REPORT ON OPERATIONS

OF BANK HANDLOWY W WARSZAWIE SA

CAPITAL GROUP

IN THE FIRST SIX MONTHS OF 2004

citibank handlowy
Bank Handlowy w Warszawie SA

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I. The Polish economy in the first six months of 2004

1. Main macroeconomic trends

In the first six months of 2004, the pace of economic growth significantly accelerated, in particular in the run up to Poland's accession to the EU. Exports were the main stimulator of economic growth. The current account deficit as a proportion of GDP improved. Despite the favorable economic conditions there was no significant decrease in the unemployment rate, and in addition a negative consequence of EU accession was a significant increase in the inflation rate.

According to our estimates, in the first six months of 2004, the pace of GDP growth exceeded 6% year on year, mainly due to a higher rate of growth of GDP in 1Q amounting to 6.9% year on year (GDP data for 2Q will be provided by the Central Statistical Office in September). On the demand side, the main growth factor was net export (as per national accounts), since the rate of increase of domestic demand was slower than the GDP growth rate (5.7% year on year in 1Q). In 1Q, gross investment increased sharply by 21.8% year on year, however, fixed asset investment increased by only 3.5% year on year. This trend indicates that investment growth was mainly caused by a significant rise in inventories related to the fears of price increases after joining the EU. In 2Q, the pace of GDP growth was probably slightly slower than in 1Q due to the end of the pre-accession boom.

On the supply side, the industrial sector, and especially the manufacturing sector, was the main driver of economic growth. In the first six months of 2004, industrial output increased by 17.6% year on year (in 2Q the rate of increase was 16.3% year on year compared to 19.0% year on year in 1Q), and manufacturing output increased by 21.2% year on year. The most rapid growth was noted in the export-led manufacturing sectors - automative vehicle production grew by 72.2% year on year, other vehicle production grew by 44.1% year on year, production of radio and television sets, as well as telecommunication devices grew by 30.4%, and the production of machines and devices grew by 26.9% year on year. In the first six months of 2004, services also accelerated. Retail turnover grew by 15% year on year, mainly due to a sharp increase in consumer demand during the pre-accession period (in March and April retail turnover increased by 20.7% year on year and 30.6% year on year respectively). The sales of transport and communication services also increased, less significantly, by over 8% year on year.

Despite noticeable economic recovery in the first six months of 2004, the situation in the labor market improved very slowly. Employment in the economy continued to fall although its pace was slower than in the first six months of 2003 (1.1% compared to 4.1%). The registered unemployment rate fell marginally over the previous year, from 19.7% in June 2003 to 19.5% at the end of June 2004. It was also slightly lower than in December 2003 (20.0%). Over the year the number of jobless dropped by 63,400 and at the end of June 2004 amounted to 3.07 million. There was only a modest decrease in the unemployment rate due to a considerable improvement in industrial productivity (in the first six months of 2004 by as much as 25% year on year).

In the first six months of 2004, the current account deficit reduced significantly and amounted to EUR 1.9 billion in comparison with EUR 2.6 billion in the first half of 2003 (preliminary data of the National Bank of Poland). In relation to GDP, the twelve-month rolling deficit dropped to around 1.5% in comparison with the previous year's 2.2%. This was mainly caused by the improvement in the trade balance, a fall in the deficit on commodity trade, and the deficit on services moved into surplus. Such improvement was possible due to the rate of increase of exports in the pre-accession boom. Consequently, in the first six months of 2004, export growth increased by 23.5% year on year, which was higher than import growth of 19.4% year on year.

The rate of import growth, in particular foreign investments, also significantly accelerated in comparison with the previous year as a result of the EU boom.

As of the end of June 2004, official foreign currency reserves amounted to EUR 29.9 billion, representing an increase of EUR 1.9 billion compared to June 2003, and maintained their very safe level in relation to the foreign short-term debt and imports.

In the first six months of 2004, in particular in 2Q, the inflation rate grew as a result of Poland's joining the EU (factors such as price increases due to increases in indirect tax rates and higher demand by other EU countries for Polish food products), and supply shocks on international oil and metal markets. Consequently, in the first six months of 2004, the prices of consumption goods and services increased by 2.5% year on year and by 4.4% year on year in June, exceeding the upper limit of NBP inflation target for 2004. Production prices increased by 6.6% year on year and by 9.2% year on year in June, mainly as a result of price increases in mining production (in the first six months, increase by 24.7% year on year). The increase of base inflation indices was significantly lower (for example, in June, the annual net inflation index amounted to 2.3%). This suggests that demand pressure is not as strong as indicated by the increases in consumption and production prices.

The money supply as of June 2004, measured by the M3 aggregate, increased from the beginning of the year by 2.9%, and from June 2003 by 7.2%, which means a very moderate increase in real terms (2.9% year on year). Such an increase is quite surprising in the context of the rapid pace of economic growth. In the first six months of 2004, total deposits increased by 2.2% from the beginning of the year and by 6.9% year on year, mainly reflecting a very rapid growth in corporate deposits (by 10.4% from the beginning of the year and by 32.8% year on year), whereas deposits of private individuals decreased by 1.8% year on year. On the uses side, the most significant factor was net foreign assets (increase by 14.2% from the beginning of the year and by 12.3% year on year in June). Total loans increased by 5.5% year on year (1.65% from the beginning of the year) due to significant growth of loans to individuals (by 7.8% from the beginning of the year and by 19.4% year on year in June). However, loans to enterprises fell by 0.6% year on year (for large enterprises - by 2.5% year on year), which may limit investment growth despite a significant improvement in enterprises' financial situation.

