to bank PKO BP S.A. from 1 August 2003.

The increase of the market position of DMBH in 2003 was attributable, among other things, to the increase in the corporate customer base as a result of closer relationships with Citigroup Global Markets, being the market maker for about 1/5 of the stock listed on the WSE, and the employment of a group of sales staff from the liquidated brokerage house ABN Amro Securities Polska.

As of 31 December 2003, DMBH operated 12,891 investment accounts, compared with 13,746 at the beginning of the year.

2003 brought about a certain improvement in the primary market of shares. The Capital Markets Office of DMBH was the offering entity for two public issues of securities: of LPP S.A. and Apator S.A., which represented 10% of all offers submitted (20 offers were announced, of which 19 were executed). Both offers executed enjoyed a very high interest among investors. The total value of funds acquired during both issues amounted to PLN 51.3 million representing 3.29% of funds acquired by all issuers in the capital market, and the two largest offers whose value was almost 50% of the funds collected via public offers of shares were a kind of directed issues (Kredyt Bank S.A. – pre-emption right executed by the strategic investor, and Stalexport S.A. – conversion of debt into shares).

The Capital Markets Office of DMBH intermediated in three transactions of transferring shares outside the regulated market for a total value of PLN 59.3 million. Moreover, trade in shares not allowed in public trade was conducted, whose value amounted to ca. PLN 12.5 million.

Active fulfilment of the role of market maker for trading was an important factor that helped DMBH maintain a high share in stock exchange trading. DMBH started operation on the stock exchange for its own account in 1994, initially as Stock Exchange Member – Specialist, and then Market Maker. From the moment the futures market was established on the WSE, DMBH acted as Market Maker for futures contracts on the WIG 20 index. In addition, for six years the company has acted as arranger of trading on the over-the-counter CeTO market, which corresponds to the Market Maker function on the WSE.

For three years, DMBH has maintained its leader position as Market Maker among 13 houses serving this function. At the end of 2003 DMBH acted as Market Maker for 42 stocks listed on the WSE, which represented 20.7% of all stock listed on the WSE, one convertible bond, and futures contracts on the WIG 20 index. On the CeTO exchange, DMBH, acting as Arranger, performed operations for one stock, BZWBK bonds and investment certificate of CitiObligacje Dolarowe Fundusz Inwestycyjny Mieszany.

Also the turnover realised by DMBH as Market Maker makes the company a leader. In 2003 its share in this market segment attained 34.21% in total turnover in equities generated on the WSE by all brokerage houses that act as Market Makers.

In April 2003, DMBH announced its corporate restructuring and development strategy. An important component of the strategy will be the adoption of new standards of individual customer service, including an offer of investing opportunities in foreign stock markets. In addition to the existing CitiPhone call centre, the Internet will become the leading service channel for this group of customers, and brokerage products will be sold through the consumer sector branch network of the Bank. The launching of the electronic platform is scheduled for 2004, and the first branches of the Consumer Banking Sector were to be prepared for the provision of services to DMBH customers by the end of 2003. Owing to the proposed transfer of distribution to the electronic platform and to the Bank's branch network, DMBH has closed down 5 of its own 6 Customer Service Outlets and reduced staffing from 89 at the end of 2002 to 51 at the end of the year. In 2003, the role of the leading channel servicing individual customers was played by the phone centre of the Consumer Banking Sector – CitiPhone.

Irrespective of the planned development of relations with individual customers, the corporate customer service will remain a priority, as they generate more than 90% of the Company's turnover. Owing to the access to the global Citigroup network, DMBH offers the opportunity of making transactions worldwide. DMBH's additional advantage is its extensive analytical base, which draws upon the pool of world-class experts of Smith Barney European Equity Research, a unit owned by Citigroup Global Markets Inc. The results of the Warsaw-Scan 2003 survey conducted among representatives of 34 financial institutions – stock-exchange analysts and asset managers – by NBS Public Relations, show that DMBH's analytical service offer ranks third among the market's best.

11. Cooperation with international financial institutions

The Bank's co-operation with international financial institutions involved mainly current settlements of payments, conclusion of money market transactions, and acting as an intermediary in the purchase and sale of securities.

Owing to increased investing activity and foreign trade, two new correspondent accounts were opened with Citigroup units in two new countries and one account in a bank belonging to Hansabank Group. At the same time the number of EUR accounts was rationalised, reducing their number from six to four. Consequently, the number of nostro accounts increased in 2003 from 19 to 20 (in 15 countries).

The Bank is the leader in the Polish zloty settlement market for commercial and treasury payments ordered by foreign banks. This is confirmed by the fact that 210 vostro accounts are held for foreign banks from 36 countries.

The Bank also had a leading role in arranging loan syndicates to provide funding to Polish enterprises, cooperating with a number of recognised Polish and foreign banks. Lending operations in the context of cooperation with foreign financial institutions also involved continued distribution of funds from the European Investment Bank. The funds are intended to refinance loans and leasing contracts made primarily with customers in the SME sector.

On 19 and 29 August 2003, subscription agreements were concluded with the European Investment Bank ("EIB") on the claiming of the fifth and sixth tranches of 5-year bonds issued by EIB within the framework of the Bond Issue Programme for the total value of PLN 3 billion, launched in 2001. Pursuant to the agreements, the bonds have been issued on 29 August (fifth tranche worth PLN 180 million) and 15 September (sixth tranche worth PLN 110 million). Throughout the term of the Bond Issue Programme, EIB obtained through the Bank medium and long term funding totalling PLN 820 million.

On 7 March 2003, the "Co-operation Agreement" ("the Agreement") was signed between the Bank and FöreningsSparbanken AB ("Swedbank"). The Agreement is aimed to create a mutual service model with a view to providing corporate customers, mainly SMEs, with easier access to financial services offered by the two banks in Poland and the Nordic countries. The main areas of co-operation covered by the Agreement include the opening and operating of bank accounts, handling foreign trade settlements, and offering cash management as well as money market and FX market management products. Within the framework of Citigroup, the Bank is responsible for supervising and supporting the activity in so-called Non-Presence Countries, i.e. countries of the Central and Eastern Europe in which Citigroup does not carry out activity via local entities (Estonia, Latvia, Lithuania and Belarus).

On 11 August 2003, the Bank signed mutual cooperation agreement with the Lithuanian AB Bankas "Hansabankas" from the Hansabank Group belonging to the Swedish FöreningsSparbanken AB ("Swedbank"). In the future, entering into similar agreements with the Hansabank Group entities conducting activity in Latvia and in Estonia is planned. Opening of nostro accounts with banks belonging to the Hansabank Group and conducting operations in the Baltic States (Lithuania, Latvia and Estonia) is planned for 2004.

Cooperation of the Bank with Swedbank and the Hansabank Group is to benefit mainly Polish entrepreneurs carrying on business in Lithuania, Latvia and Estonia, and also branches of multinational corporations based in the Baltic States, being global customers of Citigroup. In order to more effectively present the product offer to the potential customers in this group, the Bank participated in the Tenth Polish National Expo Polexport 2003 organised in the Lithuanian Kaunas by the Polish-Lithuanian Economic Chamber of Eastern Markets on 14-17 October 2003.

12. Consumer banking

12.1 Consumer Banking Sector

12.1.1 Credit Cards

Traditionally, the leading product of the Consumer Banking Sector is the Citibank Credit Card. In 2003, the number of active Citibank credit cards increased from 425,700 to 478,000, i.e. by 12%, and the portfolio of receivables from the use of credit cards increased from PLN 752.6 million to PLN 836.8 million, i.e. by 11%. As of the end of December 2003, the Bank's share in the market of credit cards measured by the size of its receivables portfolio amounted to 40%.

In 2003, the Bank continued to improve the card products offered and to reinforce the Bank's position as the most innovative issuer of credit cards in Poland. These activities included adding new functionality to the Citibank Credit Card on 3 February 2003, as a result of which customers obtained the possibility of charging the card account with payments of all housing and telecommunication fees. Initially these transactions took place via CitiPhone or Automatic Banker, and by 17 October 2003, holders of Citibank credit cards, as the first in Poland, obtained the possibility of paying their bills by charging their credit cards via the Internet platform Citibank Online. The attractiveness of the Citibank Credit Card was further increased by the prolongation of the period of non-interest bearing credit to 54 days commencing from 12 October 2003.

The introduction of a new co-branded credit card – Motokarta Kredytowa Citibank-BP – in cooperation with BP Polska Sp. z o.o. on 17 November 2003 contributed to the acceleration of the pace of acquisition of card customers in the last months of 2003. This card combines the functionality of a credit and loyalty-building card. Its holders participate in loyalty-building programme BP partnerclub operated by the second largest network of petrol stations in Poland. By the end of 2003, 7,900 Motokarta Kredytowa Citibank-BP cards were issued.

12.1.2 Other credit products

In 2003 there was an increase in customers' interest in other credit products offered by the Consumer Banking Sector, which resulted to a large extent from the intensive promotional campaign of the Citibank Credit conducted in mass media, and especially on television.

Overall, the number of loans and borrowings granted by the Retail Banking Sector increased by 64% in 2003, and the sales of this product grew from month to month. The Bank's share in the market of consumer loans grew to 3.5% as of 31 December 2003 (excl. housing loans).

In order to make its credit offer for individuals even more attractive, the Bank introduced a unique innovating feature of the Citibank Credit Line – "0% for 7 days", which provides a revolving credit limit without interest for up to 7 days in each calendar month.

