REPORT ON OPERATIONS OF

BANK HANDLOWY W WARSZAWIE SA

FOR THE SIX MONTHS ENDED JUNE 30, 2002

CONTENTS

I. The Polish economy in the first six months of 2002

1. Main macroeconomic trends

In the first half of 2002 the Polish economy still remained in stagnation, and in some sectors - like heavy industries and construction – even in recession. According to preliminary data published by the Central Statistical Office (GUS) real GDP growth in the first quarter of the year amounted to just 0.5%; estimates for the second quarter show that GDP growth was not much higher. As a result GDP growth for the first six months of 2001 was considerably lower than in the first half of 2001 (when it amounted to 1.6%), although admittedly higher than in the second half of 2001 (when it was 0.4% y-o-y).

The low economic growth was brought about by the stagnant domestic demand (zero growth in the first quarter of the year), which was primarily the result of an 18.4% drop in overall capital spending, in turn a result of a 13.3% drop in investment outlays, which clearly indicates a fall in the level of inventories carried by Polish companies. Overall consumer spending rose in the first quarter of 2001 by 3.2%, while individual consumption alone rose by 3.5% (the highest growth seen since the first quarter of 2000). A contraction of investment spending was also experienced in the second quarter of the year – as evidenced by the already available data on industrial production and construction. Consumer spending, especially individual consumption, was also probably weaker than in the first quarter of the year as indicated by the slower growth of retail sales.

Industrial output in the first six months of the year dropped by 1% y-o-y. This was primarily the effect of low demand for investment goods, which is confirmed by the data available on construction – in the first half of 2002 the drop in this economic sector reached 13.3% y-o-y. Lower production and the continuing restructuring of the Polish industry resulted in a further drop in employment, with the unemployment rate rising from 15.9% on June 2001 to 17.4%.

In the first half of 2002 exports (on payment terms) dropped slightly (by 0.4% y-o-y). This was a result of a particularly week first quarter (when they fell by 7.3% y-o-y), while in the second quarter they clearly picked up, with growth reaching 6.5%. The weak domestic demand contributed to the drop in imports by 5.4% y-o-y (in the first quarter alone the drop amounted to 10.1% y-o-y). This very significant drop in imports helped to reduce the negative trade balance (USD 4.86 billion as compared to USD 5.9 billion in the first half of 2001), which in turn reduced the current account deficit (from USD 4.4 billion in the first half of 2001 to USD 3.9 billion in the first six months of 2002). However the structure of financing this deficit deteriorated. The main reason for this was the slower inflow of foreign direct investments as compared to the previous year brought about by the slowdown of Poland's economic growth and of the privatisation process. Since the beginning of the year official reserves increased by USD 1.6 billion to reach USD 28.2 billion. The level of these reserves is at a safe level in relation both to Poland's foreign debt levels and its import levels.

The first half of 2001 saw a very sharp drop in inflation rates. The CPI growth went down from 3.6% at the end of December 2001 to 1.6%at the end of June 2002 on an annual basis and from 3.2% to 1.2% on a semiannual basis. The primary reason for this was the drop of food prices, drop or levelling of prices of some other important categories of consumer goods and services (such as clothing and footwear, telecommunications etc.) and also the very moderate growth of others (rent and other housing-related expenses, energy, transport). In the first half of 2002 all basic inflation indicators fell visibly, proving that the easing of inflationary pressures is not only a result of supply shocks and that disinflation has become a relatively stabile phenomenon. The slight growth of producer prices in the first six months of the year – by only 0.9% - corresponds to a slowdown in demand, especially for investment goods. Other factors affecting this were the real appreciation of the Polish zloty in the first four months of the year and the fall in oil prices on international markets.

Changes in monetary aggregates over the first six months of the year mirrored the stagnation of the Polish economy, helping reduce the inflationary pressure. Total money supply (M3) dropped from the beginning of January by 0.9%. Cash in circulation increased by 7.9%, which was a result of the sharp drop in inflation and interest rates, especially on current accounts.

The state budget seemed to be well under control. At the end of June 2001 the fiscal deficit reached PLN 25 billion or 62.5% of the amount planned for the full year (PLN 40 billion).

2. The money and FX markets

The situation on the money market in the first half of 2002 was shaped mainly by the further easing of the previously very tight monetary policy conducted by the National Bank of Poland ("NBP") and the Monetary Policy Council. Taking into account the rapid fall in inflation and the economic slowdown over the first half of the year the Monetary Policy Council made three base interest rate cuts - in total by 3.0-4.0 percentage points. Changes in the official interest rates and the continuing expectation of further cuts - stemming from the still high real interest rates - resulted in a strong drop in market interest rates and the upholding of an inverted money market instrument yield curve. The level of interest rates on this market was also significantly affected by open market operations conducted by the central bank with the aim of influencing the liquidity of the Polish banking system. From February 2002 the NBP made a modification in the system of these operations through the introduction - besides the regular, weekly issuance of bills with a maturity of 28-days - of "fine tuning" operations involving the irregular issue of bills with a maturity of 1-7 days, the early retirement of bills and of repo transactions. These changes were introduced with the aim of limiting fluctuations in the liquidity of commercial banks and reducing their influence on market interest rates. In the first half of 2002 the NBP continued with the outright sales of converted T-bonds; these operations through their structural character are to permanently absorb the excess liquidity of commercial banks and are not an instrument of short-term monetary policy.

Falling profitability also characterised the T-bill market in the first half of 2002. In spite of a high supply of bills (the Ministry of Finance sold on the primary market bills to a value of PLN 25 billion in order to finance the fiscal deficit and to redeem securities issued earlier), very strong demand for these securities stemming from their still high profitability and expectations of further base interest rate cuts led to an increase in prices and a fall in profitability.

On the FX market, throughout most of the first half of the year, there was a clear tendency of both a real and nominal appreciation of the Polish zloty. Nominally, on average over the first six months of the year, the zloty appreciated by 1.6% to the US dollar (from 4.1524 PLN/USD in the second half of 2001 to 4.0863 PLN/USD) and by 1.1% to the euro (from 3.7008 PLN/EUR to 3.6663 PLN/EUR). The stronger appreciation of the zloty to the US dollar than to the euro stemmed from the appreciation of the euro to the dollar on international markets. The appreciation of the zloty was a result of a strong inflow of foreign portfolio capital, primarily for the purchase of T-bonds. According to balance of payments statistics this inflow reached USD 1.8 billion over the first six months of 2002. The foreign investors were attracted primarily by the still high – although diminishing as a result of a series of interest rate cuts – disparity of interest rates and an expectation of further cuts by the Monetary Policy Council. The interest shown by foreign portfolio investors in instruments denominated in Polish zlotys, primarily with a long maturity, increased Poland's prospects for full membership in the EU in the year 2004 and its full integration with the EU. A further factor affecting the strengthening of the zloty was the inflow of foreign direct investments, although the scale of this inflow – USD 1.8 billion net in the first half of 2002 – was clearly lower than in the same period of 2001. The periodic falls in the value of the zloty were in turn associated with the conflict between the government and the Monetary Policy Council over the monetary and exchange rate policies (January and May) and deeper fluctuations of the USD/EUR exchange rate (June).

3. The stock market

The promising growth trend on the Warsaw Stock Exchange („WSE”), which became evident in the 4th quarter of 2001 and which was based on the expectation of investors of an economic recovery, clearly flattened out in the 1st quarter of 2002. The underlying reason was the poor financial performance of listed companies and the weakening of investors’ expectations for a quick economic recovery in Poland and worldwide.

The main stock index, the WIG, rose from 13,922 points at the end of 2001 to 14,193 points at the end of June 2002, i.e. by a mere 1.9%. For comparison, in the 4th quarter of 2001 this index rose by 17.1% and in the 1st quarter of 2001 it fell by 21.9%. The largest stock index, the WIG20, rose in the first half of 2002 by 0.7%. Against this backdrop the listed banks did extremely well, with the WIG-BANK index rising by 13.9%. Trading volumes on the stock market fell from PLN 42.2 billion in the first half of 2001 to PLN 38.3 billion in the first half of 2002 (i.e. by 9.2%), while the capitalisation of the WSE listed stocks rose from PLN 103.2 billion at the end of June 2001 to PLN 108.9 billion at the end of June 2002. The number of listed stocks did not change and stood at 230.

4. The banking sector

The first half of 2002 was not very good for the Polish banking sector, which under macroeconomic pressure experienced a fall in net profit. According to NBP data the net profit of the Polish banking sector for the six months ended June 30, 2002 amounted to PLN 2.317 billion and was lower than in the same period of 2001 by 10%. The second quarter was especially bad, with the net profit dropping by as much as 29%, primarily on account of deep profit falls experienced by two large listed banks.

The drop in net profit was primarily the result of a significant rise in the level of provisioning charges for receivables from customers – especially corporate customers – which was the direct result of the further deterioration in loan quality. In this context the bankruptcy of the Szczecin shipyard (“Stocznia Szczecińska”), the parent of a shipyard holding company to which Polish banks were exposed in total for an amount of PLN 1.5 billion, was especially bad. In the first quarter of 2001 the share of classified loans in the combined gross loan portfolio of Polish commercial banks rose from 18.3% to 20.0%, and financial results for the second quarter published by listed banks show that this tendency also continued through the second quarter.

On the other hand the first six months of the year were relatively good for the Polish banking sector in terms of revenue growth. Income on banking activity rose by 5.8%, primarily as a result of rising FX and net interest income.

According to data published by the NBP personal deposits rose by a mere 1.0% over the first six months of 2002 as compared to a rise of 7.6% over the first six months of 2001. The lower propensity of households to save was chiefly the result of lower alternative cost of carrying cash – after the interest rate cuts and the introduction of a 20% tax on interest earned by individuals – and the fall in real income available to households, which in turn was brought about by rising unemployment. Consumer loan growth rose marginally and reached 4.9% as compared to 4.2% in the first half of 2001. This suggests that households either lowered their saving levels or turned to credit in order to maintain their earlier consumption levels.

Poor financial performance of corporates and the corresponding weakening of investment demand resulted in lower growth of credit extended by banks to this group of customers. In total the gross corporate loan portfolio of Polish banks rose in the first half of 2002 by 2.2%, while in the same period of 2001 this growth amounted to 3.6%.

II. Bank's main financial data

1. Income statement

In the first six months of 2002 Bank Handlowy w Warszawie SA („the Bank") made a net profit of PLN 142.2 million. This represents a growth by PLN 2.2 million (or 1.5%) over the same period of 2001.[1] The flat profitability of the Bank for the first half of the year was primarily a result of:

- growth of income on banking activity by PLN 64.5 million, i.e. by 6.7%;
- increase in general expenses by PLN 36.8 million, i.e. 7.5%;
- decrease in net provisioning charges by PLN 3.1 million, i.e. 1.8%.