In the first six months of 2004, the State Budget was under control. The budget deficit amounted to PLN 19.9 billion, representing 43.9% of the full year 2004 budget deficit plan. The control of the budget deficit was significantly better than in the prior year when, in the first six months of 2003, the budget deficit amounted to 60.0% of the full year plan. The lower deficit in the budget resulted from the higher than planned income, in particular due to indirect taxes and CIT. In addition, the increased rate of economic growth accelerated inflows in comparison with the previous year (48.2% versus 46.2% in the first half of 2003). At the same time budgeted expenditure was lower than planned, mainly due to lower costs of debt service and low level of grants for the Labor Fund. In the first half of 2004 expenditure amounted to 47.2% of the full year budget in comparison with 49.2% in the first half of the prior year.

2. Money markets and FX markets

In April 2004 the Monetary Policy Committee ("MPC") changed its approach from neutral to restrictive, indicating the commencement of monetary policy tightening cycle, raising the probability of interest rate increases. The MPC's decision to raise interest rates by 50 basis points on 30 June (effective 1 July) did not itself influence the money markets during this period. However, market expectations of interest rate increases, as a result of, amongst other things, fears about implementation of the public finances reform program, resulted in the rapid growth in market interest rates in 2Q. The upward trend of market rates was reinforced as a result of increasing Treasury yields, in particular bonds (in the first six months, the correlation between the changes of the level of yields of bonds and money market rates with respect to the 12-month period significantly increased, which signalled a rise in the investment risk premium). The trend was also exacerbated by disturbances of the banking system's liquidity, triggered by the Ministry of Finance increasing liquidity reserves in order to maintain budget liquidity after Poland's EU accession. In consequence liquidity was drained from the banking system.

The level of inter-bank market rates was also influenced by open market operations conducted by the National Bank of Poland in the first six months of 2004. However, as the banking sector's liquidity remained high during the majority of this period, such operations had the effect of absorbing excess liquidity. Nevertheless, liquidity disturbances triggered by activities of the Ministry of Finance, particularly in April and May, caused NBP to limit reverse repo operations. Consequently, the balance of open market operations was reduced to PLN 400 million (NBP information as of the end of May 2004) from PLN 6 billion in December 2003.

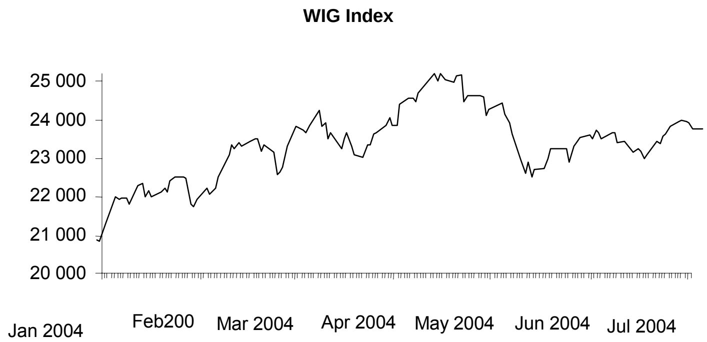
As a result of all the aforementioned factors, in the first six months of 2004 the market interest rates increased from the level of 40 basis points (WIBOR 1M) to 117 basis points (WIBOR 12M). At the end of June 2004, rates for longer tenors (over 3 Months) exceeded 6% while the reference rate amounted to 5.25%.

In the first six months of 2004, Treasury bills yields increased in line with trends on the domestic and foreign market of Treasury bonds. The main causes of the fall in the prices of Polish Treasuries include higher country political risk, higher exchange rate risk and related downward trend of zloty exchange rate, rising expectations for the basic interest rate increase and the fall in prices on foreign debt instrument markets. Consequently, bond yields increased, on average, by 1 percentage point, and yields on 1 Year Treasuries amounted to 6.86% at the end of June.

Despite positive economic trends, in the first six months of 2004, the Polish FX market was dominated by the downward trend of the zloty exchange rate related to the lack of political stability, uncertain prospects for the implementation of the fiscal reform program and fears about the size of the public deficit. It was also the result of the decrease in real interest rate disparity after the significant increase in the inflation rate in the Polish economy. The Zloty depreciated both in nominal and real terms. The nominal decrease was mainly in respect of the PLN/EUR rate as a result of Euro appreciation on the international FX market in 1Q. The zloty exchange rate with respect to EUR decreased, on average, by 10.8% in comparison with the first half of 2003 (the average EUR exchange rate on NBP fixing amounted to PLN 4.73 in the first half of the current year in comparison with PLN 4.27 in the first half of 2003). The złoty exchange rate with respect to USD was virtually unchanged. According to the Bank for International Settlements, the real effective zloty exchange rate reduced by almost 4% in comparison with the first six months of 2003.

3. Capital market

In the first half of 2004, the situation on the Warsaw Stock Exchange (WSE) was still favorable. However, increases in the stock exchange indices in the first half of 2004 result mainly from the increases which took place in the first quarter, whereas in the second quarter the value of indices changed only slightly. In the first half of 2004, the main stock exchange index, WIG,



increased from 20,821 to 23,949 points, i.e. by 15.0%, which resulted from the sharp increase in the quotations of construction, foodstuffs and banking sector companies evidenced by increases in sector sub-indices WIG-BUDOW, WIG-SPOŻ and WIG-BANKI; by 30.5%, 26.9% and 17.0%, respectively. The results of companies from information science and telecommunication sectors were significantly less favorable, evidenced by lower increases in sector sub-indices WIG- INFORMAT and WIG- TELEKOM; by 7.3% and 1.7%, respectively. The situation on the bank's equity market was influenced by relatively favorable results of the sector published in 1Q of 2004 and investors' optimism related to further improvement of the sector's profitability in the second half of 2004.