12.1.3 Asset management

A very important event in 2003 for the Consumer Banking Sector was the introduction, on 11 June, of a new consumer banking service – CitiGold Wealth Management – based on an integrated package of savings, investment, and insurance products, supported by computer applications Wealth Plan and Portfolio Analyst. The new offering operates under a separate brand and is designated for customers who have at their disposal investment funds in excess of PLN 100,000 and who expect individualised financial advice. CitiGold Wealth Management ensures a comprehensive analysis of the customer's investment profile and makes it possible to create a model of fulfilment of financial demand with the use of a wide array of products and adjusted to the individual needs of each customer. CitiGold Wealth Management is available in 11 branches of CitiGold and 18 corporate branches of the Bank. Poland was the first country in Europe in which the programme of the CitiGold Wealth Management type was launched.

12.1.4 Current accounts, savings products, transactional banking

As of the end of 2003, the Consumer Banking Sector operated 309,500 current accounts versus 305,600 at the beginning of the year, and the Bank's share in the market of deposits of individual persons amounted to 3.0%. Similarly as in the previous year, subscriptions for investment deposits – a 3-year Citibank Investment Deposit in PLN related to the Dow Jones euro Stoxx 50 index, a 3-year Dollar Citibank Investment Deposit related to the Standard & Poor's 500 index – as well as deposits indexed in relation to foreign currencies were held in order to make the deposit offering of the Bank more attractive.

One of the most important product innovations in the area of consumer banking in 2003 was the introduction of the possibility of Direct Debit activation on the phone. By the end of the year, 3,700 direct debits were established on the phone. The Bank is a leader among banks offering such services, whose share in the total number of transactions processed amounts to 57%. The Bank has direct debit payment service agreements with over 170 corporations including the largest telecommunications, insurance, and cable TV companies.

12.1.5 Investment products

In 2003, the Consumer Banking Sector extended its offering of investment funds to include ING TFI S.A. and Union Investment TFI S.A. (UniKorona funds). The number of Bank outlets carrying out the sale of investment fund participation units increased from 70 to 100. In total 26 investment funds with differentiated investment strategies, operated by four investment fund societies, were made available.

12.1.6 Internet and telephone banking

In May 2003, two years after the service was launched, the number of registered customers of the Citibank Online (CBOL) Internet platform exceeded 100,000. A month earlier, CBOL made available to its users the free-of-charge service *Online Statements*, which enables electronic statements of account to be obtained for current accounts and credit card accounts in the form of a PDF file. Overall, from the beginning of the year, the number of customers using the Internet banking service increased from 86,300 to 153,100 i.e. by 77%, and CBOL consolidated its position of a leading service channel for retail customers. In December 2003, the share of transactions initiated through CBOL was 60% compared with 40% in December 2002. The increased use of the Internet channel provides measurable benefits to the Bank through savings in other service channels.

In March a new version of CBOL was launched, with a modified graphical layout and web navigation tools, which made it even more user-friendy. The functionality of the transaction service was expanded by providing the possibility of using less common browsers, such as Mozilla or Opera. This means that the channel was opened up to a large target group. In April CBOL made another new functionality available to its customers: the Tax Office transfer option. The high standard of the CBOL service package was recognised by independent experts from the prestigious monthly “Global Finance”, who recognised the service as the “Best Consumer Internet Bank in Poland 2003”.

The first half of 2003 was a period of rapid growth in the use of the CitiGSM service, through which the customer is provided with daily reports on the balance on his or her current account or credit card account via an SMS channel. The number of customers using the service more than doubled from 20,400 at the end of 2002 to 41,800 at the end of 2003.

12.1.7 Reorganisation of the consumer banking branches

In 2003 there was an intensive restructuring of the Consumer Banking Sector branch network. The objectives were to increase the standard of customer service, adjust the network to incorporate the sale of new banking products, and reconfiguration of the network so to improve the profitability of its operation.

Within the framework of network restructuring, the process of reconstruction of branches consisting in the installation of cashier’s counters and making cash service available in branches performing the function of credit centres, supplementing the functionality of the former transaction branches by introducing customer service counters enabling higher level of service, presenting the full product offering and selling loan, investment, and insurance products, and adjusting Citigold Wealth Management branches to the service of a larger number of customers. By the end of 2003, this project encompassed in total 25 branches.

On the other hand, as a result of analysis of profitability in individual branches, a decision was made to transfer 6 sites to the CitiFinancial network, scale down the operations of 5 sites to a Customer Service Outlet attached to a corporate branch of the Bank, transfer customer service in 9 cities to another consumer branch in the same city and total closing down of consumer customer operations altogether in 4 cities.

As a result of the above decisions, as of 28 February 2003, the operations of 12 branches of the Consumer Banking Sector were terminated, and another 6 branches were moved to the developing CitiFinancial network. The pilot phase of the consolidation project for selected multifunctional branches of the

Consumer Banking Sector and of the Corporate and Investment Banking Sector was launched. From 1 December 2003, services for customers of both Sectors of the Bank commenced in the former consumer branch in Zabrze.

At the end of 2003 the network of the Consumer Banking Sector consisted of 11 CitiGold branches and 75 standard branches with 182 ATMS, 17 CitiGold customer service points and 4 consumer customer service points in corporate branches. The customers were also able to use the Euronet ATM network free-of-charge, through which they executed approximately one half of the ATM transactions with the Bank. The network of branches was supplemented by direct sales agents – including credit card, loan and insurance sellers – and relationship managers for small business customers. In 2003, the total number of direct sales agents doubled.

12.2 CitiFinancial

2003 was a period of intense development of CitiFinancial, a separate business line of the Bank focused on cash advances to low-income customers and sales finance loans. In addition, CitFfinancial customers have the possibility to take out credit insurance which is offered in cooperation with CitiInsurance Towarzystwo Ubezpieczeń na Życie S.A. The strategy of CitiFinancial is based on the community based lender model.

The CitiFinancial network increased from 4 to 16 branches, including the conversion of certain Consumer Banking Sector branches. Further expansion of the network is planned for the coming years. The employment in the division increased in 2003 from 37 to 122 persons.

In 2003 the credit portfolio of CitiFinancial grew from PLN 13.1 million to PLN 68.1 million, i.e. by 418%. Despite the increased risk inherent in lending to customers with incomes below average, the quality of the CitiFinancial credit portfolio remained during the reported period at a satisfactory level. For instance, the share of receivable overdue by more than 30 days in the portfolio of cash advances was 1.55%, and in the sales finance loan portfolio was 2.16%. A relatively good quality of the portfolio is a result of the effective system of evaluation of creditworthiness of the customers and combining the sale and debt collection at the level of the same relation with the customer.

CitiFinancial loan portfolio

	As of	
PLN million	**31/12/2003**	**31/12/2002**
Cash borrowings	49.1	3,6
Hire-purchase loans	19.0	9,5
Total	**68,1**	**13.1**

13. Asset management and investment funds

In 2003, the Bank's Capital Group experienced further dynamic growth of its business of asset management for external customers. Assets entrusted to Handlowy Zarządzanie Aktywami SA (HanZA) increased by 12%, from PLN 1,438 million at the end of December 2002 to PLN 1,614.8 million at the end of December 2003. Of the above amount, PLN 917 million came from CitiFunds, PLN 131 million from individual customers, PLN 517 million from insurance companies and other financial institutions, and PLN 49 million from other corporate customers. A particularly high increase in customer interest in HanZA asset management services was reported in the corporate customer segment (increase in assets by 194%).

The majority of investment strategies underlying the management of customer portfolios exceeded their respective benchmarks. In 2003, the best performers were portfolios invested in equities of Polish companies. The highest rate of return was obtained on selective portfolios, which gained 45.28%. Correlated portfolios obtained the rate of return of 44.22%.

2003 was particularly good for the Bank's investment fund society Towarzystwo Funduszy Inwestycyjnych Banku Handlowego SA (TFI BH). As of 31 December 2003, the value of CitiFunds assets managed by TFI BH was PLN 917.0 million, up PLN 134.9 million or 14.6% over 31 December 2002. At the end of 2003, over 44% of assets of CitiFunds were assets of CitiBonds FIO worth PLN 399.3 million. The value of assets entrusted for management as of 31 December 2003 placed TFI BH at the tenth position in the market, with the market share of 2.8%.

The improvement of accessibility of CitiFunds contributed to the growth of assets in 2003. Currently the main and most effective distribution channel for CitiFundusze is the branch network of the Consumer Banking Sector of the Bank, consisting of 100 branches (including consumer customer service points in corporate branches). Moreover, the CitiFunduszy participation units were offered in the Savings Centre and in Multibank branches and in the Internet Supermarket of Investment Funds of mBank, both operated by BRE Bank S.A.

In 2003, funds investing in shares greater interest of individual customers of TFI BH, because following decreasing interest rates customers started to look for investments which could yield profits exceeding the interest on deposit. The assets of CitiEquities FIO increased by 475%, from PLN 8 million to PLN 46 million, and the assets of CitiBalanced FIO increased five times, from PLN 17 million to PLN 103.5 million.

2003 proved to be a very good year for investments in Polish shares, which is visible in the rates of return obtained by CitiFunds. In the period described, the higher rate of return of 29.3% was obtained by the CitiEquities FIO. CitiBalanced FIO investing on average one half of its assets in the shares market brought to its holders a yield of 18.5%. Also CitiSenior SFIO obtained a high, 10.4% rate of return in the period discussed. CitiMoney FIO, which constitutes a direct alternative with respect to bank deposits, obtained in the previous year a competitive rate of return in relation to deposits, amounting to 4.7%. The rate of return for CitiBonds FIO was 3.2%, which places the fund among the tope funds of these calls of assets operating in the Polish market.