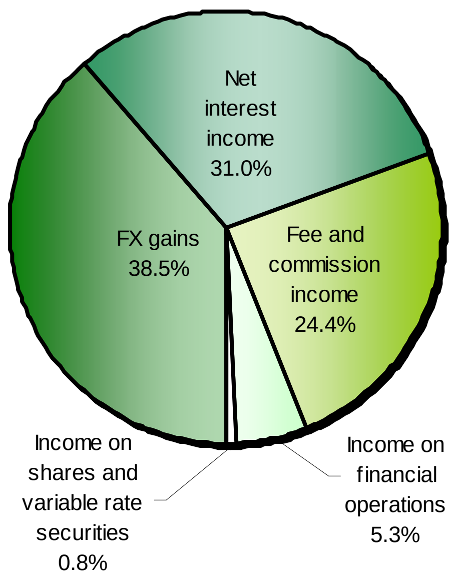
INCOME STATEMENT

PLN '000	Six months ended June 30, 2002	2001	Change PLN '000	%
Net interest income	318 615	370 173	(51 558)	(13.9%)
Net fee and commission income	250 945	218 617	32 328	14.8%
Income on shares and other variable rate securities	7 933	32 328	(24 395)	(75.5%)
Net income/(loss) on financial operations	54 483	(20 521)	75 004	(365.5%)
FX income	396 148	363 003	33 145	9.1%
Income on banking activity	**1 028 124**	**963 600**	**64 524**	**6.7%**
Other operating income	27 870	24 655	3 215	13.0%
Other operating expenses	(23 122)	(15 652)	(7 471)	47.7%
General expenses	(529 406)	(492 619)	(36 787)	7.5%
Depreciation and amortisation	(77 744)	(77 394)	(350)	0.5%
Amortisation of goodwill	(36 223)	(24 148)	(12 074)	50.0%
Net charges to provisions	(167 460)	(170 565)	(3 105)	(1.8%)
Operating profit	**222 039**	**207 877**	**14 162**	**6.8%**
Extraordinary items	0	-	0	---
Profit/(loss) before corporate income tax	**222 039**	**207 877**	**14 162**	**6.8%**
Corporate income tax	(80 761)	(67 833)	(12 928)	19.1%
Participation in net profit/(loss) of subordinated undertakings accounted for under equity method	934	-	934	---
Net profit/(loss)	**142 212**	**140 044**	**2 168**	**1.5%**

[1] The Bank's income statement for the first half of 2001 does not include the income statement of Citibank (Poland) S.A. ("CPSA") for January and February 2001, i.e. for the period preceding the merger of Citibank (Poland) S.A. and Bank Handlowy w Warszawie SA. This is the result of acquisition accounting being applied to this transaction, which was concluded on March 1, 2001, involving the transfer of the net profit generated by Citibank (Poland) over this period directly to the capital account of the combined institution. In addition on April 1, 2001 the brokerage business of Bank Handlowy w Warszawie SA under the name of Centrum Operacji Kapitałowych (COK BH) was transferred as a non-cash consideration to Citibrokerage S.A. (currently operating under the name of Dom Maklerski Banku Handlowego S.A.) in exchange for shares of that company.

1.1 Income on banking activity

Components of income on banking activity, 1st half of 2002



The main factor behind the growth of income on banking activity in the first half of 2002 was the high growth of income on financial operations, which amounted to PLN 54.5 million, while for the same period of 2001 the Bank made a loss on these operations of PLN 20.5 million. The majority of this income came from realised and unrealised gains on debt instrument transactions.

FX gains were the second major source of growth of income on banking activity. In 1H2002 these reached PLN 396.1 million and were higher by PLN 33.1 million (or 9.1%) than a year earlier. The growth of this revenue component was a direct result of the strengthening of the Bank's position on the Polish FX market, especially in FX derivative products.

Over the same period the Bank achieved a growth in fee and commission income by PLN 32.3 million (14.8%), especially on account of the rapid growth of fee and commission income on cash management operations and on the issuance and use of credit cards.

On the other hand the possible growth of income on banking activity was lowered by the drop in net interest income by PLN 51.6 million (or 13.9%) as compared to the same period of 2001. This was chiefly a result of:

- lower interest rates, the effect of which is clearly seen in lower interest earned on the so called net interest earning assets position, i.e. that part of total interest earning assets which is funded by non interest bearing liabilities (especially capital); at the end of June 2002 these net interest earning assets amounted to PLN 2.7 billion,

- the narrowing of the interest spread – understood as the difference between interest earned/paid on a particular item of assets/liabilities and the Bank's internal refinancing rate – which was not solely a result of the lower interest rates, but also a result of the increasingly stronger competition between Polish banks; the largest drop in the interest rate spread defined as above was seen on current accounts,

- the funding of a part of receivables denominated in foreign currencies through swap transactions, which results in a part of income on these receivables being reported as FX income,

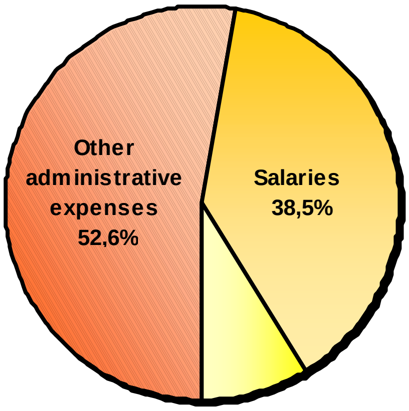
- lower interest income received from customers (especially corporate customers) on account of the noticeable deterioration of the Bank's loan portfolio quality, which was combined with a simultaneous flattening of growth of the total loan portfolio,

- the drop in profitability on total interest earning assets, which was a result of the Bank's lower average exposure on loans to customers and a shift towards financial institutions and investments in securities issued by the State Treasury and the NBP.

Overall, in 1H2002 the Bank's share in income on banking activities of Poland's banking sector stood at 7.0% as compared to 7.0% in the same period of 2001.

1.2 General expenses

For the fist half of 2002 the Bank's general expenses reached PLN 529.4 million, PLN 36.8 million more than in 1H2001. The growth shown by this P&L item was 7.5% and was higher than the growth rate of the Bank's income on banking activities (6.7%). The Bank's cost income ration improved slightly from 59.2% to 59.1%.[2]



Highest growth was seen in personnel expenses, which rose by 9.7% (nominally by PLN 18.1 million). Other administrative expenses rose by 8.5% (i.e. PLN 21.9 million) over 1H2001, primarily on account of the fast growth of telecommunication costs (46.9%), other service costs representing outsourcing of services (19.1%) and rent and other premises related costs (15.4%). On the other hand the highest savings were made on marketing and promotion expenses (drop by 32.9%), audit and other consulting service fees (drop by 35.0%) and the cost of contributions to the Bank Guarantee Fund (drop by 47.4%).

As a result of the Bank's restructuring employment fell from 5,200 FTEs at the end of December 2001 to 4,922 at the end of June 2002. In June 2002 a new collective work agreement negotiated with trade unions was signed by the Bank's President, which unified the Bank's policy on employment, remuneration and other employee benefits.

In 1H2002 the bank made an amortisation charge in the amount of PLN 36.2 million for the goodwill which arose on the merger with Citibank (Poland). In 1H2001 this charge was made in the amount of PLN 24.1 million. Goodwill is amortised by the Bank on straight-line basis starting from March 1, 2001.

The growth of other operating expenses by 47.7% was chiefly accounted for by the PLN 6,761 thousand loss made in 1Q2002 on the disposal of real estate.

1.3 Provisioning charges

In the first six months of 2002 provisioning charges exerted a very significant influence on the level of the Bank's overall profit levels. Net provisioning charges amounted to PLN 167.5 million and were lower than a year ago by PLN 3.1 million (or 1.8%). The decrease was primarily hindered by specific provisions for loan losses against customers from non-financial sector. These amounted to PLN 139.4 million and were higher than those made a year ago by PLN 34.5 million. This was a result of the increase in the level of classified loans as a result of problems with profitability and liquidity experienced by the Bank's debtors, especially corporate customers.

The second largest provisioning item were valuation allowances for a permanent diminution in value of financial assets. The net charge made in 1H2002 on this account amounted to PLN 30.0 million, while a year earlier the Bank made a reversal of provisions for this item in the amount of PLN 10.4 million. Major portion (PLN 26.8 million) of the charges made in the last six months was made up by the negative revaluation of the Bank's investments in two listed companied from the construction sector.

[2] Calculated as the ratio of the sum of general expenses and depreciation to income on banking activity.

2. Balance sheet

As at the end of June 2002 the Bank's total assets amounted to PLN 32,372 million and were higher by 2.3% than at the end of December 2001.

BALANCE SHEET

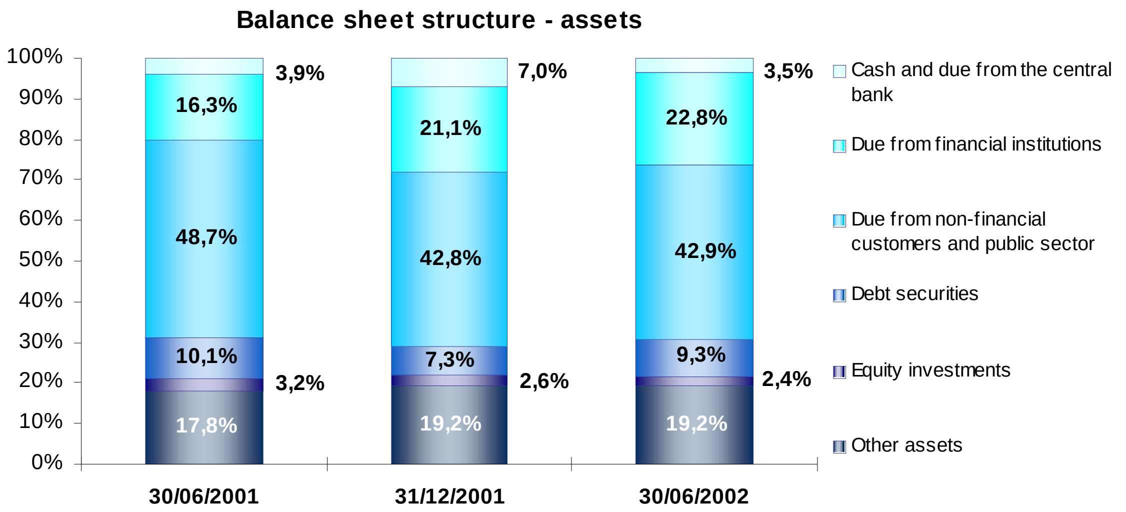
	As at:			**Change from:**	
PLN '000	**30/06/2002**	**31/12/2001**	**30/06/2001**	**31/12/2001**	**30/06/2001**
Cash and due from the central bank	1 139 203	2 322 443	1 223 241	(50.9%)	(6.9%)
Due from financial institutions*	7 365 730	7 003 200	5 130 632	5.2%	43.6%
Due from customers	13 871 401	14 168 464	15 281 194	(2.1%)	(9.2%)
Due from the public sector	9 620	31 583	15 948	(69.5%)	(39.7%)
Debt securities*	3 020 675	2 410 113	3 175 811	25.3%	(4.9%)
Equity investments*	765 964	857 267	1 011 159	(10.7%)	(24.2%)
Other securities and financial assets	3 386 313	3 375 666	2 374 565	0.3%	42.6%
Intangible fixed assets	1 414 203	1 453 876	1 464 346	(2.7%)	(3.4%)
- of which: goodwill	1 352 313	1 388 536	1 424 758	(2.6%)	(5.1%)
Tangible fixed assets	801 481	909 620	919 846	(11.9%)	(12.9%)
Other assets	597 345	618 208	824 808	(3.4%)	(27.6%)
TOTAL ASSETS	**32 371 935**	**33 150 440**	**31 421 550**	**(2.3%)**	**3.0%**
Due to the central bank	172 245	212 486	558 559	(18.9%)	(69.2%)
Due to financial institutions	4 181 473	4 905 451	5 259 033	(14.8%)	(20.5%)
Due to customers	15 941 736	16 487 181	14 647 617	(3.3%)	8.8%
Due to the public sector	1 004 349	882 937	895 748	13.8%	12.1%
Securities issued and outstanding	-	-	24 143	---	(100.0%)
Other amounts due on financial instruments	3 302 433	3 175 314	1 709 486	4.0%	93.2%
Other liabilities	1 460 582	1 155 468	2 038 390	26.4%	(28.3%)
Provisions	427 279	425 913	406 476	0.3%	5.1%
Equity and retained earnings	5 739 625	5 742 054	5 742 054	(0.0%)	(0.0%)
Net profit	142 212	163 636	140 044	(13.1%)	1.5%
TOTAL LIABILITIES	**32 371 935**	**33 150 440**	**31 421 550**	**(2.3%)**	**3.0%**