In the first half of 2004, turnover on the equity market increased in comparison with the same period of 2003, however, they were lower than in the second half of 2003. In total, the value of equity turnover in the period amounted to PLN 53.2 billion compared to PLN 24.3 billion and PLN 55.4 billion for the first and second half of 2003, respectively.

In the first half of 2004, the total capitalization of the equity market increased from PLN 167.7 billion to PLN 193.5 billion, i.e. by 15.4%, and during this period the number of stock-listed companies increased from 203 to 206.

4. Banking sector

The banking sector's net financial result for the first half of 2004 amounted to PLN 3.722 billion and was higher by 82% than the same period of the previous year. Moreover, it was higher than the banking sector's net result for the whole of the previous year (PLN 2.512 billion). To some extent, such a favorable result was triggered by one-off transactions of assets sales, however, the main cause was the improved economic situation.

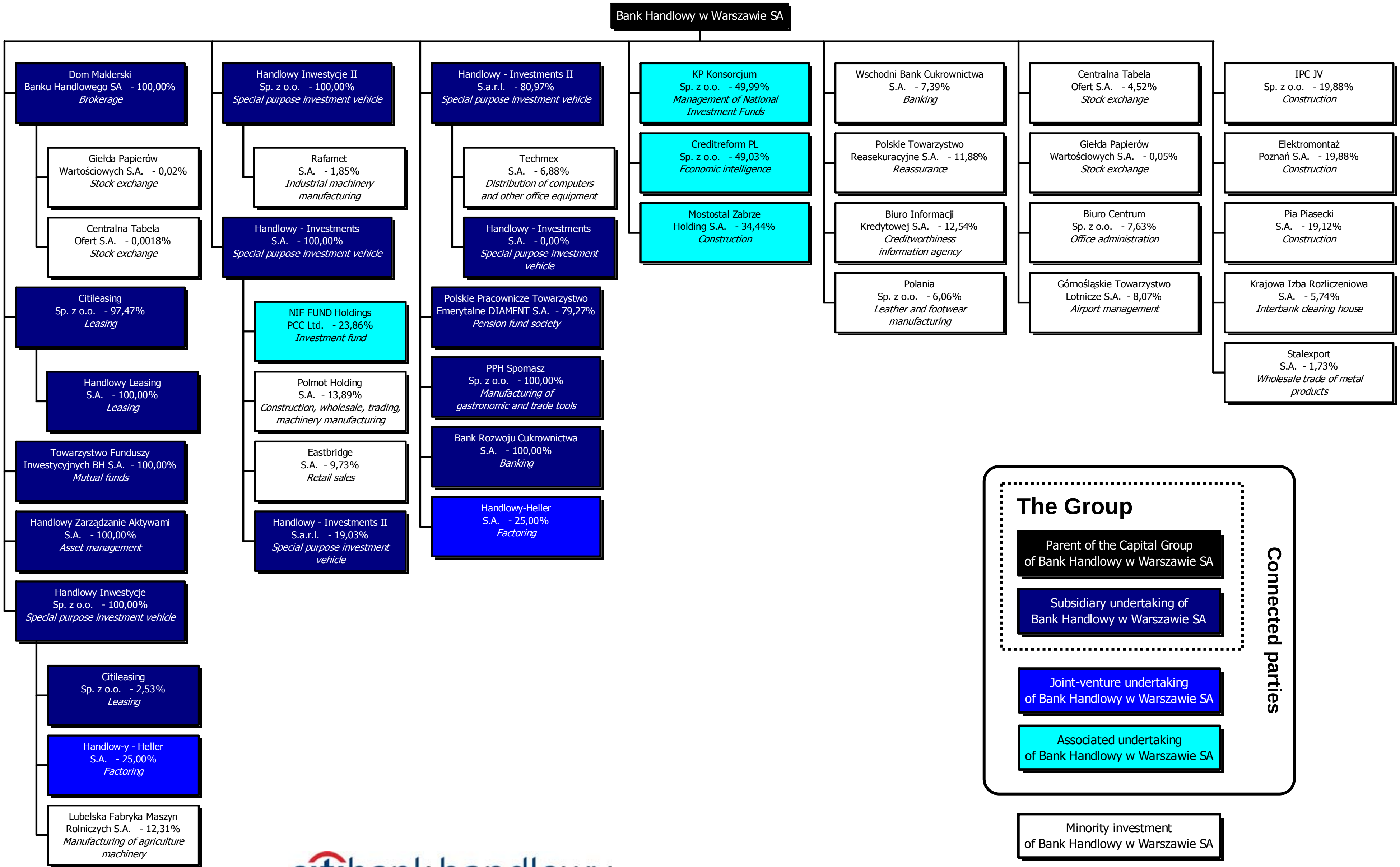
The increase in the sector's profitability was first of all caused by lower value of allowances to provisions. In the first half of 2004, the value of provisions was as much as PLN 1 billion lower than in the first half of 2003 and over PLN 2 billion lower than in the second half of 2003.

In the first half of 2004, the banking sector's result on banking activity increased by over PLN 0.8 billion in comparison with the same period of the previous year. Such an increase was mainly triggered by increases in net interest income, fees and commissions, whereas the result on financial operations was lower in the first half of 2004 in comparison with the first half of 2003. In the first half of 2004, as a result of the interest rate increase, banks' interest expense increased in comparison with the second half of 2003. However, such an increase was lower than the increase in interest income, which favorably influenced the banks' net interest income.