In 2003, the interest in the CitiPłynnościowy SFIO fund was driven by corporate customers seeking an alternative to overnight-type deposits. This fund is characterised by a very low level of risk, high liquidity, and attractive profitability. The value of the fund assets is changed on a daily basis, because the fund is an alternative to overnight and several-day deposits. Owing to the careful selection of securities in which the manager invests, since the beginning of its existence, i.e. from September 2002, CitiPłynnościowy SFIO has not noted any drop in value of its participation unit. In the previous year the fund obtained a return at the level of 5.38%. The net assets as of 31 December 2003 amounted to PLN 55.5 million.

TFI BH holds a leading position in the market of third pillar Employee Pension Schemes. By the end of 2003, 18 Employee Pension Programmes were registered with the Insurance and Pension Funds Supervision Commission (KNUiFE) in the form of an agreement with the CitiSenior SFIO. As a result of effective management and regular inflow of contributions, the assets of this fund rose in 2003 by about 55% and amounted to PLN 128.7 million as of the end of December. In 2003, CitiSenior SFIO obtained a high rate of return – 10.4%. Since September 2003, the fund is available also for persons who individually purchase its participation units.

In August 2003, TFI BH introduced into its offering a new savings product intended for individual customers – Celowe Plany Oszczędnościowe CitiFundusze (CPO – Targeted Savings Plans). CPOs involve the systematic investing of savings into participation units in one of the open-end investment funds for 5, 10 or 15 years. By the end of 2003, the customers invested over PLN 11 million on registers opened under CPOs, mainly in 5-year plans based on investments in CitiBalanced FIO.

For 2004 TFI BH is planning to expand the CitiFundusze distribution network by entering in co-operation with other external distributors. A significant increase in the number of new customers is expected, both consumer and corporate. The company expects a high increase in customer interest in balanced and share funds.

14. Pension Funds

On 11 September 2003, a contract was signed by the Bank to sell 13,000 ordinary registered shares with the par value of PLN 10,000.00 each, representing 50% of authorised share capital and the same number of votes at the general meeting of shareholders of PKO/Handlowy Powszechne Towarzystwo Emerytalne S.A, to Powszechna Kasa Oszczędności Bank Polski S.A. As a result of execution of this agreement, the Bank sold all the PTE shares held by it, which represented 50.00% of PTE's authorised share capital and the same number of votes on the general meeting of shareholders.

15. Insurance

Since August 2002 the Bank has co-operated with CitiInsurance Towarzystwo Ubezpieczeń na Życie S.A. owned by CitiInsurance International Holdings Inc.

The CitiInsurance insurance offering is aimed at customers of the Consumer Banking Sector and CitiFinancial. By the end of 2003, the Company insured 242,700 customers of the Bank. In 2003 earned premiums amounted to PLN 42.8 million, 79% of which originated from the sale of insurance to card and credit products offered by the Bank. The Bank collects from CitiInsurance commissions for the intermediation in the sale of the Company's insurance to its customers.

Also since 2002 the Bank's product range has included the Investment-Linked Life Insurance product offered together with Nationwide Towarzystwo Ubezpieczeń na Życie. The programme covers an extensive range of prime investment funds.

16. Reorganisation of the Bank

16.1 New Customer Coverage Model

The most important events of 2003 in the Commercial and Investment Banking Sector was the implementation of the new Customer Coverage Model. This model – gradually implemented in all the Citigroup regions – has as its objective the elimination of customer service overlaps in various business units of the Bank and an improvement of effectiveness of utilisation of the branch network. The Bank, actively participating in the regional CEEMEA initiative (i.e. an initiative of the Citigroup region including Central and Eastern Europe, the Middle East, and Africa), developed its own customer service model which was based on the new customer segmentation criteria.The Bank's experience acquired in previous years at the operation of the service model adopted after the merger with Citigroup proved useful for the creation of this model.

The implementation of the new Customer Coverage Model resulted in organisational changes in the sales force of the Bank and corresponding changes in customer segmentation. As of 15 October 2003, the Bank Management Board established the Commercial Banking Division, which together with the existing SME Division was included in the so-called Local Banking Subsector. The Commercial Banking Sector took over from the Corporate Banking Sector and the SME and Branch Network Division the service of more than 1,500 customers in the group of large domestic enterprises, including non-banking financial entities and public sector entities, and some companies of the group of global corporations. These customers will be served mainly on the basis of six regional branches and the Bank's headquarters. Within the framework of the new structure, the Corporate Banking Division will concentrate on the service of 150 largest customers of the Bank, represented by a so-called platinum segment, serviced from the Bank's headquarters in Warsaw. The SME and Branch Network Division will service domestic customers with annual sales of USD 2-50 million, using for this purpose the pan-Polish network of the Bank's branches.

As a result of the introduction of the new Customer Coverage Model, the Bank's position in the market of services for medium-sized enterprises will be reinforced. Among other things, especially for this group of customers a separate credit process was developed, which better takes into account the specificity of customer activities and financial needs. Owing to re-segmentation, appropriate loan programme, strong customer relations in the regions and well organised support from the product side, the Bank became better prepared for the service of this segment.

Another project executed within the implementation of the new Customer Coverage Model was the reorganisation of the Global Transaction Services. The Custody Department has been included into this unit, and Global Transaction Services took over the servicing of over two hundred vostro accounts of non-resident banks, formerly operated in the Financial Institutions and Public Sector Division.

16.2 Reorganisation of the network of Bank branches

Another important process executed in 2003 was reorganisation of the Bank's branch network. Its objective is to rationalise network use, to obtain savings by downsizing the unnecessary office space with the concurrent maintenance of service quality. This process is a reflection of the Bank's adjustment to the changing model of providing banking services, in which so-called alternative distribution and service channels play an increasing role, such as electronic, Internet, or telephone banking, or direct sales agents.

The commencement of reorganisation of branches was preceded by a detailed analysis performed by Global Transaction Services, as a result of which a number of changes in the basic channels servicing corporate customers were proposed, and then transferred for execution. Alternative solutions with respect to the service in branches, based in majority on the promotion of electronic banking, cash transports directly to/from the customer's office, and wider use of debit cards were developed and offered. Within the framework of the activities described, the customers were provided with new solutions enabling the possibility of phone initiation of transactions ordered in place of paper form in the Bank's branches.

On 1 December 2003, a pilot combined branch of consumer and corporate banking in Zabrze entered into operation. The group of the current consumer customers serviced by the branch was increased by commercial customers, in majority from the SME Division. Work on consolidation of a further 10 units is in progress. Moreover, as of 1 March 2003 the Banking Customer Service Point in Kostrzyń on the Oder, belonging to the Corporate and Investment Sector, discontinued operations, and as of 15 December 2003 – the operations of sub-branches in Trzebinia, Cieszyn and Nowa Huta included in the network of the Corporate and Investment Sector were closed.

IV. Other information about the Bank

1. Rating

The Bank has a full rating from the international rating agency Moody's Investors Service ("Moody's"). On 14 January 2003, Moody's upgraded the rating of the Bank to A2 for long-term deposits (an investment grade, 6 from the top in the 21 degree scale) and Prime-1 for short-term deposits (grade 1 from the top in the 4 degree scale). The Bank rating is at the highest level from available for entities domiciled in Poland.

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

In 2003, the Bank's share price on the Warsaw Stock Exchange (WSE) fell from PLN 74.5 (31 December 2002) to PLN 57.7 (31 December 2003), i.e. by 23%. As a comparison, in the same period the main bank index of the WSE, WIG-BANKI, rose by 9%, and the main index of the WSE, WIG, rose by 45%. Therefore, the reduction in the price of the Bank's share price corresponded, to a certain degree, with the relatively poor stock exchange listings of the banking sector. An additional factor which had a negative bearing on the Bank's share price was low demand of investors due to the shares low liquidity (market free-float).

3. Awards and honours

For the first time, the Bank obtained from President Aleksander Kwaśniewski the title of the Golden Sponsor of the "Internet in Schools" programme. The aim of this programme is to popularise new technologies among pupils and students.

Analysts, investment advisors, and brokers invited by the editors of business newspaper Puls Biznesu considered the Bank's Capital Group the best company with respect to the comprehensibility of its banking, insurance, and capital management services.

The President of the Management Board of the Warsaw Stock Exchange honoured Dom Maklerski Banku Handlowego S.A. with an award for the largest share in the trade in shares and the largest number of companies subject to market making in 2003.

In the ranking "Best Emerging Market Banks 2003" published in Global Finance, Bank Handlowy w Warszawie SA was honoured as the best bank in Poland.

In the fourth edition of the Global Finance magazine competition World's Best Internet Banks, Bank Handlowy w Warszawie SA was granted the award for the Best Corporate/Institutional Internet Bank in Poland and Best Corporate/Institutional Online Cash Management Bank in Poland.

Bank Handlowy w Warszawie SA won the ranking "Złota Setka Pomorza i Kujaw" (Golden Hundred of Pomerania and Kuyavia) in the category of Banks. In the seventh edition of that ranking this year, for the first time organized jointly by the regional newspapers "Gazeta Pomorska", "Głos Szczeciński" and "Głos Pomorza", the Bydgoszcz branch of Bank Handlowy was chosen as the best one by entrepreneurs from the Kuyavia-Pomerania Voivodship.

The Bank was considered by the prestigious monthly Euromoney the "Best Debt House in Poland, 2003". This award was granted for transactions of Eurobonds issued by the Polish government, and above all for the activity in the market of corporate debt securities. The Bank organised, among other things, the public programme of issue of bonds for TP SA worth one billion zlotys.