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

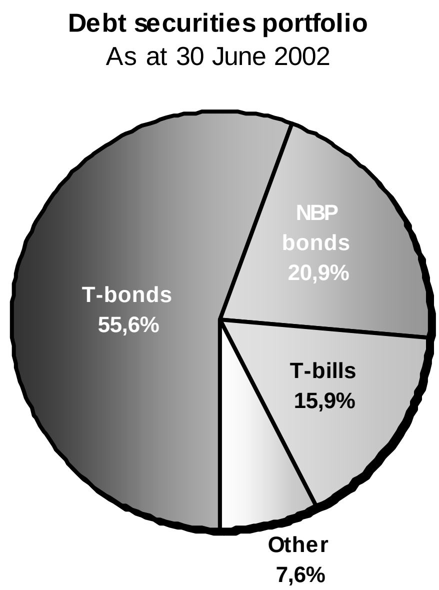
2.1 Assets

Loans to customers from the non-financial sector remain the Bank's largest net asset item. At the end of June 2002 they amounted to PLN 13,871 million, which represents a fall by 2.1% as compared to December 2001 and 9.2% as compared to June 2001. This drop was primarily a result of:

- a drop in the gross loan portfolio driven by lower demand for credit, especially on the part of corporate customers,
- growth of specific loan loss provisions



With the drop in loan demand the importance of more liquid items of the balance sheet such as interbank placements and debt securities increased. Although these instruments are characterised by lower profitability as compared to loans, they carry, however, lower credit risk, which in times like these increases their attractiveness. At the end of June 2002 the Bank's exposure to the financial sector amounted to PLN 7,366 million, of which PLN 6,213 million (i.e. 84,4%) represented amounts due from banks. The steady growth of this item over the last few months resulted in its share in the Bank's total assets rising from 16.3% at the end of June 2001 to 22.8% at the end of June 2001.

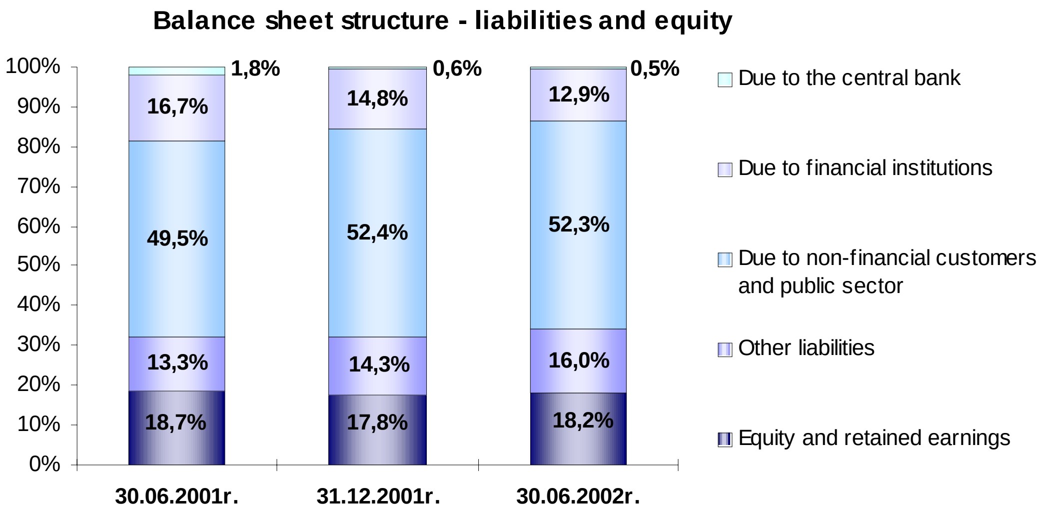


In the first six months of 2002 the Bank increased its portfolio of debt securities to the amount of PLN 3,021 million, i.e. by 25.3% as compared to December 2001. On the other hand this represents a drop by 4.9% as compared to June 2001. This shows the volatility of this balance sheet item, which is actively used by the Bank to manage its liquidity. However an analysis of the average balances of debt securities on a quarterly basis shows the steady growth of the share of this item in the Bank's total assets.

In 1H2002 the Bank continued to pursue the strategy of reducing its portfolio of equity investments. Proof of this was the drop in the value of this portfolio by 10.7% as compared to December 2001 and 24.2% as compared to June 2001. At the end of June 2002 equity investments accounted for just 2.4% of the Bank's total assets.

2.2 Liabilities

Customer deposits have traditionally been the largest source of funding for the Bank's assets. They include deposits both from non-financial sector customers and public sector entities. As at June 30, 2002 the total amount of deposits on the Bank's balance sheet was PLN 16,946 million, which represents a drop by 2.4% as compared to December 2001.



The share of interbank funding in the Bank's liabilities has been on a steady decline since the beginning of 2001. The growth of deposits from customers and the public sector over the last several months has allowed the Bank to reduce its reliance on funds accepted from the financial sector, in particular from the interbank market. At the end of June 2002 amounts due to financial institutions stood at PLN 4,181 million, of which PLN 2,554 million (or 61.1%) were amounts due to banks. Bank Handlowy, which in the past has shown a heavy reliance on the interbank market for funding, is now a net provider of liquidity to this market.

The share of equity and retain earnings in the Bank's total assets has increased slightly as compared to June 30, 2001. This means that the Bank continues to maintain the highest capital ratio of Poland's 20 largest banks by assets. The high share of capital in total assets is to a large extent the result of the Bank's merger with Citibank (Poland).

The increasing share of unrealised gains/losses on financial instruments in the balance sheet is a result of the Bank's growing dealings in derivative transactions. According to the Polish Accounting Law the unrealised gains/losses on the revaluation of these instruments are presented as "Other securities and financial assets" on the asset side and "Other liabilities due on financial instruments" on the liability side.

3. Capital and capital adequacy

CAPITAL

	As at:			Change from:	
PLN '000	**30/06/2002**	**31/12/2001**	**30/06/2001**	**31/12/2001**	**30/06/2001**
Authorised capital	500 902	430 308	430 308	16.4%	16.4%
Capital surplus	3 044 585	3 044 585	3 044 585	0.0%	0.0%
Reserve capital	1 754 251	1 707 873	1 707 222	2.7%	2.8%
Revaluation reserve	46 059	76 958	77 609	(40.2%)	(40.7%)
General risk reserve	390 000	390 000	390 000	-	-
Other supplementary capital*	21 736	92 330	92 330	(76.5%)	(76.5%)
Profits/(losses) of the previous years	(17 908)	-	-	---	---
Total capital funds	**5 739 625**	**5 742 054**	**5 742 054**	**(0.0%)**	**(0.0%)**
Core capital	5 671 830	5 572 766	5 572 115	1.8%	1.8%
Supplementary capital	67 795	169 288	169 939	(60.0%)	(60.1%)

** Special Participating Convertible Bonds.*

In the first half of 2002 the Bank's capital funds fell by PLN 2,429 thousand. The most important changes in the value of the Bank's capital are accounted for by:

- the revaluation of shares in subsidiary companies accounted for on an equity basis as for December 31, 2001. The unrealised loss on this revaluation in the amount of PLN 17,908 thousand has been included in the Bank's capital as an adjustment of the opening balance of previous year's profits/(losses),

- an increase of the revaluation reserve by PLN 15,167 thousand, which arose on the revaluation of debt securities available for sale,

- an increase of reserve capital by PLN 312 thousand after the distribution of profits for 2001. The rest of that year's profits in the amount of PLN 163,324 thousand was paid out in dividends to shareholders and holders of Special Participating Convertible Bonds.

Another important development affecting the structure of the Bank's capital was the increase of authorised capital by PLN 70,534 thousand through the conversion of 17,648,500 Special Participating Convertible Bonds held by the Bank's largest shareholder, Citibank Overseas Investment Corporation („COIC"). The increase of authorised capital was registered on May 24, 2002.

The structure of the capital was also affected by the transfer of PLN 46,067 thousand from revaluation reserve to reserve capital traceable to sales of real estate assets.

Overall, as at June 30, 2002 the Bank's share in total capital of the Polish banking sector stood at 13.8% as compared to 14.2% at the end of 2001, which placed it second in terms of capital among all Polish banking institutions. The level of the Bank's capital was more than sufficient to secure the financial stability of the institution and of the deposits accepted by it.

Over the first six months of 2002 the Bank's capital adequacy ratio fell from 21.22% to 18.49%. This was primarily the result of:

- changes made by the Commission of Banking Supervision in the calculation of the capital adequacy ratio through the introduction of the concept of minimum capital requirements for credit risk and the different types of market risk (the minimum level of the capital adequacy ratio was maintained at 8%);

- lower eligible regulatory capital used by the Bank for the calculation of the ratio, which was a result of the increase in the amount of deductions from total capital associated with intangible fixed assets (the largest item of which was goodwill). When establishing capital components eligible for use in the calculation of the capital adequacy ratio in 2002 the Bank has to deduct 30% of the amount of intangible fixed assets from total capital, while in 2001 the requirement was to deduct only 10%.