In the first half of 2004, the growth of loans to individual customers was stable and amounted to around 19% year on year. Nevertheless, lower interest rates, tax on interest introduced in 2001 and high consumer expenditure (despite a high unemployment rate and a slow pace of wage inflation) sustained the downward trend of individual customers' deposits (decrease by 3.2% year on year). In addition, lower interest rates were a factor in the increased share of demand deposits and transfer of some funds to alternative deposit and investment instruments (e.g. investment funds, insurance products).

Banks' lending to economic entities grew only slightly. In comparison with the end of the first half of 2003, the loan portfolio for this group of customers increased by 0.4% versus 1.4% in the same period of the previous year. Nevertheless, the situation on the market for corporate deposits improved significantly, such that corporate deposits increased by 28.0% year on year, while at the end of the first half of 2003, their increase amounted to 13.0% year on year.

II. Organizational structure of the Bank Handlowy w Warszawie S.A. Capital Group



III. Organisational structure of the Group of Bank Handlowy w Warszawie SA

The Group of Bank Handlowy w Warszawie S.A. ("the Group") is composed of the **parent entity** and **subsidiary undertakings**:

ENTITIES BELONGING TO THE GROUP OF BANK HANDLOWY W WARSZAWIE SA

Name of entity	Activity	Capital relationship	% of authorised capital owned	Accounting method	Own equity (PLN thousand)
Bank Handlowy w Warszawie SA	banking	parent	-	-	5,831,501*
Dom Maklerski Banku Handlowego S.A.	brokerage	subsidiary	100.00%	full consolidation	86,126
Handlowy Leasing S.A.	leasing	subsidiary	100.00%**	equity accounting	10,681
Citileasing Sp. z o.o.	leasing	subsidiary	100.00%**	equity accounting	174,944
Handlowy Inwestycje Sp. z o.o.	special purpose investment vehicle	subsidiary	100.00%	equity accounting	7,193
Handlowy Inwestycje II Sp. z o.o.	special purpose investment vehicle	subsidiary	100.00%	equity accounting	3,999
Handlowy Investments S.A.	special purpose investment vehicle	subsidiary	100.00%	equity accounting	(61,229)
Handlowy Investments II S.a.r.l.	special purpose investment vehicle	subsidiary	100.00%**	equity accounting	17,331
Handlowy Zarządzanie Aktywami S.A.	asset management	subsidiary	100.00%	equity accounting	4,526
Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A.	investment fund company	subsidiary	100.00%	equity accounting	20,012
Bank Rozwoju Cukrownictwa S.A.	banking	subsidiary	100.00%	equity accounting	38,921
Polskie Pracownicze Towarzystwo Emerytalne DIAMENT S.A. under liquidation	insurance	subsidiary	79.27%	equity accounting	309
PPH Spomasz Sp. z o.o. under liquidation	manufacturing of trade and food production equipment	subsidiary	100.00%	accounted at cost net of provisions for any permanent diminution in value	Company under liquidation

** The capital of Bank Handlowy as reported in the unconsolidated financial statements for first half of 2004.*

*** Including indirect interests held through other subordinated entities.*

1. Changes in the structure of the Group of Bank Handlowy w Warszawie SA

In the first half of 2004, the Group continued its earlier strategy of capital investments aimed at achieving the targeted Group structure while optimising the financial outcome of capital transactions and minimising the underlying risks. During that period, the composition of the Group did not change.

2. Changes in the structure of other connected parties

The following transactions resulted in changes in the structure of joint-venture and associated undertakings in the first half of 2004:

- sale by subsidiary Handlowy Investments S.A of the whole shareholding held in Polimex Cekop S.A. representing a 36.64% stake in capital and same number of votes at the general meeting of shareholders of this undertaking,
- redemption of some shares in capital of the associated enterprise NIF Fund Holdings PCC Ltd. held by subsidiary Handlowy Investments S.A. The redeemed shares represented a 2.37% stake in the capital of the entity. The stake in capital and the number of votes at general meeting of shareholders of this undertaking does not change and amounted to 23.86%,
- sale of some of shares of the associated enterprise Pia Piasecki S.A. The shareholding sold represented a 17.40% stake in the capital of the entity. As a result of this transaction, the Bank holds 19.12% stake in capital and the same number of votes at the general meeting of shareholders of this undertaking,
- sale of some of shares of the associated enterprise IPV JV Sp. z o.o. The shareholding sold represented a 11.12% stake in the capital of the entity. As a result of this transaction, the Bank holds 19.88% stake in capital and the same number of votes at the general meeting of shareholders of this undertaking,
- sale of some of shares of the associated enterprise Elektromontaż Poznań S.A. The shareholding sold represented a 5.42% stake in the capital of the entity. As a result of this transaction, the Bank holds 19.88% stake in capital and the same number of votes at the general meeting of shareholders of this undertaking.

3. Changes in the consolidation and equity accounting scope

In the first half of 2004, no changes occurred in terms of consolidation and accounting of the remaining entities of the Group. The list of joint-venture and associated entities, excluded from the Group but accounted for under the equity method, is presented below.