The prestigious international financial magazine "The Banker" awarded Bank Handlowy w Warszawie SA "The Bank of the Year 2003". The Bank obtained this title for the second time in a row. It was granted to the Bank for its entire business, not only for financial results, but also for technologies, innovations and strategic project affecting the Bank's activity.

Bank Handlowy w Warszawie SA was ranked third in the list of "ideal banks for individual customers" of the Profit business magazine. The offering of Bank Handlowy was highly ranked with respect to the costs of using bank services, many saving possibilities, selection of loan products, functionality and differentiation of access channels, and so-called service friendliness, i.e. customer service quality.

Bank Handlowy w Warszawie SA was awarded first award in the Third Pan-Polish Ranking of Bank Card Issuers organised by Gazeta Bankowa in the category of "Effectiveness of reaching the customer with the offering" for the offering for individual customers.

4. Sponsoring activity and cultural patronage

For many years, the Bank has been a patron of culture and art. The Bank cooperates with the National Philharmonics, the Polish Radio, ERA JAZZU.

In 2003, the Bank was awarded the prestigious sponsorship of the National Philharmonics. In February, an exceptional Cameral Concert with the participation of the excellent orchestra of the Academy of Saint Martin in the Fields and eminent pianist and conductor – Murray Perahia – took place in Warsaw. Its programme included the works of Bach, Mozart and Beethoven.

In November 2003, the Bank organised, together with its business partners PZU S.A. and Polkomtel S.A., an exhibition of paintings by Jan Wołek entitled "My dear normality", which was held in the Art New Media Gallery in Warsaw.

In December 2003, the Bank co-sponsored with Polska Telefonia Cyfrową ERA the concert of legendary guitarist Al Di Meola who performed in Teatr Polski in Warsaw as part of the ERA JAZZU cycle with an excellent special programme "Christmas Night".

V. Changes in IT technology

The Bank attaches great importance to the use of advanced IT, telecommunication, and bank security technologies, treating them as a source of significant competitive advantage and a means of increasing the effectiveness of operations. Having Citigroup support in implementation of modern technologies and solutions, the Bank has been consolidating its position as one of the most innovative financial institutions in Poland.

In 2003 the Operations and Technology Department of the Corporate and Investment Banking Sector continued the process of the Bank's application platform integration. In January 2003, the analysis of all applications functioning in the institution was carried out in order to verify the indispensability of their use in the production environment. During the process a number of applications were identified as applications that were to go out of use.

The next important achievement was completion in 2003 of the implementation of the new version of the Flexcube 3.9.1 system – the basic corporate banking system – and its gradual modification to reflect identified needs. During that work, a number of projects were implemented, as a result of which the service of selected banking products was transferred from the auxiliary systems to the Flexcube system (direct debit), an interface improving the cooperation between Flexcube and the selected auxiliary systems (bills of exchange and collections, debit cards) and external systems (settlement system on the interbank market Sorbnet) was implemented, and Flexcube was enlarged by new modules (securities, Anti-Money Laundering module). Moreover, Flexcube obtained new functionalities, the most important of which are implementation of automatic recalculation of assets revenue and liabilities on the basis of internal settlement rates for the purposes of the management information system and implementation of automatic calculation of the withholding tax on interest income earned on deposits by non-residents.

In addition, an agreed and closed list of extensions and modifications for a subsequent version of the Flexcube system was prepared and the implementation of the new version of Flexcube 4.3 is planned for the beginning of 2004.

In 2003, intense work has also been conducted to shorten the process of final calculation of accounting data after the end of an accounting day and month in order to ensure the timely delivery of the indispensable files and reports. With this end in view, the new disc matrix XP1024 was implemented and a number of modifications of the Flexcube system were made in the area of the end of day (EOD) and end of month (EOM) processes. As a result of these activities, shortening of the processing time by 20-30%

was achieved. Due to the increase in the quantity of data within the Flexcube system, work in the area of monitoring and shortening of the duration EOD and EOM processes will be continued in 2004.

In 2003, the basic activities in the area of network and telecommunications were focused on the completion of the integration of the computer network of the merged Bank, automation of the processes of services of the electronic data transfer environment, and completion of adjustment of the network of telephone switchboards to corporate standards. In April 2003, the process of combination of computer networks of enterprises included in the merged Bank and the Bank's Capital Group was completed. In January 2003, the construction of the new environment for workstations and file servers and printouts commenced. The project was completed in December 2003. In May 2003, the project of reconstruction of telephone switchboard networks to corporate standards was completed.

Within the framework of implementation of the bank's computer network integration project, 164 locations of the bank were connected into one network based on the TCP/IP protocol. In this network, basic and standby hardware and data transmission connection resources were ensured. This project resulted in the establishment of two main nodes of the Bank's computer network situated in the premises of the Bank's headquarters at Goleszowska St. and Senatorska St. in Warsaw. The whole network was based on a rule that all outlets of the Bank in the country have a basic connection to one of these locations and a backup connection to the second one.

The Standard Operating Environment (SOE) project implemented in 2003 led to considerable automation of workstations used by the Bank's employees. This project was based on several assumptions: first, transferring data from workstations to servers in order to enhance data protection against destruction through regular recording of data kept on servers; second, the possibility to solve problems which appear on workstations remotely, which substantially accelerates and increases the efficiency of service of such situations; third, obtaining the possibility of work from any computer, and not a dedicated computer, as it was in the case of the previously used solutions. A significant benefit from implementation of this project was rationalisation of employment of persons servicing the data transmission and processing environment. Within the framework of SOE, the antiviral protection system was substantially increased.

In 2003, a unique e-mail system for employees based on the MSExchange platform has been introduced in the Bank. Implementation of the "Intrusion Detection" system ensured protection against unauthorised access to the Bank.

In the reporting period described, extensive preparation enabled negotiations with telecommunication service providers to be concluded which will make it possible to obtain savings on costs of these services in 2004.

The other major changes implemented in IT and telecommunication systems were:

- implementation of the eTIS system supporting SME Risk Department in automating the credit-granting process and document flow. The Soft Collection module was implemented in the eTIS system, supporting the work of the SME Risk Department in servicing the so-called soft debt collection, which allowed automated selection of customers with overdue liabilities towards the Bank and eliminated the hard copy form of information about contacts with customers.

- the project of implementation nCAPS system supporting the work of the Portfolio Management and Risk Control Department in the area of calculation and management of the level of specific provisions and record of collateral in the Bank was completed. The nCAPS system vastly contributed to the support and automation of the process of development of reports concerning specific provisions of the Bank for the purposes of NBP and supplemented the functional deficiencies of the Flexcube system in the area of recording bank collateral.

- the numbering of "Investor Package" accounts in Promak system (DMBH) and Systematics (Consumer Banking Sector) applications was unified. The information scope of monthly statements for DMBH customers generated from Promak was enlarged.

In 2003, total capital expenditure for IT infrastructure in the Corporate and Investment Banking Sector amounted to PLN 26.3 million for hardware and PLN 6.5 million for software. In the period described, the Bank also incurred expenses for bank security systems totalling PLN 2.1 million.

Changes in IT systems in the Consumer Banking Sector were executed mainly through implementing functionalities making it possible to offer new products and solutions (e.g. electronic bank statements, Citigold Wealth Planner, payment of utility costs with the use of a credit card, Motokarta Kredytowa Citibank-BP, enlargement of the Citibank Online functionality). In addition, the launch of the customer relations management system (PeopleSoft) in December 2003 was of high importance for the Consumer Bank.

The most important project commenced in 2003 in the Consumer Banking Sector related to the migration of SME Division customers (so-called Tier0 sub-segment) from Flexcube to consumer banking systems, in connection with the change in the model of services for these customers planned for 2004.

In 2003 total capital expenditure for IT in the Consumer Banking Sector amounted to PLN 12.3 million.

By the end of 2003, full implementation of the new bank account standard NRB (IBAN) both in the Flexcube and Systematics systems was performed.

VI. Prospects for the business development of Bank Handlowy w Warszawie SA

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 increasing the Bank's share in key market segments. In the past year, the Bank increased its customer base, inter alia owing to the development of services for small enterprises and of consumer banking. In the coming years, the Bank's intention will be to continue active acquisition of new customers from all market segments, with a particular emphasis on consumer banking.

In the medium term, the Bank will be striving for a double-digit market share, as measured by its share in the net income from banking activity generated by the banking sector. In 2003, this share was 7%. This increase in market share is to be attained by maintaining the Bank's leading position in corporate banking and services for high net worth individuals. Business areas with high growth potential, i.e. services for large and medium-sized domestic enterprises (Commercial Banking Sector), services for small enterprises (the new Small Business Division product offering), and cash borrowings to natural persons with low income (CitiFinancial), will be dynamically developed.

Simultaneously, the Bank will place special emphasis on efficient cost management policy. In 2003, the Bank's share in general expenses of the banking sector was 7%. In the coming years, the Bank plans to implement strict cost discipline, so that the ratio of cost/income ratio will noticeably improve. It is also planned to gradually increase ROE, which was 4.1% at the end of 2003. The Bank's share in the net financial result of the banking sector was 10.4% in 2003.

One of the Bank's priorities for the coming years is further development of the Regional Settlement Centre which provides settlement services for the Bank and for foreign banks within Citigroup.

2. Corporate banking

The Bank is the corporate banking leader in Poland. As of the end of 2003, its share in the corporate lending market was 9.1% versus 9.7% at the end of 2002, whereas the share in the corporate deposits market amounted to 15.3% versus 15.5% in 2002. The Bank's share in corporate debt origination market, measured by the indebtedness size, was 23.5% at the end of 2003 versus 22% at the end of 2002.