Capital adequacy

	As at:		
PLN '000	**30/06/2002**	**31/12/2001**	**30/06/2001**
Total capital funds	**5 739 625**	**5 742 054**	**5 742 054**
Deductions, of which:	811 021	498 320	595 317
- goodwill	405 694	138 854	142 476
- other intangible fixed assets	18 567	7 657	5 031
- other deductions	386 760	351 809	447 810
Capital eligible for the calculation of the capital adequacy ratio	**4 928 604**	**5 243 734**	**5 146 737**
Risk-weighted assets and contingent liabilities	**22 088 479**	**24 715 504**	**25 492 636**
Total capital requirement, of which:	**2 132 310**		
- capital requirement for credit risk	1 767 078		
- total capital requirements for other market risks	365 232		
Capital adequacy ratio*	**18.49%**	**21.22%**	**20.19%**

** For 31.12.2001 and 30.06.2001 the ratio was calculated based on the methodology used at the time. Risk-weighted assets and contingent liabilities as at 30.06.2002 include only the banking portfolio.*

4. Major shareholders

At June 30, 2002, the only shareholder holding over 5% of the Bank's authorised capital and of total voting rights at a General Meeting of Shareholders was Citibank Overseas Investment Corporation, New Castle, Delaware, USA ("COIC"), a subsidiary of Citibank N.A., which then held 116,717,574 shares of the Bank, i.e. 93.21% interest in the Bank's authorised capital entitling it to exercise 93.21% votes at the General Meeting of Shareholders. In the first half of 2002 the holding of COIC increased as a result of the following transactions:

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

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

III. Operations

1. Lending and other risk exposures

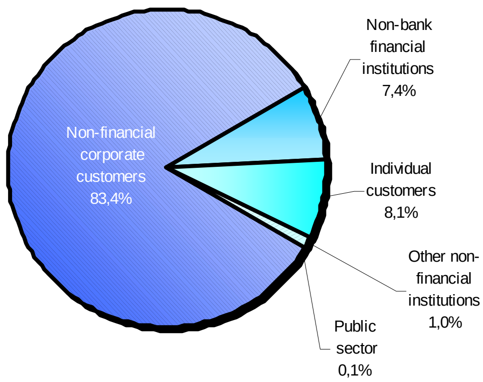
1.1 Lending

Lending to non-bank customers (gross)

	As at:			Change from:	
PLN '000	**30/06/2002**	**31/12/2001**	**30/06/2001**	**31/12/2001**	**30/06/2001**
Loans in PLN	10 323 532	10 802 086	11 293 535	(4.4%)	(8.6%)
Loans in foreign currencies	5 500 957	5 022 046	5 356 652	9.5%	2.7%
Total	**15 824 489**	**15 824 132**	**16 650 187**	**0.0%**	**(5.0%)**
Loans to non-financial customers	14 641 799	14 903 849	15 881 221	(1.8%)	(7.8%)
Loans to non-bank financial institutions	1 174 521	891 297	756 381	31.8%	55.3%
Loans to public sector	8 169	28 986	12 585	(71.8%)	(35.1%)
Total	**15 824 489**	**15 824 132**	**16 650 187**	**0.0%**	**(5.0%)**
Non-financial corporate customers	13 205 329	13 382 300	14 216 565	(1.3%)	(7.1%)
Non-bank financial institutions	1 174 521	891 297	756 381	31.8%	55.3%
Individual customers	1 280 493	1 385 737	1 327 548	(7.6%)	(3.5%)
Other non-financial entities	155 977	135 813	337 108	14.8%	(53.7%)
Public sector	8 169	28 986	12 585	(71.8%)	(35.1%)
Total	**15 824 489**	**15 824 132**	**16 650 187**	**0.0%**	**(5.0%)**

Loans excluding accrued interest.

Loan portfolio by category of entities
As at 30 June 2002



In the first half of 2002 the Bank's total loan portfolio stabilised at a level of PLN 15.8 billion, which means that with the slight increase in the loan portfolio of other Polish banks its market share dropped from 7.1% to 6.9%. The size of the Bank's portfolio placed it sixth among all Polish banks.

Over the same period loans to non-financial corporate customers, the largest component of the total loan portfolio, dropped by 1.3%. The halting of loan growth to this group of customers may be attributed to the following factors:

- the general fall in demand for loans on the part of corporates as a result of the economic slowdown, low profitability of operations and postponement of large investments in wait for the expected economic recovery;

- the lowering of the Bank's propensity to accept new credit risk, which was primarily a result of its aim to improve the quality of the loan portfolio;

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

The contraction of the portfolio of loans granted to non-financial corporate customers was made up for by the 31.8% growth of loans extended to non-bank financial institutions, mainly on account of the 58.8% growth of loans extended to leasing companies. Thanks to this the Bank maintained its share in the total corporate loan market at a level unchanged from December 2001, i.e. 9.1%.

Over the first half of 2002 the Bank remained an active player on the syndicated loan market, which unfortunately experienced a clear recession. Overall, the volume of syndicated loans taken by Polish corporates from January to June 2001 amounted to PLN 4.5 billion and was by PLN 2.6 billion (36%) lower than in the same period of 2001. The exposure of the Bank taken in new loan syndications dropped by 23% as compared to 1H2001, however, at the same time its share in the total syndications market increased from 6.5% to 7.8%, placing it second among all participants of the syndicated loan market. The largest syndicated transactions in which the Bank participated include:

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

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

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

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

Over the first six months of 2002 the Bank's portfolio of loans to individual customers diminished by 7.6% on account of:

- stricter credit procedures being applied to potential new borrowers, especially self-employed individual customers; the aim of this was to improve the quality of the loan portfolio;

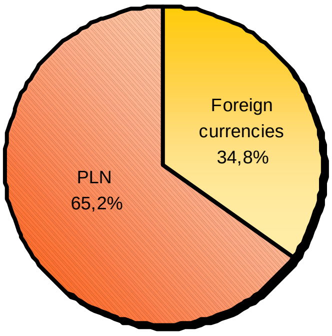
- lower indebtedness on credit cards, which is the single most important component of the Bank's loan portfolio to individual customers (consumer loans);

- the Bank's relatively week position on the mortgage loan market, which is now experiencing the highest growth;

As a result the Banks share in the consumer loan market dropped from 2.5% at the end of 2001 to 2.2% at the end of June 2002.

In the first half of 2002 the share of loans denominated in foreign currencies or indexed to foreign currencies in the Bank's total loan portfolio rose to 34.8%. The Bank is monitoring the possible effects of currency risk on credit risk of

Loan portfolio by currency
As at 30 June 2002



the foreign currency loan portfolio on an ongoing basis by conducting sensitivity analysis of the effects of exchange rate fluctuations on the financial situation of borrowers to which the Bank has such an FX exposure (*stress-testing*).

1.2 Quality of loan portfolio

In the first half of 2002 the Bank experienced a further deterioration of the quality of its loan portfolio as measured by the share of classified loans in total loans (gross). This share rose from 25.7% at the end of December 2001 to 31.6% at the end of June 2002. At the same time specific provisions increased by 11.5%. The increase in the share of classified loans was a result of deteriorating financial performance of a significant group of the Bank's customers and of their liquidity problems. The factors underlying this include:

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

Quality of loan portfolio

	As at:			Change from:	
PLN '000	**30/06/2002**	**31/12/2001**	**30/06/2001**	**31/12/2001**	**30/06/2001**
Loans to non-bank customers (gross)					
Loans classified:					
Standard	9 370 758	10 640 930	11 371 048	(11.9%)	(17.6%)
Watch	1 451 069	1 116 542	1 765 517	30.0%	(17.8%)
Problem	5 002 662	4 066 660	3 513 622	23.0%	42.4%
- substandard	1 468 126	1 149 105	1 235 271	27.8%	18.9%
- doubtful	1 952 991	1 622 261	1 201 741	20.4%	62.5%
- loss	1 581 545	1 295 293	1 076 610	22.1%	46.9%
Total	**15 824 489**	**15 824 132**	**16 650 187**	**(0.0%)**	**(5.0%)**
Share in total					
Loans classified watch and problem	40.8%	32.8%	31.7%		
Loans classified problem	31.6%	25.7%	21.1%		
Loss loans	10.1%	8.2%	6.5%		

Loans excluding accrued interest.

The coverage provided for watch and problem loans by specific provisions created by the Bank in the total amount of PLN 1,300 million, is fully compliant with the regulations of the National Bank of Poland.

Specific provisions for loans

	As at:			Change from:	
PLN '000	**30/06/2002**	**31/12/2001**	**30/06/2001**	**31/12/2001**	**30/06/2001**
Specific provisions for:	1 299 862	1 177 080	1 043 285	10.4%	24.6%
- watch loans	454	1 245	807	(63.5%)	(43.7%)
- problem loans	1 299 408	1 175 835	1 042 478	10.5%	24.6%
Provision coverage of the total loan portfolio	8.2%	7.4%	6.3%		
Provision coverage of problem loans	26.0%	28.9%	29.7%		

The increase in specific provision coverage of the whole loan portfolio to 8.2% was a consequence of the increase of problem loans in the Bank's portfolio combined with a simultaneous flattening of its growth. A reverse of this was seen in specific provision coverage of problem loans. This was due to the faster increase in the collateral eligible under Polish regulations for deduction from the loan balances when establishing provisioning levels than of the loan portfolio itself. Another reason was the fact that loans to Polish subsidiaries of multinational companies having parent guarantees for the loans taken made up roughly 40% of the Bank's total problem loans. The classification of these loans to the problem loan category was a reaction of the Bank solely to the deteriorating financial situation of the Polish borrowers – as required by the NBP regulations.

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

1.3 Off-balance sheet exposures

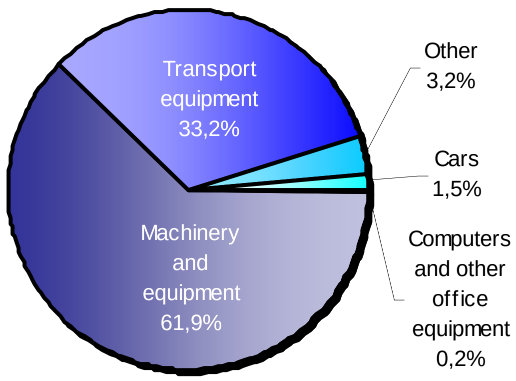
Over the first six months of 2002 the total value of off-balance sheet exposures fell by 10.8% to the amount of PLN 9,352 million. This was a direct result of the general fall in demand for credit described earlier. The largest component of this item were undrawn credit lines (65.1%). Compared to the previous year the share of guarantees in this portfolio increased (to reach 32.4%).

Contingent liabilities

	As at:			Change from:	
PLN '000	**30/06/2002**	**31/12/2001**	**30/06/2001**	**31/12/2001**	**30/06/2001**
Guarantees	3 028 069	2 737 591	2 976 364	10.6%	1.7%
Letters of credit issued	206 998	184 874	221 386	12.0%	(6.5%)
Confirmed letters of credit	24 907	63 155	90 163	(60.6%)	(72.4%)
Undrawn credit lines	6 092 068	6 779 275	6 625 726	(10.1%)	(8.1%)
Deposit transactions	-	714 868	1 219 591	(100.0%)	(100.0%)
Total contingent liabilities	**9 352 042**	**10 479 763**	**11 133 230**	**(10.8%)**	**(16.0%)**
Provisions against contingent liabilities	**127 279**	**125 913**	**156 476**	**1.1%**	**(18.7%)**
Provision coverage	**1.36%**	**1.20%**	**1.41%**		

1.4 Leasing

Leased assets, 1st half of 2002



Leasing services are provided by two subsidiary companies of the Bank: Handlowy Leasing S.A. and Citileasing S.A. The merger of these two companies is planned to take place in the second half of 2002 and the combined institution is to operate under the name of Handlowy-Leasing S.A.