Name of entity	Activity	Capital relationship	% of authorised capital owned	Accounting method	Own equity (PLN thousand)
Handlowy-Heller S.A.	factoring	joint-venture	50.00%*	equity accounting	22,747
KP Konsorcjum Sp. z o.o.	investment fund management	associated undertaking	49.99%	equity accounting	25,683

IV. Selected balance sheet data and financial results of the Group of Bank Handlowy w Warszawie SA

1. Summarised financial data of the Group of Bank Handlowy w Warszawie SA

PLN million	1998	1999	2000	2001	2002	2003	1st half of 2004
Balance sheet total	17,801.0	19,117.3	20,946.2	33,081.1	32,402.5	34,035.0	35,139.2
Equity*	2,585.4	2,822.4	2,974.4	5,673.2	5,733.3	5,651.0	5,610.4
Profit on banking activity	1,192.3	1,254.2	1,476.6	2,052.8	2,107.3	1,971.9	970.7
Profit before taxation	493.9	531.3	196.7	386.5	349.0	459.1	259.8
Net profit	326.1	347.7	182.3	163.3	232.0	296.6	224.8

** Excluding net profit for the current period.*

2. Financial results of the Group in the first half of 2004

The Group's financial results and balance sheet growth and composition are mainly shaped by income statement and balance sheet of the Group's Parent Entity, Bank Handlowy w Warszawie S.A.

2.1 Profit and Loss Account

In the first half of 2004, the Group reported profit before taxation of PLN 224.8 million and was by PLN 128.3 million, i.e. by 133.0 % higher compared to the same period of the previous year. The following were among the factors which contributed to the increase in the net profit (loss) of the Group:

- increase in the profit / (loss) on banking activity by PLN 53.4 million (5.8%),
- reduction in net write-downs for specific provisions and revaluation of financial assets, which amounted to a positive net amount of PLN 1.4 million in comparison with a charge of PLN 132.0 million in the same period of the previous year.
- increase in share in profits/(losses) of subordinated undertakings accounted for by the equity method (PLN 21.4 million in comparison with PLN 17.3 million).

There were also factors that had negative impact on net profit due to:

- decrease in gains on financial operations by PLN 126.8 million (128.8%)
- increase in general expenses of the Group by PLN 75.6 million (13.7%),

A relatively small difference between the consolidated financial result of the Group of (PLN 224.8 million) and the unconsolidated financial result of Bank Handlowy w Warszawie SA of (PLN 221.2 million) is a consequence of accounting for subsidiary enterprises by the equity method in the unconsolidated financial statements of the Bank.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	1st half of		Change	
in PLN thousand	**2004**	**2003**	**PLN thousand**	**%**
Interest income	761,565	713,774	47,791	6.7%
Interest expense	(335,759)	(347,460)	11,701	(3.4%)
Net interest income	425,806	366,314	59,492	16.2%
Net fee and commission income	314,807	257,774	57,033	22.1%
Income on shares, other securities and other financial instruments with variable income securities	15,526	523	15,003	2 868.6%
Gains on financial operations	(28,338)	98,414,	(126,752)	(128.8%)
Foreign exchange profit	242,934	194,269	48,665	25.1%
Profit on banking activity	**970,735**	**917,294**	**53,441**	**5.8%**
Other operating income	37,041	31,870	5,171	16.2%
Other operating expenses	(15,015)	(18,608)	3,593	(19.3%)
General expenses	(625,607)	(550,020)	(75,587)	13.7%
Depreciation and amortisation	(72,526)	(76,732)	4,206	(5.5%)
Goodwill amortisation	(36,223)	(36,223)	-	0.0%
Net charges to provisions and revaluation	1,403	(132,049)	133,452	101.0%
Operating profit	**259,808**	**135,532**	**124,276**	**91.7%**
Extraordinary items	-	-	-	-
Profit before taxation	**259,808**	**135,532**	**124,276**	**91.7%**
Corporate income tax	(56,390)	(56,320)	(70)	(0.1%)
Participation in net profit/(loss) of subordinated entities accounted for under the equity method	21,398	17,257	4,141	24.0%
Net profit	**224,816**	**96,469**	**128,347**	**133.0%**

Total income of the Group, including net profit (loss) on banking activity and other operating income, increased in the first half of 2004 by PLN 58.6 million (i.e. 6.2%), and total expenses consisting of other operating expenses, general expenses and administrative expenses, and depreciation and amortisation increased to PLN 749.4 million, i.e. by PLN 67.8 million (9.9%) compared to the same period of the previous year.

2.1.1 Profit on banking activity

In the first half of 2004, the Group reported an increase of profit on banking activity by PLN 53.4 million, i.e. by 5.8%. The following factors contributed in particular to profit on banking activity obtained in the current period in comparison with the first half of 2003:

- increase in net interest income by PLN 59.5 million (i.e. 16.2%), mainly as a result of higher interest income on debt securities due to a marked increase in the portfolio of these securities, and a decrease in interest cost on deposits by PLN 11.7 million (i.e. 3.4%) in the same period of the previous year ;
- increase in net commission income by PLN 57.0 million (i.e. 22.1%), mainly due to the commissions on insurance products, cash management commissions, and payments for issuance and use of payment and credit cards, and also brokerage services associated with the fast growing volume of transactions serviced by Dom Maklerski Banku Handlowego w Warszawie S.A. (DMBH);
- increase in net profit on foreign exchange by PLN 48.7 million (i.e. 25.1%) mainly on foreign exchange operations on financial instruments.