In 2003, the Bank completed the implementation of a new more effective model for servicing corporate customers. This model will be gradually implemented in all Citigroup regions. As a consequence of introducing the new Customer Coverage Model, the product offering for large and medium-size domestic enterprises with high growth potential was broadened. The group of 150 largest customers of the Bank were covered by fully customised service.

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 restricted lists as a result of sanctions imposed either by international organisations or the US government.

The Bank's position is particularly strong in servicing international corporations and the 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.

The segment of small enterprises and self-employed persons with annual sales revenue not exceeding USD 2 million was included into the consumer banking structure, where it will operate under the CitiBusiness logo. The Bank prepared a new product offering for small companies and will continue active acquisition of customers in this segment.

The majority of the Bank's income will be generated by cash management, trade service and treasury products. The solutions and innovations in these product groups will be the key factor determining the competitive advantage of the Bank, in particular in cooperation with the most demanding international and leading domestic companies. The Bank will also aim to use the possibilities of sale of these products in the segment of large and medium-sized enterprises to a much larger extent.

Investment banking services are to be made available through close cooperation between the Bank and Citigroup Global Markets. This will make it possible to offer servicing of large-scale international transactions as well as services to domestic companies.

3. Consumer banking

The Bank considers that services for the consumer banking sector customers has the highest growth potential in the medium-term.

The Bank's share in total lending to private persons totalled 2.1% at the end of 2003, versus 2.2% at the end of 2002, whereas in deposits the market share was 3.0% in 2003 versus 2.9% in 2002.

Over the next three years, the Bank plans to significantly increase its market share in the consumer banking segment.. The Consumer Banking Sector will concentrate its efforts on the acquisition of customers with above-average and high incomes (over PLN 1,500 gross monthly), living in cities over 100,000 inhabitants. The Bank's product offering has been tailored to suit the expectations and requirements of this customer profile.

The Bank is an absolute leader in the credit card market. It is of key importance for the Bank to keep the strong position in credit cards – the market in which Citigroup is the world leader. New card types as well as loyalty-building programmes will be offered. The target group of customers to whom the Bank will offer its cards will be enlarged.

The Bank has a very strong position in services for the highest income customers. Services offered to these customers are of global coverage, which differentiates the Bank from the competition.

One of the Bank's key goals is to further strengthen its position in this market segment. In the first half of 2003, the customers, who possess investments in excess of PLN 100,000 were offered new services under the *CitiGold Wealth Management* brand. The most important highlight of the wealth management service is the savings and investment plan including investment, insurance and banking products. The products available under *CitiGold Wealth Management* package include current accounts, term deposits, investment deposits and double currency deposits, investment funds, treasury bills and bonds. Customer funds management is to be based on personalised investment portfolio creation according to individual customer's needs and preferences. Poland is the first European country where Citigroup introduced its *CitiGold Wealth Management* service.

Moreover, the offer addressed to medium-income customers holding *CitiOne* or *CitiKonto* accounts is being expanded. In addition to developing traditional deposit services and increasing transactional functionality of the accounts, the emphasis will be placed on extending investment and insurance offering. Along with the increasing customers' demand for new ways of depositing their savings, the Bank will expand systematically its investment fund offering (*CitiFundusze*) and will make available to its customers the offering of other financial institutions. Sales of life insurance with an investment fund will be actively pursued, based on co-operation with CitiInsurance Towarszystwo Ubezpieczeń na Życie, a fellow Citigroup company.

The Bank commenced granting cash loans to low-income customers. This activity is treated as a separate business and is conducted under the brand of CitiFinancial, a Citigroup division specialised in loan-granting activity. The Bank expects dynamic development of this activity.

4. Distribution network

The process of unification of visual identification of the Bank has been completed. Currently, both the consumer and the corporate distribution networks operate under a common logo – Citibank Handlowy. Our priority is to build awareness of the brand among our current and future customers.

The Bank's customer service is based on the network of outlets, banking consultants, external direct sales agents and remotely operated distribution channels such as Internet banking, call centre, IVR (interactive automatic telephone service) and multi-functional ATMs.

The Bank has a network of 160 branches distributed throughout the country. Currently, corporate banking customers have at their disposal 26 branches and 28 sub-branches. In turn, customers of the consumer sector have at their disposal 86 branches (75 multifunctional branches, 11 CitiGold Wealth Management branches) and 16 branches and 4 regional centres of CitiFinancial. Private individuals are also serviced in selected corporate branches (32 outlets). Rationalisation of the branch network by optimisation of the usable space, closing down the less profitable branches, and combination of corporate and consumer sector branches is planned. Small businesses and individuals conducting business activity will be serviced at consumer and corporate banking branches. In the case of corporate and *CitiGold* customers, the mainstay of the distribution network will be bank consultants. The network of CitiFinancial branches will be enlarged.

The use of the Bank's distribution network takes into account plans of increasing the scope of activities in consumer banking and the synergies achieved with the corporate bank. In the coming years, the Bank will aim to minimise the operating work in branches and to completely transform them into service provision centres. The priority is to increase functionality and availability of remote distribution channels and to further enhance the qualifications of banking consultants, in particular these handling large entities that demand more sophisticated financial products. In case of consumer banking great emphasis will be placed on further growth of Internet usage (Citibank Online). Currently more then half of transactions are carried out using this transaction channel. As a target, the Internet is to become the basic source of conducting transactions for private individuals.

High functionality and high quality of access to call centres will be maintained. In 2004, these services will be integrated for private individuals and small businesses at one call centre. In the case of large and medium-sized companies and institutional customers, their telephone service CitiService/Customer Service Department will be centralised in Warsaw.

5. Synergies

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

Packages of deposit and loan products are offered to the staff of the largest corporate customers. A typical package includes personal current accounts (e.g. CitiKonto) together with payroll support facilities, credit cards, mortgage loans and cash advances. In addition to pricing incentives, the Bank will be prepared to install customer service points on site at the company and conduct financial educational seminars for their employees.

The Bank will also continue to sell corporate products to its consumer customers from the CitiGold sector. Specialised Treasury products, brokerage services and asset management facilities will be particularly offered. All groups of consumer customers will further be offered investment products, in particular participation units in *CitiFundusze*. The product range of *CitiFundusze* will be systematically expanded, adequately to new demands of the customers. Expertise in this are will be provided by Handlowy Asset Management company, supported by the Treasury units in Poland and internationally.

6. Model corporation

The Bank aspires to be a model corporation in Poland, with a strong sense of social responsibility. The Bank will actively support various cultural, educational and philanthropic activities – both at the national level and in local communities, especially through the Kronenberg Foundation. Moreover, the Bank will actively participate in the dialogue between the state authorities and the business sector about regulations that influence the climate and conditions of conducting business activity in Poland.

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

1. Environmental risk

1.1 Economy

The Bank's forecasts on the Polish economy assume a gradual improvement of the macroeconomic situation in 2004-2006 and GDP growth at the level of 5.0% - 5.5%. However, the economic upturn will result in a gradual increase in the current account deficit from 1.9% of GDP in 2003 to 2.5 – 4.0% of GDP in 2004-2006. The motor of growth will be exports (in connection with the improvement of the economic situation in the EU Member States and the favourable rate of exchange euro/dollar) and increasing domestic demand (especially of investment type) which will contribute to an increase in imports. The average annual rate of inflation will increase and may attain the level of about 3% in 2006. This will be accompanied by gradual small rises of interest rates, which does not exclude a small reduction in real interest rates in the conditions of increasing inflation. The prospect of joining the European Union and then the Economic and Monetary Union will attract investors, encouraged by the supply of qualified workforce and low labour costs with a similar level of economic activity risk and level of technological development. The growth of foreign investments will be stimulated by economic growth and the expected acceleration of the privatisation process. Apart from the inflow of foreign investments, mainly in the form of direct investments, the growth of foreign trade turnover is also expected following the opening of the European Union borders and the growth of Polish companies' productivity resulting from the flow of know-how and modern technologies. On the other hand, Polish enterprises will be subject to intensified competition from EU enterprises, which applies also to the banking sector. The level of utilisation of Union funds will affect the macroeconomic situation of the country. There is a risk that in the first year of EU membership Poland will be a net payer. In subsequent years, an increase in inflow of EU funds is expected.

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.

The rate of GDP growth will affect the customers' ability to pay their liabilities to the Bank on time. 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 significant increase in the inflation rate (causing an increase in uncertainty accompanying investments) and current account deficit and significant negative movements in interest or foreign exchange rates may have an adverse effect on the earnings and overall financial condition of the Bank's Capital Group. 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 alternative to bank deposits and increase of credit demand.

Macroeconomic policies and the measures taken by government institutions exert a major impact on the national economy, and – directly or indirectly – on the financial performance of the Bank. In this context, it cannot be ignored 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 the NBP, ordinances issued by the President of the NBP, and also resolutions of the Commission for Banking Supervision ("KNB"),

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

- permissible concentration of credit 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),
- calculation and maintenance of mandatory reserves (the Act on the NBP, Banking Act, and resolutions of the Commission for Banking Supervision and of the NBP Management Board),
- obligation to create specific provisions against irregular assets (the Accounting Act and regulations of the Minister of Finance),

- taxation and similar charges.