The value of assets leased by both these companies between January and June 2002 stood at PLN 194.4 million, 1.8% less than in the same period of the previous year. With the 19.6% growth of the whole lease finance market in Poland this means that the Bank's market share dropped from 7.1% to 5.8%. On a combined basis as measured by the value of assets under lease Handlowy-Leasing and Citileasing ranked sixth. At the end of June the combined net value of assets under lease of the two companies stood at PLN 595.7 million (this translates to a total market share of 4.5%).

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

1.5 Factoring

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

The financial results of the company in 1H2002 were largely determined by the recession seen in the corporate sector. Most of the customers of Handlowy-Heller experienced a slowdown of sales, which had a direct effect on the volume of receivables acquired by the company. Turnover on service provided to customers fell by 27% as compared to 1H2001, which translated into a 39% fall in revenues. The lower demand affected especially businesses of particular importance for our factoring activities, i.e. electronics, IT, clothing, toys and stationery. In addition the company had to write-off uncollectable factoring receivables in the amount of PLN 11.3 million, for which provisions have been previously established.

In total receivables acquired by Handlowy Heller in the first half of 2002 stood at PLN 375.6 million as compared to the PLN 511.8 million acquired in the first six months of 2001. The number of customers fell from 117 at the end of June 2001 to 104 at the end of June 2002. In spite of this a record number of new agreements (25) has been signed with new customers (23 a year earlier). The company's market share has remained unchanged at 12%.

Faced with a drop in business volumes and deterioration in the quality of its portfolio the company undertook remedial action to counter these tendencies. A regional representative office was opened in Poznań, a new product was introduced (factoring on a non-recourse basis) and enhanced credit risk management, *inter alia* through the introduction of internal limits for customers. The company began work on the establishment of a call centre and the introduction of a new product for companies with annual sales below PLN 5 million.

2. External funding

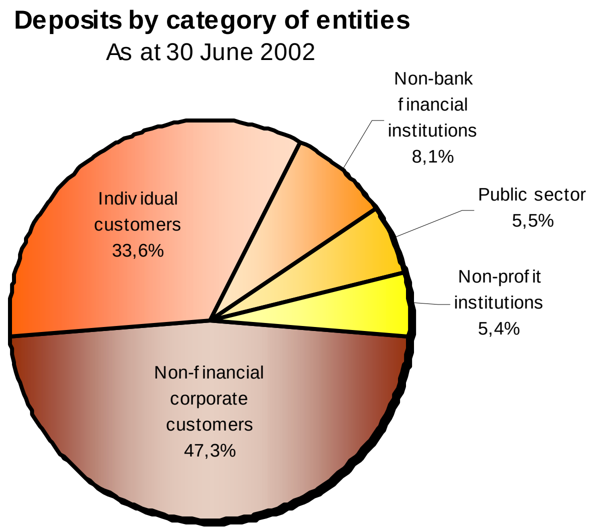
At June 30, 2002 the Bank's external funding totalled PLN 21,168 million and was lower than at the end of December 2001 by 5.3%. At the same time the share of external funds in total liabilities and equity dropped from 67.8% to 65.1%, mainly as a result of the increase in other amounts due on financial instruments, which was related to the increase in derivative transactions as described earlier. In spite of this decrease the Bank maintained its share in the deposit market at 5.7%.

External funding

	As at:			Change from:	
PLN '000	30/06/2002	31/12/2001	30/06/2001	31/12/2001	30/06/2001
Due to the central bank	**170 342**	**208 128**	**549 972**	**(18.2%)**	**(69.0%)**
Due to financial institutions	**4 140 617**	**4 862 810**	**5 214 059**	**(14.9%)**	**(20.6%)**
At call	2 134 793	2 029 014	1 262 596	5.2%	69.1%
Term	2 005 824	2 833 796	3 951 463	(29.2%)	(49.2%)
- Interbank deposits	660 979	734 543	1 497 251	(10.0%)	(55.9%)
- Interbank loans	783 540	1 658 303	2 066 521	(52.8%)	(62.1%)
- Term deposits of non-bank financial institutions	561 305	440 950	387 691	27.3%	44.8%
Due to customers	**15 854 958**	**16 409 182**	**14 521 730**	**(3.4%)**	**9.2%**
At call	6 722 311	6 645 739	5 031 941	1.2%	33.6%
Term deposits	9 132 647	9 763 443	9 489 789	(6.5%)	(3.8%)
Due to the public sector	**1 002 206**	**879 611**	**889 366**	**13.9%**	**12.7%**
At call	353 330	284 093	269 034	24.4%	31.3%
Term deposits	648 875	595 518	620 332	9.0%	4.6%
Securities issued and outstanding	**---**	**---**	**21 013**	**---**	**---**
CDs issued and outstanding	---	---	21 013	---	---
Total external funding	**21 168 123**	**22 359 731**	**21 196 139**	**(5.3%)**	**(0.1%)**

Excluding accrued interest.

In contrast to the very rapid growth of deposits from the non-financial sector experienced by the Bank in the second half of 2001, the first half of 2002 saw an actual decline of this volume by 3.4% due to the fall in deposits of corporate customers from outside the financial sector. The outflow of corporate deposits is, however, purely statistical in nature and is associated with the exceptionally high balance of these deposits at the end of the day on December 31, 2001. On the last day of 2001 the balance of these deposits stood at PLN 9.4 million compared to PLN 7.9 million at the end of October 2001, only to drop again to a level of PLN 7.9 million at the end of January 2002. The seasonality demonstrated by corporate deposits, with the high growth in December 2001 and the subsequent fall in 1H2002 in the case of Bank Handlowy proved to be a sector-wide phenomenon. As a result the Bank has even managed to increase its share in the corporate deposit market from 13.6% do 14.4%. It has to be mentioned that the strong position of the Bank on the corporate deposit market is to a large extent a result of the Bank's strong position and its very competitive product offering in cash management and trade finance, which will be described in greater detail in point 4 below.



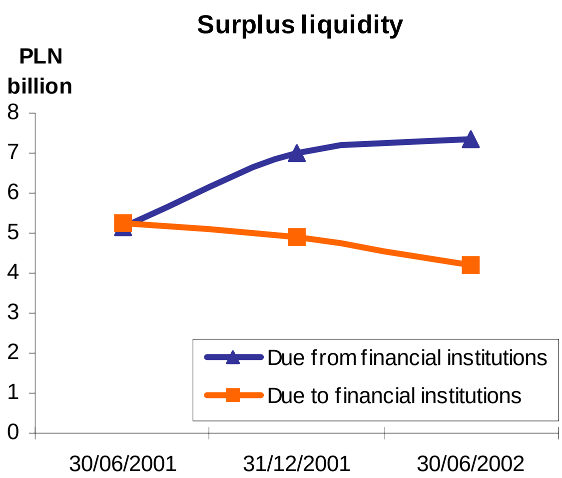
Deposits of non-bank customers

PLN '000	As at: 30/06/2002	31/12/2001	30/06/2001	Change from: 31/12/2001	30/06/2001
Due to:					
Individual customers	6 167 731	6 085 893	5 928 693	1.3%	4.0%
of which: Retail Banking Sector (Citibank)	*6 166 263*	*4 244 432*	*2 922 957*	*45.3%*	*111.0%*
Non-financial corporate customers	8 673 360	9 365 919	7 580 369	(7.4%)	14.4%
Non-profit organisations	983 424	947 710	915 923	3.8%	7.4%
Non-bank financial institutions	1 487 888	1 408 116	685 213	5.7%	117.1%
Public sector	1 002 206	879 611	889 366	13.9%	12.7%
Total	**18 314 609**	**18 687 249**	**15 999 564**	**(2,0%)**	**14,5%**

Excluding accrued interest

Balances on current accounts of individual customers and deposits placed by them increased by 1.3%. This has allowed the Bank to maintain its market share of 2.8%. The over 45% increase balances shown by the Retail Banking Division (Citibank) is primarily a result of the migration of the Bank's private banking customers from the *IBIS/AS* system to *Systematics*, as a result of which, as far as deposit products are concerned, all individual customers are now served through the Citibank sales network.

Over the last 12 months the Bank has experienced a steady increase of surplus funding, which is illustrated by the widening gap between amounts due to and due from financial institutions. The strong deposit base allows the Bank to elastically react to new opportunities on credit market and provides a funding potential which may be utilised when the expected economic recovery materialises.



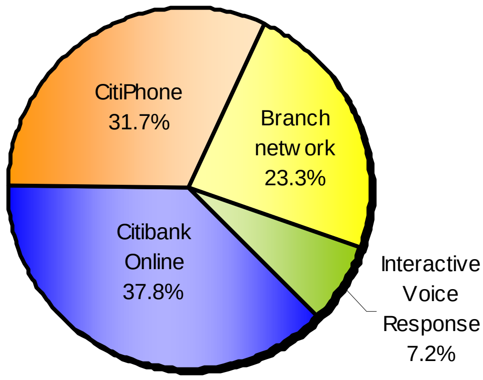
3. Consumer banking

The Bank provides consumer banking services through a separate unit called the Retail Banking Sector, which operates under the Citibank brand name. It currently ranks tenth on the Polish market in terms of the number of serviced current accounts of individual customers. At the end of June 2002 its share in the consumer deposit and loan markets was 2.8% and 2.2% respectively, while its share in the sector's revenues from consumer banking is estimated at 4,2%. The difference between the market share in business volume and revenues is due to the very high profitability of the Bank's credit card products.

In the first half of 2002 the number of current accounts serviced by Citibank fell from 301.5 thousand to 285.0 thousand. To a large extent this was the effect of the review undertaken in February, which resulted in a number of unused accounts being closed. Apart from this in February the process initialised at the end of 2001 of transferring the Bank's private banking customers, previously serviced in the *IBIS/AS* system (used by the Bank's corporate banking network) to *Systematics* (used by Citibank) was completed. In total 41 thousand accounts were transferred. Some of the Bank's customers, who previously had accounts opened both in corporate banking arm of the Bank and in Citibank as a result of the transfer had one of the accounts closed. Those private banking customers served through the corporate network which met the criteria set for this product group were offered the *Citigold* account.

The Retail Banking Sector continued efforts aimed at optimising the use of the different distribution channels by its customers. The objective is to increase the use of remote, electronic channels, improve efficiency in the use of branches and strengthen the links with the Corporate and Investment Banking Sector with the aim to increase sales of products through its branch network (*cross-selling*). Thanks to the rapid increase in the number of customers using the electronic channel *Citibank Online* („*CBOL*") a very significant increase in the number of transaction initiated through this channel was achieved. At the end of June 2002 *CBOL* was used by 64.8 thousand customers as compared to 41.3 thousand in December 2001 and 17.4 thousand at the end of June 2001. In April 2002 for the first time ever the number of transactions initiated through *CBOL* was higher than that initiated through the Bank's call centre - *CitiPhone*. It is the ambition of Citibank to make *CBOL* the leading internet banking platform in Poland. An important step in this direction will be the establishment of a *CBOL* internet portal, which is planned to take place in the second half of the year.