NET COMMISSION INCOME

in PLN thousand	1st half of 2004	1st half of 2003	Change PLN thousand	Change %
Commissions from banking activity	332,157	264,153	68,004	25.7%
Commissions from brokerage activity	20,333	13,719	6,614	48.2%)
Total commission income	**352,490**	**277,872**	**74,618**	**26.9%)**
Commission expense	(37,683)	(20,098)	(17,585)	87.5%
Net commission income	**314,807**	**257,774**	**57,033**	**22.1%**

On the other hand, the rate of increase in the Group's income was reduced by the decrease in the net profit on financial operations by PLN 126.8 million, caused above all by the loss on operations on debt securities issued by central government institutions, in particular Polish treasury bonds. The unfavourable trend of changes of this item resulted from an increase in market interest rates followed by the decrease in prices of debt securities.

2.1.2 Expenses

Total expenses of the Group were up from PLN 626.8 million in the first half of 2003 to PLN 698.1 million, i.e. by PLN 71.4 million or 11.4%.

EXPENSES

in PLN thousand	1st half of 2004	1st half of 2003	Change PLN thousand	Change %
Salaries	235,684	224,923	10,761	4.8%
Social security and other benefits	50,737	46,235	4,502	9.7%
Total personnel expenses	**286,421**	**271,158**	**15,263**	**5.6%**
Administrative expenses	305,862	269,309	36,553	13.6%
Taxes and fees	4,217	4,006	211	5.3%
Contributions and payments to the Bank Guarantee Fund	3,976	5,547	(1,571),	(28.3%)
Restructuring provision – personnel costs	25,131	-	25,131	-
Total general expenses	**625,607**	**550,020**	**75,587**	**13.7%**
Depreciation	72,526	76,732	(4,206)	(5.5%)
Total expenses	**698,133**	**626,752**	**71,381**	**11.4%**

In the first half of 2004, the Group continued restructuring activities with the aim to improve profitability of the institution by lowering the costs of operation. The most important undertaking of the period described is a subsequent stage of employment reduction.

The Management Board of the Bank decided that between 1 April and 31 December 2004 the Bank would terminate employment contracts with a group of up to 630 employees. The changes in the structure of employment follow the reorganization of the indywidual individual areas and introduction of new technological and organisational solutions. The Bank expects that they will lead to an improvement in quality and effectiveness of customer service. On 23 March 2004, the Bank entered with trade unions active in it the agreement defining the procedures for dealing with employees laid off in the above period, and in particular defining the level of severance benefits payable to them. However, as a result of activities undertaken to adjust the status and structure of employment to changes in strategies and methods of operation of the Bank a significant number of employees designated for reduction were redemployed to the fast growing Consumer Sector of the Bank. As a consequence of this decision, total severance cost amounted to PLN 25.1 million.

Important factors which also affected the level of salaries were agreements concerning the participation of the Bank's employees in incentive plans of Citigroup Inc. A provision of PLN 8.9 million was created in the first half of 2004 for the respective future payments.

Other important factors affecting the level of expenses were :

- the opening of 15 new branches of CitiFinancial (a fast growing sector of the Consumer Bank) in the first half of 2004
- the signing in April 2004 of agreements with Citibank N.A. for the provision of a number of administrative support services relating to current Bank activity which include consultation and advising in the areas of management, finances, accounting, auditing etc., as well as the maintenance of IT systems to service operational activity. The information relating to the above mentioned agreements is presented in the Additional Explanatory Notes.

2.1.3 Specific provisioning charges and financial assets revaluation

NET CHARGES TO PROVISIONS AND REVALUATION

	1st half of of		Change	
in PLN thousand	**2004**	**2003**	**PLN thousand**	**%**
Specific provisions	(105,097)	(121,301)	16,204	13.4%
- financial institutions	2,800	23,493	(20,693)	(88.1%)
- non-financial sector	(206,499)	(72,610)	(133,889)	(184.4%)
- subordinated loans	35,000	(78,961)	113,961	144.3%
- other	1,650	(489)	2,139	437.4%
- off-balance sheet contingent liabilities	61,952	7,266	54,686	752.6%
Provision for general risk	105,000	-	105,000	-
Revaluation of financial assets	1,500	(10,748)	12,248	114.0%
Total net charges to provisions and net revaluation difference	**1,403**	**(132,049)**	**133,452**	**101.1%**

In the first half of 2004, net write-downs on provisions and revaluation of financial assets dropped by PLN 133.5 million. (i.e. 101.1%) in comparison with the first half of 2003. Moreover, in the first half of 2004, the Bank conducted a detailed review of its loan portfolio for correctness of classification of customers into individual risk groups and collateral reducing the credit risk exposure. As a result of the above review and the increase in specific provisions it was also decided to reduce the general provision by PLN 105 million. The remaining amount of the general provision of PLN 195 million and is considered adequate to cover the credit risk relating to the consumer portfolio and the credit exposure from watch category.

As of 30 June 2004 loans classified as irregular decreased by 19% in comparison with the same period of the previous year, in particular a significant decrease by 41% was noted in loans classified in the "doubtful" category.

The structure of problem loans in the loan portfolio reflects the fact that the Bank did not take the opportunity to write-off loan loss exposures against specific provisions as permitted by law. Ban currently is in the process of impementating changes to this policy.

At the same time, the Bank released specific provisions of PLN 35.0 million on receivables from subordinated loans funding the operations of special purpose investment vehicles Handlowy Investments S.A. and Handlowy Investments II S.a.r.l. In the current reporting period, there was a reversal of write-downs on revaluation of financial assets of PLN 1.5 million, while for the respective period of 2003 the respective write-downs amounted to PLN 10.7 million.