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 returns and the amount of tax actually paid may be reviewed by the tax authorities for a period five years after the date of submittal. 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 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 in the market of banking services provided to large corporate customers will be growing. Corporate entities are going to use financial alternatives to bank loans, such as issuance of short-term debt securities, bonds and equity or lease finance. Moreover, numerous banks declared their expansion plans to the sector of small businesses and in the area of consumer services, which will have a direct impact on increased competition in these areas of banking services. It is possible that due to a growth in foreign investment in the banking sector, and to the sector's consolidation process, as well as the progressive integration of Poland with the European Union an increase in competition will be observed in the bank service market, particularly in such segments 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 financial performance.

2. Risk factors connected with the Bank and its operations

2.1 Liquidity risk

Maturity mismatches between loans and the deposits that fund them are a typical aspect of banking activity, and occur in the Bank too. 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 which is 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 foreign exchange 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 with the Treasury Department which manages the foreign exchange position. The market risk is moderate, and the limit of value at risk (VaR) arising from open foreign exchange position is established at a level below 1% of the Bank's equity. An additional feature of managing banking risk in the Bank is the policy of closing out positions characterised by non-linear risk with Citibank London.

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 Credit risk

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 National Bank of Poland, and establishes all the requisite specific provisions against loans classified irregular. In connection with the possibility of changes in the external environment 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.

2.5 Equity investment risk

Decisions concerning investment activities of the Bank are made by the Management Board and the Equity Investment Committee. Equity investments can be divided into three categories: active, strategic and restructuring. The objective of active investments is to ensure a high rate of return. The strategic investment portfolio includes the Bank's shares in financial institutions, being of a strategic significance to the Bank due to its operations. Restructuring investments exposure arises from the conversion of receivables into equity shares. Investments are executed directly by the Bank or indirectly via the Bank's wholly-owned special purpose investment vehicles. 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 valuation 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 market valuation of the Bank's shares. The Bank already created considerable provisions related to its equity investment; hence the risk level connected with a further drop in the value of the Bank's investment portfolio is low.

2.6 Risk related to the reduction of the strategic investor involvement

After the merger of Bank Handlowy w Warszawie S.A. and Citibank (Poland) S.A. in March 2001, Citigroup holds 89.33% of the Bank's authorised capital. The majority shareholder declared to scale down the size of its ownership of Bank shares to 75% by the end of 2004. This widely known information about the planned reduction of the Citigroup share in Bank Handlowy carries a short-term risk of a decrease in the share price in connection with the potential appearance of a substantial supply of these instruments.

2.7 Operating risk

The Bank's operations are based on two separate systems for corporate and consumer bank operations. In connection with the transfer of service of small enterprise segment customers from the Corporate Division to the Consumer Banking Division, their migration from the corporate system to the consumer system will be performed in 2004. In order to limit the risk connected with the migration, it will be conducted in four phases preceded by detailed system tests.

Data processing for the purposes of consumer banking provided by the technological centre in Singapore ensures cost efficiency and technical support, as well as access to the most modern solutions developed by that centre. The Bank has security procedures (COB – Continuity of Business) in case of the occurrence of any shortcomings in data processing – for example it has reserve back up computer capabilities at its disposal in the Regional Processing Centre in Olsztyn and in other locations, which guarantee maintenance of the institution's functioning. The overall level of the operating risk is moderate.

2.8 Legal risk

The Bank is a subsidiary undertaking of Citibank N.A. (indirectly through Citibank Overseas Investment Corporation), a member of 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 US 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. 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.

2.9 Contributions to the Bank Guarantee Fund

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

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

VIII. Good Practice in Public Companies

1. Statement on the application of corporate governance principles contained in the Code of Good Practice in Public Companies

In accordance with the resolutions adopted by the Bank's Management Board, the Bank's Supervisory Board, and the Ordinary General Meeting of the Bank's Shareholders held on 25 June 2003, the Bank adopted for use all general and specific corporate governance principles contained in the Code of Good Practice in Public Companies.

The statement concerning this issue has been disclosed to the public on 30 June 2003 in the current report whose contents are presented below.

	PRINCIPLE	YES/ NO	COMMENTS OF BANK HANDLOWY W WARSZAWIE SA
GENERAL PRINCIPLES			
I	<u>Purpose of the company</u> The main purpose of activities of the company's governing bodies is to pursue the company's interests understood as the increase in the value of assets entrusted to it by the shareholders, taking into account the rights and interests of entities other than the shareholders, engaged in the operation of the company, in particular the company's creditors and employees.	**Yes**	
II	<u>Governance of the majority and protection of the minority</u> A joint stock company is a capital enterprise. Therefore, the principle of governance of capital majority and thus the priority of majority over minority has to be recognised in the company. The shareholder who contributed a higher capital bears also a higher business risk. Therefore, justifiably such shareholder's interests should be taken into account pro rata to the capital contributed. The minority has to have ensured due protection of its rights, within the limits specified by the law and by good practices. When enforcing his rights, the minority shareholder should take into account the interests of the minority.	**Yes**	
III	<u>Fair intentions and non-abusing of rights</u> Enforcement of rights and using legal institutions should be based on fair intentions (good faith) and cannot extend beyond the purpose and economic rationale for which such institutions have been established. No actions should be undertaken which extending beyond thus stipulated framework would constitute legal abuse. The minority should be protected against the abuse of ownership rights by the majority and interests of the majority should be protected against the abuse of rights by the minority, while ensuring the possibly widest protection of	**Yes**	

	rightful interests of the shareholders and other participants in trade.		
IV	Control by courts of law The company's governing bodies and persons conducting the general meeting cannot make decisions in issues which should be the subject of court verdicts. This is not applicable to activities to which the company's governing bodies and persons conducting the general meeting are authorised or obliged by the legal regulations..	**Yes**	
V	Independence of opinions ordered by the company When selecting the party which is to provide expert services, including in particular chartered auditor's services, financial and tax advising services, and legal services, the company should take into account whether circumstances exist which would limit the independence of such party at the performance of the tasks entrusted to it.	**Yes**	
GOOD PRACTICES OF GENERAL MEETINGS			
1	The General Meeting should take place at the place and time facilitating to the widest possible number of shareholders the participation in the meeting.	**Yes**	In accordance with the practice adopted in the Company, General Meetings are held in the Company's registered office located in Warsaw. The Company adopted as a principle that ordinary general meetings are convoked in the last week of June in the morning.
2	The request to convoke the General Meeting and to place the specific items on its agenda, submitted by authorised entities, should be justified. The draft resolutions proposed to be adopted by the General Meeting and other important materials should be presented to the shareholders together with the justification and the opinion of the Supervisory Board before the General Meeting, within the time limit making it possible for the shareholders to get to know them and evaluate them.	**Yes**	The Management Board presents the justification for convoking the General Meeting and placing the specific items on its agenda. In the case when the request for convoking the General Meeting and placing on its agenda specific issues by the shareholder or shareholders does not contain the respective justification, then independently from the execution of the obligation to convoke the General Meeting, the Management Board will request such justification. The said principle has been introduced into the Statutes of the Company, by their amendment by a resolution of the General Meeting on 25 June 2003. In accordance with the practice adopted in the Company, all significant materials for the general meeting are forwarded to the shareholders at the latest 15 days (financial statements) or 7 days (copies of resolutions) before the date of its holding. Pursuant to the resolution of the General Meeting of 25 June 2003, the amendment concerning the obligation to present to the shareholders draft resolutions with the rationale and the Supervisory Board's opinion has been introduced into the Regulations of the General Meeting of the Company's Shareholders.
3	The General Meeting convoked on motion of the		The Management Board will exercise its best

	shareholders should be held at the date indicated in the request, and if keeping such date encounters significant obstacles – at the nearest date making it possible for the meeting to settle the matters placed on its agenda.	**Yes**	efforts to ensure that the general meetings convoked on the shareholders' motion are held at the times and places indicated in the request, unless this is impossible due to objective causes – then another date is designated in consultation with the person demanding the meeting convoking.
4	Cancellation of a general meeting on whose agenda specific issues are placed on request of entitled parties or which has been convoked on such request is possible only with the consent of the requesting persons. In other cases, the general meeting can be cancelled if its holding encounters extraordinary obstacles (force majeure) or is unsubstantiated in the obvious manner. Cancellation takes place in the same manner as convoking, so that to ensure the smallest possible negative consequences for the company and for the shareholders, in any case not later than three weeks before the originally planned date. The change in the date of the general meeting is made upon the same terms as its cancellation, even if the proposed agenda is not changed.	**Yes**	The Company uses the general rule of non-cancellation or change of the dates of general meetings which have already been announced, unless extraordinary or particularly justified circumstances exist. In the latter case, the respective procedures concerning the notification of all interested persons are applied. The amendment introducing the said rule into the Company's Statutes has been made pursuant to the resolution of the General Meeting of 25 June 2003.
5	Participation of the shareholder's representative in the general meeting requires due documentation of the right to act in such shareholder's name. The written document confirming the right to represent the shareholder at the general meeting should be implied to be consistent with the law and not to require any additional confirmations, unless its authenticity or prima facie validity raises doubts of the company's management board (when entering into the list of attendance) or of the chairman of the general meeting.	**Yes**	In accordance with the practice adopted in the Company, only a power of attorney (in the written form under pain of invalidity) is required for participation in the general meeting and the enforcement of the right to vote granted by persons authorised thereto, in accordance with the excerpt from the specific register, or in accordance with the provisions of the Civil Code in the case of natural persons. When supplementing the list of attendance at the General Meeting, the Company controls only the above documents. The appropriate provision confirming such practice is contained in the Regulations of the General Meeting of the Bank's Shareholders.
6	The general meeting should have stable regulations specifying the detailed rules of conducting the meeting and adopting resolutions. The regulations should contain in particular the provisions concerning the elections, including the election of the supervisory board by voting in separate groups. The regulations should not be frequently changed; it is indicated that the changes should enter into effect starting from the next general meeting.	**Yes**	The Regulations of the General Meeting were adopted at the General Meeting held on 27 June 2002 (Resolution No. 8 of the General Meeting of 27 June 2002).
7	The person opening the general meeting should immediately ensure the election of the chairman, abstaining from any other substantive or formal decisions.	**Yes**	In accordance with the practice of conduct of General Meetings adopted in the Company, the person opening the meeting orders immediately after such opening the election of the Chairman of the Meeting.
8	The chairman of the general meeting ensures the efficient conduct of the meeting and the respect of the rights and interests of all shareholders. The chairman should counteract in particular the abuse of rights by the meeting participants and should ensure the respect of minority shareholders' rights. The chairman should	**Yes**	In order to ensure the compliance with this principle, each time the Company's Management Board informs the Chairman of the General Meeting about its contents. The respective provision is contained in the Regulations of the General Meeting of the