Citibank distribution channels
June 2002



As at the end of June 2002 the Retail Banking Sector (Citibank) had a network of 106 branches (11 *Citigold* branches and 95 standard branches) and 214 ATMs. The latest addition to the exclusive private banking *Citigold* network was the branch in Bydgoszcz, which was opened on May 16.

With the aim to counter the negative affects which lower interest rates and the newly introduced tax on interest earned on personal deposits had on retail deposit growth, the Bank broadened its product range to include long-term investment deposits linked to selected New York Stock Exchange indexes and the share prices of the largest multinational companies.

Faced with the slowdown of loan growth in the traditional loan market the Retail Banking Sector concentrated its efforts on expanding its activities on the credit card market, in which it anyway enjoyed a dominant position. As at the end of June 2002 the number of credit cards issued by Citibank stood at 395.4 thousand as compared to 377.5 thousand at the end of 2001. Its market share measured by the debt on credit cards and the number of credit cards issued was 47.8% and 56.5% respectively. The fast increase of the number of credit cards issued was in a large part a result of the introduction of a *MasterCard* product to the Banks offering, and especially the success of *Citibank MasterCard FIFA 2002*. Between April 15 and June 30 2002 15.7 thousnad such cards were issued.

4. Cash management

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 an internet banking products, and intensified its efforts to acquire customers seeking such services. The fast changes taking place in this area were facilitated by the Bank's access to the state of the art technology used by Citigroup. At the end of June 2002 the Bank offered the following cash management product groups:

- receivables management
- electronic banking
- internet products
- liquidity management
- payments
- trade finance
- trade servicing

At the end of June 2002 the Bank's combined market share by revenues in this market segment was estimated at 8%.

In the area of electronic banking the Bank experienced a very fast increase in the use of *CitiDirect*, a key component of this product range. In total, at the end of June 2002 the Bank had installed 1,952 *CitiDirect* terminals, and the average monthly number of new installations in the first half of 2002 reached 180. The most important feature of *CitiDirect* is that with this product customers gain an on-line access to their accounts and can initiate a number of transactions using a computer linked to the Internet without having to leave their premises. It is planned that in time all corporate customers using earlier electronic banking products (such as *Goniec* and *MTMS32*), the number of which has increased over the last six months from 11.5 thousand to 13.4 thousand, will be moved to *CitiDirect.*

The first half of 2002 was a very busy time for the Card Product Management Department, responsible for the *Citibank Business* credit card product used for business-related payments by employees of the Bank's corporate customers. New products were introduced – the Visa Business Electron, which replaced the older ATM Citibusiness card, and the pre-paid Visa Electron card. The latter can be used only to make payments in Poland and serves as a loyalty card, for making money transfers and for promotions. In total, by the end of June 2002 the Department serviced over 3,000 corporate customers, which used 14 thousand Citibank Business cards (growth by 22% as compared to December 2001).

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

Starting from June 2002 *CitiConnect* functionality was expanded to authorise payments made in the Wirtualna Polska Internet portal, which ultimately will give customers access to several dozens Internet shops. By the end of the month 88 companies (having 128 Internet shops) ie. nearly 2/3 more than at the end of 2001 used *CitiConnect*. In addition the implementation of *CitiConnect* on the mobile platform, namely WAP and SMS, took place.

5. Trade finance

As a result of the merger with Citibank (Poland) ("CPSA") on March 1, 2001 the Bank gained a dominant position in the trade finance market. The already strong position of Bank Handlowy – dating back to the days when it enjoyed the monopoly for servicing Polish foreign trade transactions – was then strengthened further through the acquisition of corporate customers serviced earlier by CPSA. An especially valuable addition was the group of Polish subsidiaries of multinational companies, which were very active in the area of foreign trade. As a result the Bank's market share in trade finance increased from 22.3% in mid-2001 to 24.6% at the end of June 2002, which was accounted for by the rise of the Bank's share in import transactions from 19.8% to 24.2%, while its share in export transactions fell slightly - from 25.7% to 25.2%.

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

On April 18, 2002 the Bank signed an agreement with Korporacja Ubezpieczeń Kredytów Eksportowych S.A. („KUKE"; Poland's export credit insurance corporation) on the insurance of amounts due to factors from debtors domiciled in OECD countries. Both institutions agreed to jointly prepare an insured credit product, which will give Polish exporters dealing with counterparties from OECD countries access to sources of external funding of export transactions, in the form of factoring collateralised by a KUKE policy.

6. FX and money market activity

The high impact of treasury operations on the Bank's financial results may be illustrated by the share of FX income in total income on banking activity, which in the first half of 2002 reached 43.7%. Bank Handlowy is among the most active players in this area, acting as a market-maker for a range of standard FX and interest rate products. The strong market position of the Bank is a result of:

- the large and steadily growing number of the Bank's major customers for FX transactions (2,000 companies) and derivative products (300 companies),
- the large number and volume of operations on the Bank's own account,
- the wide, flexible and innovative product offering,
- its leading position in the area of trade finance,
- its dynamic and experienced team responsible for these transactions,
- Bank Handlowy's excellent reputation on the Polish FX market and the esteem shown both by domestic and foreign counterparties,
- the support and assistance of the Bank's strategic investor, Citigroup, in accessing international financial markets, implementing new products and managing market risk.

Based on estimates of the Treasury Department, the Bank's market share in transactions initiated by customers is 21% in the case of FX transactions, 25% in derivatives and 11% in debt securities trading. The Bank is the single largest dealer on the primary Treasury securities market. Its share on the interbank market was lower - 9% in the case of FX transactions and 8% in FRA and IRS. This is due to a large number of these transactions being settled in London through foreign banks.

It is worth noting that the high revenues derived by the Bank from the FX and money market transactions despite difficult market conditions. In the first half of 2002 the volatility of both interest rates on interbank deposits and prices of debt instruments fell significantly as compared to 2001, thus lowering the Bank's margins on these transactions.

7. *Commercial paper origination*

For several years now the Bank has been among the largest participants of the primary market for debt securities issued by corporations and financial institutions. The first half of 2002 was no exception in this respect, with the Bank leading this market for five months in terms of the value of debt issues.

At the end of June the Bank's market share as measured by the value of debt issues placed reached 20.0% as compared to 18.9% in December 2001. Over the first six months of 2002 the Bank placed commercial paper to a value of PLN 7,193 million (giving it a 19.2% market share). The Bank serviced 43 debt issues for 51 issuers with a combined amount of PLN 13,423 million.

In the first half of 2002 the Bank participated in the following new programmes:

- a 5-year bond and CD issue programme for FCE Bank Polska S.A. and FCE Credit Polska S.A. with a combined value not greater than PLN 1,000 million; the Bank acted as the lead arranger, issue and payment agent, dealer and depository for the issue; the issue is to be used for funding credit, leasing and factoring programmes of Ford Motor Company with the aim of boosting its car sales in Poland,

- a 3-year bond programme for Polkomtel S.A. to an amount of PLN 500 milion with the aim of providing working capital for the company and the expansion of its network and development of a new product range; the Bank acted as payment agent and depository for the issue,

- debt issue for Volkswagen Bank Polska S.A., Volkswagen Leasing Polska S.A., Volkswagen Motor Polska Sp.z o.o., Volkswagen Poznań Sp. z o.o. and Coordination Center Volkswagen N.V./S.A. to a total amount of PLN 1,000 million,

- bond programme for Ecco-Papier Sp.z o.o. to an amount of PLN 50 million.

8. *Small enterprise banking*

The Bank continues to pursue the strategy of strengthening its position in the market for services provided to small companies, defined as those having annual sales below PLN 4 million. In the first half of 2002 the Bank acquired 1,800 new such customers. The product offer addressed to this group of companies called *Inter Biznes*, built around the *Inter Konto* range of services, has been recently expanded through the addition of the VISA Electron charge card and a new credit programme, which makes it possible to offer unsecured overdrafts to new customers. At the same time the Bank was working on developing new distribution channels for the *Inter Business* product range, especially on giving these customers access to the Citibank branch network and increasing the number of relationship managers dedicated to these customers.

9. Equity investments

Another element of the Bank's strategy, which it has pursued consistently since early 2001, was the scaling down of the equity investments portfolio coupled with a rationalisation of those investments considered as of strategic importance.

Equity investments

	As at:			Change from:	
PLN '000	**30/06/2002**	**31/12/2001**	**30/06/2001**	**31/12/2001**	**30/06/2001**
Investments in subsidiaries	365 483	404 916	434 681	(9.7%)	(15.9%)
Investments in joint-ventures	20 661	101 829	71 829	(79.7%)	(71.2%)
Investments in associated companies	94 064	116 890	234 184	(19.5%)	(59.8%)
Other direct equity investments	62 355	57 770	88 299	7.9%	(29.4%)
Subordinated loans	163 771	123 478	131 918	32.6%	24.1%
Convertible bonds of Handlowy Investments SA	59 630	52 384	50 248	13.8%	18.7%
Total equity investments	**765 964**	**857 267**	**1 011 159**	**(10.7%)**	**(24.2%)**

Among all the developments and factors, which affected the value of the Bank's equity investments in 1H2002 the following deserve special mention:

- revaluation as for 1 January 2002 of the long-term and material investments in subordinated companies accounted for on an equity basis in line with the newly introduced accounting regulations,

- disposal on March 26, 2002 of all shares in the subordinated company Cuprum Bank S.A. to Dominet S.A. Prior to the transaction the Bank had a 55.26% interest in the capital of Cuprum Bank S.A., which gave it the right to 50.20% votes at the General Meeting of Shareholders,

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

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

- establishment of specific provisions in the amount of PLN 26.8 million for the shares held by the Bank in the associated companies operating in the construction sector.

10. Brokerage and capital market activity

The Bank operates on the capital market trough its fully owned brokerage subsidiary - Dom Maklerski Banku Handlowego S.A. („DMBH"). DMBH was established on April 1, 2001 as a result of the transfer of all assets of Centrum Operacji Kapitałowych Banku Handlowego (Capital Markets Centre, previously a unit within Bank Handlowy) to Citibrokerage S.A., which as of that day changed its name to that used currently.

The business transacted by DMBH in the first six months of 2002 placed it second among all brokerage houses in terms of both share trading on the Warsaw Stock Exchange (trades totalling PLN 2,801.4 million, representing a market share of 10.74%) and bond trading (trades totalling PLN 165.9 million, representing a market share of 12.21%). The combined volume of share and bond trades settled by DMBH in 1H2002 of PLN 2,967.3 million gave it a 10.8% market share, again placing it second in terms of the combined value of transactions. At the same time DMBH was the eleventh largest broker in futures contracts accounting for 3.64% of turnover by volume (103,974 contracts).