2.1.4 Accounting for subordinated entities

In the first half of 2004, the net profit of the Group increased by PLN 21.4 million as a result of valuation of fixed assets – significant shareholdings in undertakings subordinated by the equity method. This amount was disclosed in the profit and loss account in the item "Participation in net profits (losses) of subordinated entities accounted for using equity method" and comprised of valuations of the following entities: Dom Maklerski Banku Handlowego S.A., Handlowy-Leasing S.A., Citileasing Sp. z o.o., Handlowy Zarządzanie Aktywami S.A., Towarzystwo Funduszy Inwestycyjnych BH S.A., Handlowy Inwestycje Sp. z o.o., Handlowy Inwestycje II Sp. z o.o., Handlowy Investments S.A., Handlowy Inwestments II S.a.r.l., Bank Rozwoju Cukrownictwa S.A., Polskie Pracownicze Towarzystwo Emerytalne DIAMENT S.A., Handlowy-Heller S.A., KP Konsorcjum Sp. z o.o. The largest part of this amount was the effect of valuation of net assets of Citileasing Sp. z o.o. totalling PLN 12.1 million.

2.2 Consolidated Balance Sheet

As of 30 June 2004, the Groups balance sheet total amounted to PLN 35,139.2 million and was higher by 7.6% than one year earlier.

CONSOLIDATED BALANCE SHEET OF THE BANK GROUP - ASSETS

BALANCE SHEET

	As of			Change from:	
in PLN thousand	30/06/2004	31/12/2003	30/06/2003	31/12/2003	30/06/2003
Cash, operations with the Central Bank	808,986	1,186,514	1,132,036	(31.8%)	(28.5%)
Due from the financial sector	5,069,258	8,009,705	4,413,322	(36.7%)	14.9%
Due from the non-financial sector	12,497,208	13,254,962	14,328,201	(5.7%)	(12.8%)
Due from the public sector	,692	3,239	6,869	(78.6%)	(89.9%)
Receivables subject to securities sale and repurchase agreements	372,905	288,601	16,042	29.2%	2 224.6%
Debt securities*	9,579,763	3,842,305	4,561,126	149.3%	110.0%
Due from subordinated undertakings accounted for under the equity method *)	888,371	866,228	893,849	2.6%	(0.6%)
Equity investments in subordinated undertakings accounted for under the equity method	281,266	259,340	304,736	8.5%	(7.7%)
Other equity investments	37,556	40,729	55,479	(7.8%)	(32.3%)
Other financial assets	2,981,396	3,624,910	4,030,263	(17.8%)	(26.0%)
Intangible assets	1,259,156	1,295,051	1,331,139	(2.8%)	(5.4%)
- including: goodwill	1,207,423	1,243,645	1,279,868	(2.9%)	(5.7%)
Tangible fixed assets	735,690	764,609	782,462	(3.8%)	(6.0%)
Other assets	626,957	598,784	792,490	4.7%	(20.9%)
TOTAL ASSETS	**35,139,204**	**34,034,977**	**32,648,014**	**3.2%**	**7.6%**

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

2.2.1 Assets

The largest item of the Group's assets is receivables due from the non-financial sector. As of 30 June 2004, net credit exposure to non-financial entities amounted to PLN 12,497.2 million., which represented a reduction of exposure by 12.8% in comparison with the respective period of the previous year. The decrease results from a combination of the Bank's prudent lending policy and the continued uncertainty over the financial standing of numerous segments.

In the first six months of 2004, the Group's structure of assets changed. The debt securities portfolio increased in this period by PLN 5,737.5 million (149.3%), mainly owing to the growth in the portfolio of treasury bonds and bills. At the same time the scale of investing free funds in the interbank market was reduced in comparison with the end of 2003. This tendency is reflected by the drop in receivables due from the financial sector by PLN 2,940.4 million (36.7%), and receivables due from banks decreased by PLN 7,595.0 million to PLN 4,678.5 million, i.e. by PLN 2,916.5 million (38.4%).

The further development of the bond portfolio was driven by the desire to benefit from the favourable market condictions for these instruments, due to the expectations of a continuation of reductions of interest rates by the Central Bank. However, the increase in market rates which took place at the end of this period caused unfavourable changes in the result on operations on debt securities.

DEBT SECURITIES PORTFOLIO

	As of			Change from:	
in PLN thousand	**30/06/2004**	**31/12/2003**	**30/06/2003**	**31/12/2003**	**30/06/2003**
Treasury bonds	7,542,295	2,640,357	3,364,821	185.7%	124.2%
NBP bonds	372,316	384,884	376,201	(3.3%)	(1.0%)
Treasury bills	1,185,181	146,106	191,538	711.2%	518.8%
Certificates of deposit and bonds issued by banks	57,280,	116,627	34,890	(50.9%)	64.2%)
Issued by other financial institutions	29,346	298	11,652	9,747.7%	151.9%
Issued by non-financial sector	393,345	554,033,	582,024	(29.0%)	(32.4%)
T O T A L	**9,579,763**	**3,842,305**	**4,561,126**	**149.3%**	**110.0%**

The Group pursues the strategy of reducing its equity investments, nevertheless due to increased valuation and the release of part of the provision for subordinated loans financing investment companies, the value of the capital expenditure portfolio increased in the first half of 2004 by PLN 18.8 million (6.2%).

2.2.2 Liabilities

There were no significant changes in the structure of liabilities and equity of the Group in the first half of 2004, which to a large extent resulted from the stability of the deposit base.