	not resign his function without important reasons, cannot also delay the signing of the minutes of the general meeting without justified reasons.		Bank's Shareholders.
9	Members of the supervisory board and of the management board should be present at the general meeting. The chartered auditor should be present at the ordinary general meeting and at the extraordinary general meeting if the items on the agenda are to include the financial issues of the company.	**Yes**	In accordance with the Regulations of the General Meeting of the Bank's Shareholders, the members of the Management Board and the Supervisory Board participate in General Meetings. In the case when items on the agenda of the General Meeting are to be financial issues of the Company, also the Company's chartered auditor participates in the Meeting, in accordance with the provisions of the Regulations. The amendment to the Regulations of the General Meeting of the Company's Shareholders concerning the necessity of chartered auditor's participation in the general meeting was executed by the resolution of the General Meeting of 25 June 2003.
10	Members of the supervisory board and the management board as well as the company's chartered auditor should, within the limits of their competencies and within the scope indispensable for settlement of the issues discussed by the meeting, grant explanations and information concerning the company to the meeting participants.	**Yes**	Members of the Management Board and of the Supervisory Board as well as the chartered auditor – if necessary, who are present at general meetings, grant to the meeting participants explanations and information concerning the Company, within the limits of their competencies and within the scope indispensable for settlement of the issues discussed.
11	The management board should give answers to the questions posed by the general meeting, while taking into account the fact that the information obligations are executed by the public company in the manner arising from the law on public trade in securities, and certain information should not be given in another manner than arising from such regulations.	**Yes**	The Company's governing bodies do not limit the information requested in particular by the general meeting, but at the same time they comply with the provisions of the Act – Law on Public Trade in Securities and of the Regulation concerning information obligations and the provisions of the Code of Commercial Companies. The respective provision is contained in the Regulations of the General Meeting of the Bank's Shareholders.
12	Short breaks in meeting which do not constitute deferment of the meeting and are ordered by the chairman in justified cases cannot aim to make difficult for the shareholders to enforce their rights.	**Yes**	In order to ensure the compliance with this principle, the Management Board informs each time the Chairman about its contents.
13	Voting on organisational matters should apply solely to the issues connected with the conduct of the meeting. Resolutions which may affect the enforcement of their rights by the shareholders are not subject to voting in this manner.	**Yes**	Voting on organisational matters applies solely to the issues connected with the conduct of the meeting.
14	The resolution to abandon the consideration of an issue placed on the agenda can be adopted only in the case when it is based on material and factual grounds. The motion in such a case should be motivated in detail. The general meeting cannot adopt a resolution to remove from the agenda or to abandon consideration of an issue placed on the agenda on shareholder's request.	**Yes**	In accordance with the provisions of the Regulations of the General Meeting of Shareholders, the Chairman conducts the Meeting in accordance with the agreed agenda approved by the General Meeting. The respective amendment introducing the said principle was adopted by the resolution of the General Meeting of 25 June 2003.
15	The persons who notify objections against a resolution are ensured the possibility to briefly justify their		In accordance with the current practice, each of the persons who notify objections against a

	objections.	Yes	resolution has the possibility to present his/her case and to justify his/her objections.
16	Due to the fact that the Code of Commercial Companies does not provide for legal control in the case when the general meeting does not adopt a resolution, the management board or the chairman of the general meeting should formulate resolutions so that every entitled person who does not agree with the merit of the decision constituting the subject matter of the resolution is granted the possibility to appeal against such resolution in court.	Yes	The Chairman of the General Meeting is obliged to ensure that the resolutions are formulated in the clear and transparent manner. The Company's Management Board ensures also the possibility of using by the Chairman the assistance of the legal service used by the Company. The respective amendment introducing the said principle into the Regulations of the General Meeting of Shareholders was adopted by the resolution of the General Meeting of 25 June 2003.
17	On request of a participant in the general meeting, his written statement is included into the minutes.	Yes	In accordance with the practice, written statements of general meeting participants have been included into the minutes. In order to ensure the compliance with this principle, the Company's Management Board each time informs about its contents the notary public who will service the general meeting.
GOOD PRACTICES OF SUPERVISORY BOARDS			
18	Each year, the supervisory board submits to the general meeting a brief assessment of the Company's condition. Such assessment should be contained in the company's annual report made available to all shareholders within such time limit which will make it possible for them to read the report before the ordinary general meeting.	Yes	In accordance with the practice adopted in the Company, the Supervisory Board adopts every year a resolution containing the Board's own assessment of the Company's situation. This document is submitted by the Supervisory Board to the general meeting. The Company declares the inclusion of the content of this assessment in the annual report for 2003. Moreover, the Company shareholders have the possibility to view the Company's annual report at least 15 days before the Ordinary General Meeting.
19	The supervisory board member should have appropriate educational background, professional experience, and life experience, represent high moral level, and be able to devote the amount of time indispensable for him to perform his/her functions in the Supervisory Board. The candidacies for supervisory board members should be notified and justified in detail, in the manner making it possible to perform informed selection.	Yes	The candidacies for Supervisory Board members notified to the general meeting are always justified. The obligation to justify the candidacies presented has been included in the provisions of the Regulations of the General Meeting of the Company's Shareholders.
20	• At least one half of the supervisory board members should be independent members. Independent members of the supervisory board should not be in any manner related to the company or to its shareholders or employees, which relations might materially affect the ability of an independent member to make impartial decisions; • Detailed criteria of independence should be set forth in the company's statutes; • Resolutions concerning the following issues should not be made without the consent of at least one independent member of the supervisory board: • benefits for any purpose granted by the	Yes	This principle will be implemented by the end of 2004.

	company and any of its related companies to the management board members; • agreeing for entering by the company or its subsidiary into a material agreement with an entity related to the company, member of the supervisory or management board, and with entities related to them; • selection of the chartered auditor for the conducted audit of the financial statements of the company. • The above principle can be implemented by the company within the time limit other than that for the other principles contained in this table, but not later than by the end of 2004.		
21	The supervisory board member should pursue in the first place the company's interest.	**Yes**	The Supervisory Board Members take into account the Company's interest while performing their functions. In particular, they supervise the execution of long-term strategies and plans.
22	Members of the Supervisory Board should undertake the appropriate activities indispensable for their obtaining from the Management Board regular and exhaustive information about all material issues concerning the company's activities and about the risk associated with the activity conducted and the methods of managing such risk.	**Yes**	In accordance with the provisions of the Regulations of the Supervisory Board, the Management Board Members participate in the Supervisory Board's meetings and present all material issues related to the Company's business. Moreover, the Regulations of the Supervisory Board indicate the specific obligations of the Company's Management Board in the area of submitting financial information to the Supervisory Board. The Statutes of the Company indicate the issues in which the Management Board's decisions cannot be made without the Supervisory Board's acceptance. Each member of the Supervisory Board has the right to obtain from the Management Board information indispensable for performing his/her activities, which is confirmed by the respective provision in the Regulations of the Supervisory Board.
23	A member of the supervisory board should inform the remaining supervisory board members about the existing conflict of interests and should abstain from participation in the discussion and from voting on the resolution concerning the issue encompassed by such conflict of interests.	**Yes**	In accordance with the practice adopted in the Company, members of the Supervisory Board will inform the remaining members about the existing conflict of interests.
24	Information about personal, factual, and organisational relationship between a supervisory board member and the specific shareholder, and in particular a majority shareholder, should be publicly available. The Company should have a procedure for obtaining information from supervisory board members and for making such information public.	**Yes**	The company will undertake activities aimed at implementation of the procedure of obtaining from the Supervisory Board information about personal, factual, and organisational relationship between a supervisory board member and the specific shareholder, and in particular a majority shareholder. The information obtained in this manner will be available in the Company's registered office, on request of the interested entity.