In 1H2002 DMBH continued to be the leading market maker for shares listed on the Warsaw Stock Exchange. DMBH was the market maker for 51 stocks listed on the WSE, future contracts on the WIG 20 index and index units, as well as for two stocks traded on the over-the-counter CeTO market.

DMBH was also a leading player on the Polish capital market in its role as sponsor for issues by 40 listed companies and 12 unlisted companies.

In the first half of 2002 12 public offerings were arranged in Poland, for a total value of PLN 900 million. Out of this amount investors actually purchased securities only to a combined amount of PLN 296 million. Most of the acquisitions were made by strategic investors, to which share issues were addressed, as well as by investors who purchased convertible bonds issued by Polish companies. Some of the offerings were postponed due to unfavourable market conditions, including the only one organised by DMBH.

At the same time DMBH successfully organised trading in shares of non-listed companies. Total trading arranged by DMBH reached PLN 623.8 million. A major development, which should drive volume growth in the coming months, was the commencement by DMBH of trading in employee shares of Polskie Linie Lotnicze LOT S.A. (the Polish national air carrier).

Between January and June 2002 the number of securities accounts maintained by DMBH increased by 9,526 to reach 22,909 on June 30, 2002.

11. Custody services

The Bank's Custody Department in providing custody services to its customers complies with international standards set in respect to these services and forms an integral part of the global custody network of Citibank N.A. known as *Global Securities Services.*

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

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

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

In the first half of 2002 the Bank acted as depository for 5 open-ended pension funds:

- AIG OFE
- SAMPO OFE
- OFE Pocztylion
- Pekao OFE
- Zurich OFE

As well as for Pracowniczy Fundusz Emerytalny Telekomunikacji Polskiej S.A. – the employee pension fund of Poland's largest telecom operator.

In addition the Bank acts as depository for 23 investment funds managed by the following investment fund societies:

- SKARBIEC TFI SA
- BZ WBK AIB TFI SA
- SEB TFI SA
- INVESCO TFI SA
- PIONEER PEKAO TFI S.A.

12. Agency services

Under an agreement concluded with the Ministry of Finance, entrusting Bank Handlowy with servicing the foreign receivables and payables of the Polish State Treasury, in the first half of 2002 the Bank's Agency Services Department:

- handled over 400 agreements concerning loans, refinancing, debt reduction, compensatory settlements, debt-for-nature swaps and the State Treasury eurobond issues, and also operated 12 clearing, countertrade and special accounts,
- made payments on behalf of the Ministry of Finance in respect of liabilities of the State Treasury and credited the accounts of the Ministry of Finance with repayments made on the State Treasury's receivables; in the first half of 2002 the volume of transactions settled by the Bank through the Ministry of Finance accounts opened with the Regional Branch of the NBP reached PLN 13.9 billion,
- maintained in the State Debt subledger of the IBIS/AS system records of the State Treasury payables for the total amount of USD 27 billion and of receivables for the amount of ca. USD 1 billion,
- prepared statistical and management information on Poland's receivables and payables for the Ministry of Finance and the National Bank of Poland.

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

The Agency Services Department commenced work relating to the transfer, as defined in the above mentioned agreement, of the agency function from Bank Handlowy to BGK in June 2002.

13. Asset management and investment funds

In 1H2002 the Bank's asset management subsidiary company, Handlowy Zarządzanie Aktywami S.A. („HanZA") experienced further dynamic growth of its business for external customers. Assets entrusted to Handlowy Zarządzanie Aktywami SA for management increased from PLN 767 million at the end of December 2001 to PLN 972 million as at June 30, 2002, which represents a 26.7% growth and an increase in market share from 2.7% to 2.9%. Of this PLN 439 million was managed for the different CitiFunds, PLN 109 million was on Discretionary Managed Accounts of individual customers, PLN 411 million on Discretionary Managed Accounts of insurance companies and other financial institutions and the remaining PLN 13 million on Discretionary Managed Accounts of other corporate customers. If advisory services offered by Handlowy Zarządzanie Aktywami are included, total assets under management and for which advisory services are offered rose over the first six months of 2000 from PLN 1.2 billion to 1.8 billion, i.e. by 46%. Especially fast growth was seen in assets entrusted by financial institutions (growth by 78%) and individual customers (growth by as much as 664%). In the case of individuals, the large number of new customers acquired and the resultant the high growth of asset volumes was the combined effect of the introduction by Handlowy Zarządzanie Aktywami of a new debt security portfolio – the optimisation portfolio – and of the closer and more effective cooperation with *CitiGold* branches in the distribution of investment products offered by HanZA.

The first half of the year was also very good for the Bank's investment fund society - Towarzystwo Funduszy Inwestycyjnych Banku Handlowego SA ("TFI BH"). Assets entrusted to TFI BH by customers continued to grow rapidly – primarily as a result of the inflow of funds from individual customers. Assets of the five investment funds managed by TFI BH rose from PLN 404 million at the end of December 2001 to PLN 439 million at the end of June 2002. This places TFI BH as the eleventh largest pension fund society and gives it a 3% market share. The fastest growth was experienced by the CitiObligacji FIO fund, the assets of which reached PLN 316 million at the end of June 2002, and which ranks among the few largest bond-based funds.

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

On February 20, 2002 TFI BH signed an agreement with Polskie Koleje Państwowe S.A. (Polish railroads) on the establishment and management of the Fundusz Własności Pracowniczej Polskich Kolei Państwowych ("FWP PKP"; Employee Ownership Fund of Polish State Railroads). Signing of the agreement was the last stage of the tender process, in which eleven investment fund societies participated. The establishment of the FWP PKP fund is a unique undertaking on the Polish market. For the first time employees of a privatised institution may participate in the privatisation through an investment fund established especially for this purpose. FWP PKP is also unique because of its size. 15% of all proceeds from the sale of assets belonging to Polskie Koleje Państwowe, including real estate and shares in subsidiary companies, will be placed in the fund. It is estimated that ultimately assets of the fund may reach PLN 1.3 billion, making it the largest asset management project in Poland.

TFI BH also continued to be the clear leader on the Employee Pension Programme market. By the end of June 2002 23 Employee Pension Programmes in the form of an agreement with the CitiSenior SFIO open-ended investment fund (formerly Kapitał Handlowy Senior SOFI) have been registered with the Insurance and Pension Fund Supervision Commission (KNUiFE). As a result of the regular inflow of fees, assets of this fund rose in 1H2002 by over 47% and at the end of June 2002 amounted to PLN 44 million.

14. Pension funds

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

In the first half of the year OFE Bankowy experienced a net outflow of customers, with their number dropping from 389.1 thousand to 385.4 thousand (which in terms of the number of customers still gave it a market share of 3.6%). By the end of June 2002 assets under management rose to PLN 784.7 million (an increase by 26.7% as compared to the end of 2001), making OFE Bankowy the fifth largest pension fund with a market share of 3.1%. In April as a result of the fund not meeting the minimum 24-month rate of return published quarterly by KNUiFE, PKO/Handlowy PTE was forced to make a cash contribution to the fund in the amount of PLN 16.4 million. The contribution resulted in a 2.28% one time increase in the value of assets under management.

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

15. Cooperation with international financial institutions

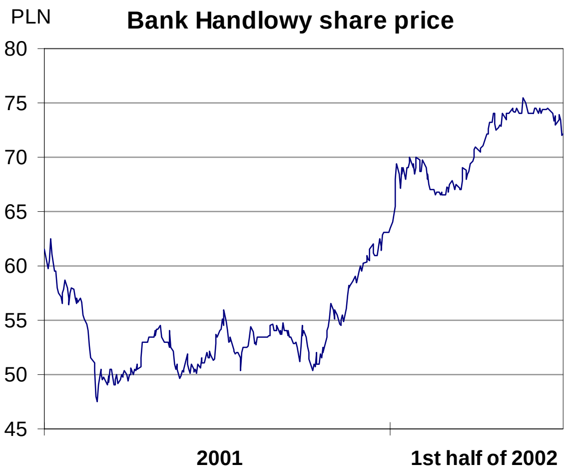
Despite its recent integration with Citibank structures and the close business links developed with that institution Bank Handlowy continued to maintain its strong position in trade finance cooperating with over 700 banks worldwide. The geography of these ties closely mirrors the structure and directions of Polish foreign trade. To the end of better serving its customers Bank Handlowy is capitalising on its ling-time relationships with the leading banks in the different countries, concentrating on those partners which have a strong and stable financial situation.

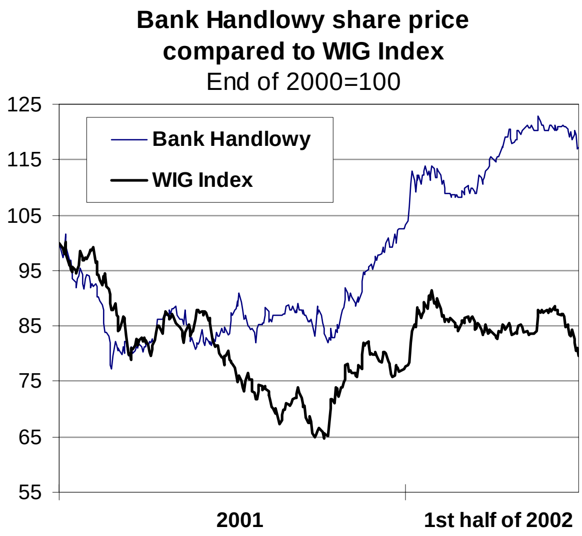
As at the end of June 2002 the Bank operated 207 vostro accounts in Polish zloty and three foreign currencies for foreign banks from a total of 35 countries, thereby continuing its longstanding tradition in settling foreign trade and purchases of Polish Treasury securities by foreign financial institutions. It is estimated that the size of investments made by non-residents in Polish T-bonds nearly doubled over the first half of 2002 to reach USD 30.8 billion. The Bank holds an individual foreign exchange licence from the National Bank of Poland allowing it to settle the PLN claims and liabilities of non-residents and to extend short-term credit to non-residents, which facilitates the efficient settlement of all transactions. At the end of June 2002 the Bank also had 19 nostro accounts in 11 countries which were used for making settlements on the international interbank markets and for settling customer transactions.

In the first half of the year Bank Handlowy continued its cooperation with two foreign banks in providing financing for medium-term capital projects from the assistance funds of the European Union. Two agreements have been signed separately before their merger by Bank Handlowy and Citibank (Poland) with the European Investment Bank and relate to the provision of funding for capital projects of small and medium enterprises in the areas of infrastructure, environmental protection, energy efficiency, and also investment in industry and services. Another agreement has been signed in 2001 with Kreditanstalt für Wiederaufbau concerning the opening of a EUR 25 million line of credit for the same type of projects. Funding provided on the basis of these agreements, which has better terms than the funding available solely from local sources, is very popular among costomers of the Bank.

On February 4, 2002 the Bank concluded an agreement with the European Investment Bank („EIB") a subscription agreement, in which it took the obligation to purchase on the primary market 10-year zero coupon bonds to a total face value of PLN 300 million, which were to be issued by EIB on February 14, 2002 at an issue price of 49.53%. The Bank placed a part of this issue on the Warsaw Stock Exchange. This was the third tranche of a facility arranged in late 2001 for a combined value of PLN 3 billion, for which the Bank acted as sole arranger and underwriter.

16. Bank Handlowy share performance





Between January 1 and June 30, 2002 the share price of Bank Handlowy on the Warsaw Stock Exchange went up by 12.7% to reach PLN 72.1. In comparison the main index of the WSE – the WIG – gained only 1.9%. However, Bank Handlowy's share price growth was in line with the boom seen on all bank stocks traded on the WSE (the WIG – BANKI bank index rose 13.9% over the same period)

IV. Changes in the Bank's product range and technology

1. Product range

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

In the first half of 2002 the product offer of the Retail Banking Sector (Citibank) was broadened very significantly through the addition of the following new products:

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

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

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

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

- distribution of units of the new *DWS Top 50 Europa* investment fund offered by DWS TFI (part of the Deutschebank Group) .

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

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

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

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

2. IT systems

In 1H2002 the Bank continued to roll out the *Flexcube* IT system, which is the to be the only system used to service transactions of corporate customers, throughout the Bank. In April, May and June the new system was launched in the Bank's regions of Kraków, Bydgoszcz and Poznań respectively, which until now used the IBIS/AS system. In the second half of the year the regions of Katowice and Warszawa will be moved to the new platform. *Flexcube* is a modern, state of the art on-line IT system. The functionality of the Bank's new system will significantly enhance the ability of the Bank to automate the transaction processes, and thus its operating efficiency. *Flexcube* is currenly implemented worldwide by institutions belonging to Citigroup.

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

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

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

1. Environmental risk

1.1 The economy

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

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

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

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

In terms of the regulations mentioned above, those of key significance include provisions concerning minimum capital requirements for credit risk and the different types of market risk (Banking Act and resolutions of the KNB), large exposure limits (included in the Banking Act), the ceiling on equity investments, measured in relation to the capital base (the Banking Act), liquidity and credit risk standards (resolutions of the Commission for Banking Supervision), calculating and meeting reserve requirements (the Act on the NBP, and resolutions of both the Monetary Policy Council and the NBP Management Board), and specific provisioning against irregular assets (the Accounting Act and ordinances issued by the Minister of Finance), and also regulations on taxation and similar charges. The introduction of changes in regulations concerning capital adequacy of banks is expected, however the risk of these changes for the bank is expected to be low due to its high capital base.

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

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

1.3 Taxation

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

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

The taxation of certain capital gains introduced in November 2001, which in particular includes bank deposit interest, resulted in a drop in the volume of deposits in the Polish banking system. There is a risk, that the above tax may, in the medium term, lead to a permanent reduction in the household propensity to save in the form of bank deposits. Should this happen, this will have an adverse effect on the operations of the Bank and its financial performance.

1.4 Competition within the banking sector

In the Bank's opinion competition on the Polish banking market in the area of services provided to large corporate customers is already very high. It now expects competition to sharpen especially in banking services for the SME and public sectors. There will also be an increase of competition in retail (consumer) banking, although it will be less fierce due to the maturity of this market both in terms of the number of customers and the product offer.

The Bank is of the opinion that the number of corporates making use of financing alternatives to bank loans, such as commercial paper, bonds, equity issues or lease finance will be growing. This will mean that banks will have to broaden their product offer in the area of corporate finance, supplementing it with new non-credit products.

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

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

2. Operational risk

2.1 Liquidity risk

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

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

2.2 Foreign exchange risk

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

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 ALCO Committee, which – among other things – determines principles for provisioning against various financial risks being incurred and develops the Bank's pricing policies in terms of interest rate risk. There is no certainty that future interest rate movements will not have an adverse effect on the Bank's financial condition. The present level of interest rate risk is low.

2.4 Equity investment risk

The Bank takes a very conservative approach to equity investments. It monitors its equity investments portfolio on an on-going basis with the aim of avoiding situation where it acts both as shareholder and creditor. It also aims to dispose off investments which no longer have any business sense for the Bank, after it became a member of Citigroup. The Bank has recently experienced a significant fall of the value of its investments in companies operating in the construction sector, which is a result of the deep recession experienced by this sector, as well as the bearish capital market. The risk associated with equity investments is now higher than normal.

2.5 Risk elements in lending

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

2.6 Operating risk

The units of the Commercial and Investment Banking Sector are currently going through a process of integration of their IT systems. There is a risk that problems may arise. Any delay in this process may mean that the Bank will have to bear additional costs. In addition it may have a negative effect on the Bank's relationship with its customers, and a s a result a possible drop in revenues.

Data processing for the Retail Banking Sector is done in the data centre located in Singapore. This allows the Bank to achieve cost efficiencies, gives it easy access to technical support and allows it to adopt the most modern solutions developed by that centre. However, this increases the risk associated with the transmission of data over large distances, the potential exposure of the Bank to natural disasters and to political and economic risk associated with the region of South-East Asia.

The present level of operating risk is heightened.

2.7 Legal risk

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

2.8 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.

VI. Prospects for business development. The Bank's strategy for the years 2002-2004

On May 28, 2002 the Bank's Board of Management approved the Bank's strategy for the years 2002-2004, which subsequently was accepted by the Supervisory Board on June 11, 2002. This document sets the Bank's mission, objectives and values to be realised and followed in the next few years.

1. General development objectives

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

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

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

2. Services to corporate and other institutional customers

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

The Bank's potential customer base in the area of corporate banking includes all companies operating in Poland (except those belonging to sectors lying outside the Bank's target market due to the policy of Citigroup or included on restrictive lists as a result of sanctions imposed either by the US government or international organisations), however active acquisition will be undertaken only in the case of customers with annual sales exceeding USD 100 thousand. Due to the current difficult macroeconomic situation and the high share of irregular loans in the banking sector's loan portfolio, the bank will conduct a very cautious credit policy. Nevertheless loans will remain the key product group sustaining the Bank's relationships with customers, although a majority of revenues will be generated from cash management, trade finance and treasury products. The specific solutions and innovations present in these product groups will be the key factors behind the Bank's competitive advantage, especially in relations with the most demanding international customers, leading local corporations and financial institutions. The Bank will also aim to utilise to a greater extent the potential for sale of these products in the SME segment.

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 Bank will also continue to actively market its services to the small business sector (companies with annual revenues below USD 1 million). These customers will be serviced through the consumer and corporate banking branch networks and via remote delivery channels.

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

3. Consumer banking (Citibank)

The Bank is a medium-sized player in consumer banking, yet with a particularly strong position in credit cards and in servicing high net worth individuals (private banking). The retail banking market is considered to possess high growth potential. Over the next three years, the Bank plans to double its market share here. The Bank's target aim is to capture a double-digit share of the market. In retail, the Bank is operating under the Citibank brand.

In consumer banking Bank Handlowy will concentrate its efforts on the acquisition of customers with above-average incomes (over PLN 1,500 monthly), living in cities with over 100,000 inhabitants. The Bank's product offer has been tailored to suit the expectations/requirements of this customer profile.

The Bank's goal is to further strengthen its position among the highest income customers. Its *CitiGold* product line, in addition to traditional deposit and loan products, will include comprehensive asset management and financial consultancy services that also encompass individual Treasury products, standardised and customised asset management strategies, term investment vehicles, brokerage services, and both personal and investment-linked insurance.

Other individual customers (outside the *CitiGold* line) will be offered the *CitiKonto* interest-bearing current account as the basic product. Internet banking will remain to be available free of charge. The Bank will also be developing sales of units in investment funds and brokerage services based on an "Investor Package". The product range will be expanded in 2002 to include sales of insurance products.

Apart from savings products the Bank will place special emphasis on the sale of credit cards. The Bank will be seeking to maintain its dominant position in this market. New types of card will be made available and affinity programmes introduced. Jointly with *CitiFinancial* a new programme of instalment loans and cash advances will be launched in 2002 for personal customers with monthly income lower than PLN 1,000.

4. Distribution network

The Bank's distribution network is not only adequate to handle the current business volumes, but also has excess capacity, which will allow it to grow the scale of operations in the future. In all, the Bank has a network of 166 branches and service points countrywide, an extensive staff of corporate relationship managers and a network of retail direct sales agents, coupled with remote delivery channels such as Internet banking, direct banking, call centres, automatic response telephone services (IVR) and multipurpose ATMs.

Retail customers of Citibank have access to 95 branches in attractive locations in Poland's largest cities and 11 *CitiGold* branches. In a number of locations the existing branches of Citibank will be adapted to distribute a broader range of products and service small business customers. Facilities for personal customers will also be in place at selected corporate banking offices. The corporate banking function will based on 30 branches and 30 sub-branches. Small businesses will be serviced at all Citibank and corporate banking branches. In the case of corporate and *CitiGold* customers, the mainstay of the distribution network will be relationship managers.

Internet access to Citibank will continue to be upgraded. At the beginning of 2002 *Citibank Online* was implemented. Expansion of this system's functionality is planned for the second half of 2002. Citibank consistently places great emphasis on the development of Internet banking, aiming to establish it as the main distribution channel for customers. In the longer time frame, Internet access will also be provided to brokerage accounts operated under the "Investor Package". Corporates and institutional customers will be able to use the *CitiDirect* electronic banking platform. The Bank's goal over the next two years is for electronic transactions to account for 90% of all transactions within this group of customers.

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

5. Synergies

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

In the current year the Bank will place strong emphasis on providing a package of deposit and loan products to the staff of its largest corporate customers. A typical package of this kind will include personal current accounts (*CitiKonto*) together with payroll support facilities, credit cards, mortgage loans and cash advances. In addition to pricing incentives, in justified cases the Bank will be prepared to install an ATM on site at the company or open an office there.

The Bank is also marketing corporate products to its retail customers. This especially applies to *CitiGold* customers, who are offered specialist Treasury products, brokerage services and asset management facilities. All Citibank customers have access to investment products, in particular including units in *CitiFundusze* investment (formerly TFI Kapital Handlowy funds) and investment deposits (linked to major stock indices). In the framework of collaboration between the Treasury Department and the Handlowy Zarzadzanie Aktywami asset management company, there are plans to launch an investment fund for retail customers focussing on units in investment funds of corporate debt securities.

Completing the process of merging Bank Handlowy w Warszawie SA and Citibank (Poland) SA will make it possible to obtain a number of synergies at the level of support and service functions. This in particular refers to such areas as financial control, strategy, legal support, public relations and human resource management. This process is to be completed by the end of 2002.

Signatures of all Management Board Members

Date	Name	Position	Signature
23.09.2002	Cezary Stypułkowski	President	....
23.09.2002	Shirish Apte	Vice President	....
23.09.2002	Wiesław Kalinowski	Vice President	....
23.09.2002	Philip King	Vice President	....
23.09.2002	Witold Walkowiak	Vice President	....