25	Supervisory board meetings, except for the issues concerning directly the management board or its members, in particular: their revoking, their responsibilities and the determination of their remuneration, should be available and open for the management board members.	**Yes**	In accordance with the practice adopted in the Company and with the provisions of the Regulations of the Supervisory Board, the Management Board Members participate in the Supervisory Board's meetings. In accordance with the Regulations, the President of the Supervisory Board has the right to order a meeting of the Supervisory Board without participation of persons who are not the Board's members.
26	The supervisory board member should make it possible for the management board to transfer, in the public and appropriate manner, the information about the sale or acquisition of shares of the company or of its parent or subsidiary company, and also about transactions with such companies unless they are material for his/her financial situation.	**Yes**	The company will implement activities for the purpose of adopting the procedure for obtaining by the Supervisory Board from the Supervisory Board members information about the sale or acquisition of shares of the company or of its parent or subsidiary company. The information obtained in this manner will be available in the Company's registered office, on request of the interested entity.
27	The remuneration of the supervisory board members should be fair but should not represent a significant item of costs of operation of the company or materially affect its financial result. This remuneration should be in reasonable relation to the remuneration of the management board members. The total amount of remuneration of all members of the supervisory board should be disclosed in the annual report.	**Yes**	The remuneration of the Supervisory Board members does not represent a significant item of costs of operation of the Company. The total amount of remuneration of all Supervisory Board members is disclosed in the annual report.
28	The supervisory board should operate in accordance with its regulations which should be publicly available.	**Yes**	The Company has established its Regulations of the Supervisory Board. The Company intends to implement activities to make the said Regulations available on the Bank's web page.
29	The agenda of the supervisory board meeting should not be modified or supplemented during the meeting to which it applies. The above requirement is not applicable when all members of the supervisory board are present and agree for modification or supplementation of the agenda, and also when undertaking of specific actions by the supervisory board is necessary for protecting the company against the damage and also in the case of a resolution whose subject matter is to assess whether the conflict of interests exists between the member of the supervisory board and the company.	**Yes**	The agenda of the Supervisory Board meeting is determined at least 7 days before the planned date of the meeting and is accepted by the President, and then it is forwarded to all members of the Supervisory Board together with all materials. The respective provision is contained in the Regulations of the Supervisory Board.
30	The supervisory board member delegated by a group of shareholders for permanent supervision should submit to the supervisory board detailed reports on the function performed.	**Yes**	So far such a situation has not occurred in the Company, but should it occur, the Company declares the compliance with the said principle.
31	The supervisory board member should not resign his function during the term of his/her office if this might preclude the operation of the supervisory board, and in particular if this might preclude the timely adoption of a material resolution.	**Yes**	In the Company's practice, the said principle is adhered to by all members of the Supervisory Board. The Supervisory Board has adopted a resolution declaring the compliance with the corporate governance principles "Good practices in public companies" within the framework of the Supervisory Board's competences.

GOOD PRACTICES OF MANAGEMENT BOARDS			
32	The management board, pursuing the company's interests, sets forth the strategy and the main purposes of activity of the company, and submits them to the supervisory board, after which it is responsible for their implementation and execution. The management board cares for the transparency and effectiveness of the company management system and for the conduct of its business in accordance with the legal regulations and good practice.	**Yes**	The Management Board develops the Company's strategy. The strategy is subject to the acceptance by the Supervisory Board. At least once a year the Supervisory Board holds a discussion concerning the Company's strategy and long-term plans and assesses their execution. The Management Board is responsible for implementation and execution of the strategy.
33	When making decisions concerning the company's issues, the management board members should act within the limits of justified economic risk, i.e. having considered all information, analyses, and opinions which in the reasonable assessment of the management board should be taken into account in the specific case on the grounds of the company's interest. When determining the company's interest, the interests of shareholders, creditors, company employees, and other entities and persons cooperating with the company within the framework of its business as well as the interests of local communities should be taken into account.	**Yes**	The Company's Management Board analyses in detail the activities undertaken and the decisions made. The Management Board Members perform their duties with care and with the use of their best knowledge and practical experience.
34	When executing transactions with shareholders and other persons whose interests affect the interest of the company, the management board should act with particular care in order to ensure that the transactions are executed at arm's length.	**Yes**	The basis for determining the value of transactions with shareholders and other persons whose interests affect the interest of the Company is the market price if it is known, and if it is not known, such transactions are executed upon the conditions determined in accordance with the market criteria.
35	The management board member should be fully loyal towards the company and should abstain from activities which might lead solely to obtaining by him his own economic benefits. In the case of obtaining information about the possibility of making an investment or another beneficial transaction concerning the company's business, the management board member should immediately present such information to the management board in order to consider the possibility of its utilisation by the company. Such information can be used by the management board member or can be transferred to a third party only with the management board's consent and exclusively if this does not damage the company's interests.	**Yes**	The Company's Management Board Members have adopted a resolution to declare the will of complying by the Management Board with the corporate governance principles and undertook to abide by these principles within the scope arising from the statement made by the Company pursuant to § 22a subparagraph 2 of the Stock Exchange Regulations.
36	The management board member should treat his/her shares in the company and its parent and subsidiary companies as a long-term investment.	**Yes**	The Company has an internal procedure for investing in shares, including the company shares and shares in other enterprises, by employees including the Company Management Board Members employed on the basis of a contract of employment. The Management Board Members sign the respective statement for this purpose, whose model form is enclosed to the above procedure.
37	The management board members should inform the		So far, no situations indicated in the said

	supervisory board about each conflict of interests in connection with the function performed and about the possible occurrence of such conflict.	**Yes**	principle have occurred in practice in the Company. Nevertheless, in the case of their occurrence, the Management Board Members should be obliged to inform the Supervisory Board about each conflict of interests in connection with the function performed or about its possible occurrence.
38	The remuneration to the management board members should be established on the basis of transparent procedures and rules, taking into account its motivating nature and ensuring effective and stable management of the company. The remuneration should be commensurate to the size of the enterprise, should be in a reasonable relation to economic results, and should be connected with the scope of responsibilities arising from the function performed, taking into account the level of remuneration of management board members in similar companies in a comparable market.	**Yes**	The remuneration to the Management Board Members consists of a fixed part and a variable part adjusted to and dependent on the Company's financial results. The rules of remuneration to the management board members are set forth by the Company's Supervisory Board on the basis of a request of the Remuneration Committee of the Company's Supervisory Board.
39	The total amount of remuneration to all management board members should be disclosed in the annual report, broken down by individual elements. If the remuneration to individual management board members differs substantially, it is recommended to publish the respective clarification.	**Yes**	The total amount of remuneration to all Management Board Members is disclosed in the annual report. Differences in the amount of such remuneration are not substantial and arise exclusively from the function performed and the related scope of duties.
40	The management board should determine the rules and procedure and division of competencies in the regulations which should be open and generally accessible.	**Yes**	The rules and procedure of the Management Board are contained in the Regulations of the Management Board. The Company will undertake actions to make the Regulations of the Management Board available on the Internet page of the Company.
GOOD PRACTICE IN RELATIONS WITH EXTERNAL PERSONS AND INSTITUTIONS			
41	The entity which is to perform the chartered auditor's function for the company should be selected so that to ensure to such entity independence at the execution of tasks entrusted to it.	**Yes**	In accordance with the Statutes of the company, the chartered auditor is selected by the Supervisory Board.
42	In order to ensure the appropriate independence of opinion, the company should change the chartered auditor at least once in five years.	**Yes**	The company recognises in full the general justifiability of the principle in question. In practice, the Company will comply with this principle with the concurrent application of the corporate rule of maintaining the same external auditor which will be selected at the level of the Citigroup capital group.
43	The chartered auditor should be selected by the supervisory board or the general meeting of the company, after recommendations are presented by the supervisory board.	**Yes**	The selection of the entity which is to provide the chartered auditor services is made by the Supervisory Board of the Company on the basis of the recommendations of the Audit Committee of the Supervisory Board.
44	An auditor for special cases cannot be the entity performing the function of chartered auditor for the company or for its subsidiary companies.	**Yes**	So far, an auditor for special cases has not been established in the Company, but the Company declares that in such a case it will comply with the rule not to appoint as the auditor for special cases the person who is the chartered auditor for the Company or for its subsidiary companies. The respective reservations have

			been introduced into the agreement with the entity providing the chartered auditor services.
45	Purchasing its own shares by the company should be made so that no shareholder group is privileged.	**Yes**	The company has not so far purchased its own shares, but the Management Board declares that in the case of such transaction it will use its best efforts to ensure that no shareholder group is privileged.
46	The Statutes of the company, the basic internal regulations, the information and documents connected with general meetings, and also financial statements should be available in the company's registered office and on its Internet pages.	**Yes**	The Statutes of the Company are currently available on the Company's Internet pages. The Management Board will undertake action to ensure the availability of the remaining material internal regulations, information and documents connected with general meetings, and also financial statements, in the Company's registered office and on its Internet pages.
47	The company should have at its disposal the appropriate procedures and rules concerning contacts with the media and information policy, ensuring consistent and reliable information about the company. Within the scope consistent with the legal regulations and taking into account its own interests, the company should make available to media representatives information about its current operations and economic situation, as well as should enable media representatives to be present at general meetings.	**Yes**	In application of these principles, the Company's Management Board (and its spokesman) uses its best efforts to make available to the media representatives reliable information about the Company's current operations and economic situation, subject to the fact that the public company performs its information obligations in the manner arising from the provisions of the law on public trade in securities. In accordance with the Regulations of the General Meeting, the Company makes it possible for media representatives to participate in general meetings.
48	The company should publicly announce in the annual report that it applies the corporate governance principles. In the case of derogation from the application of these rules, the company should also publicly justify such derogation.	**Yes**	The Company complies with the regulations concerning the compliance with "Good practice(...)" in force in SEC and has submitted the present statement.

Signatures of all members of the Management Board

Date	Name	Position	Signature
25.03.2004	Sławomir Sikora	President	
25.03.2004	Wiesław Kalinowski	Vice-President	
25.03.2004	Philip Vincent King	Vice-President	
25.03.2004	David J. Smith	Vice-President	
25.03.2004	Sunil Sreenivasan	Vice-President	
25.03.2004	Lidia Jabłonowska-Luba	Member	