The main source of financing the Group's assets continued to be from liabilities due to the non-financial and public sectors. In comparison with the end of 2003 this item slightly decreased, by PLN 61.6 million (i.e. 0.3%), nevertheless this reduction, together with the reduction in liabilities due to the Central Bank (PLN 39.5 million) was offset by the increase in liabilities due to the financial sector, by PLN 808.3 million (i.e. 22.6%)

Liabilities due to banks, which represents the majority of the Group's liabilities due to the financial sector, increased in the period from PLN 1,792.9 million to PLN 2,876.9 million, i.e. by 1,084.0 million (60.5%). In the first half of 2004, these liabilities were maintained at the lower level then receivables due from banks, which indicated the existence of excess liquidity in the Bank.

The decrease in the equity in comparison with the end of 2003 resulted from allocation of almost the whole profit for 2003 as a dividend for shareholders.

An important factor on both sides of the Groupc's balance sheet is the significant level of unrealised profit/loss on derivatives transactions, which reflects the scale of off-balance sheet purchase/sale transactions carried out by the Bank. The balance sheet valuation of these instruments is presented in "Other financial assets" on the asset side and "Other liabilities arising from financial instruments" on the liabilities side of the balance sheet.

CONSOLIDATED BALANCE SHEET OF THE BANK GROUP – LIABILITIES AND EQUITY

BALANCE SHEET

	As of			Change from:	
in PLN thousand	**30/06/2004**	**31/12/2003**	**30/06/2003**	**31/12/2003**	**30/06/2003**
Due to the Central Bank	1,693	41,145	83,633	(95.9%)	(98.0%)
Due to the financial sector	4,390,572	3,582,256	3,286,477	22.6%	33.6%
Due to the non-financial sector	17,872,837	18,060,427	16,354,790	(1.0%)	9.3%
Due to the public sector	592,066	466,056	504,414	27.0%	17.4%
Liabilities from securities sale and repurchase agreements	558,045	470,803	46,248	18.5%	1 106.6%
Due to subordinated undertakings accounted for under the equity method	371,260	224,719	202,228	65.2%	83.6%
Other liabilities arising from financial instruments	3,321,489	3,651,195	3,913,172	(9.0%)	(15.1%)
Other liabilities	1,916,287	1,143,522	1,998,107	67.6%	(4.1%)
Provisions	279,753	447,331	446,643	(37.5%)	(37.4%)
Equity and retained earnings	5,610,386	5,650,964	5,715,833	(0.7%)	(1.8%)
Net profit	224,816	296,559	96,469	(24.2%)	133.0%
TOTAL LIABILITIES	**35,139,204**	**34,034,977**	**32,648,014**	**3.2%**	**7.6%**

2.3 Consolidated equity and capital adequacy

In the first half of 2004, the equity of the Group decreased by PLN 40.6 million (i.e. by 0.7%) as a result of:

- reduction in the revaluation fund by PLN 95.0 million, caused by an increase in the negative value of revaluation of debt securities available for sale
- increase in reserve capital by PLN 790 thousand as a result of distribution of profit for 2003. The remaining part of the profit, of PLN 241.7 million, was allocated for payment of dividend to shareholders

- change in principles of recording repo/reverse repo transactions of the sell-buy-back and buy-sell-back type on securities; the positive effect of the introduced changes in accounting principles, of PLN 35.1 million, was disclosed in equity as the correction of the net profit/loss from previous years in the item of profit (loss) from previous years.

Also changes in the structure of equity occurred in the period described; these changes included:

- the transfer of PLN 128 thousand from the revaluation capital to reserve capital in relation to sale of fixed assets, as a result of which the revaluation reserve was utilised.

CONSOLIDATED EQUITY OF THE GROUP

	As of			Change from:	
in PLN thousand	**30/06/2004**	**31/12/2003**	**30/06/2003**	**31/12/2003**	**30/06/2003**
Authorised capital	522,638	522,638	522,638	0.0%	0.0%
Capital surplus	3,068,974	3,068,974	3,068,974	0.0%	0.0%
Reserve capital	1,696,404	1,692,580	1,692,179	0.2%	0.2%
Revaluation capital	(108,228)	(13,212)	52,056	(719.2%)	(307.9%)
General risk fund	390,000	390,000	390,000	0.0%	0.0%
Profit (loss) from previous years	40,598	(10,016)	(10,014)	505.3%	505.4%
Total equity	**5,610,386**	**5,650,964**	**5,715,833**	**(0.7%)**	**(1.8%)**
Core capital	5,678,016	5,674,192	5,673,791	0.1%	0.1%
Supplementary capital	(108,228)	(13,212)	52,056	(719.2%)	(307.9%)
Profit (loss) from previous years	40,598	(10,016)	(10,014)	505.3%	505.4%

As of 30 June 2004, the level of equity of the Group was absolutely sufficient to guarantee financial security to the institution and the deposits it accepts.

As of 30 June 2004, the consolidated adequacy ratio was 17.6% which was by 1.4 % higher then at the end of 2003. The increase in the adequacy ratio was mainly due to :

- reduction in assets weighted by risk and off-balance sheet commitments by PLN 3,238.7 million, to which the drop in the loan portfolio contributed to a significant extent. The surplus of cash was invested in securities with a low risk weight.
- reduction in the capital requirement due to a decrease in the credit concentration limit by PLN 135.9 million.

Moreover, the size of the capital adequacy ratio was also affected by the increase in deduction of intangible assets (including goodwill) from 60% in 2003 to 100% in 2004 from shareholders' equity calculation of the capital adequacy ratio.

CONSOLIDATED CAPITAL ADEQUACY RATIO (*)

As of, in PLN thousand	30/06/2004	31/12/2003	30/06/2003
Balance sheet value of capital funds	**5,610,386**	**5,696,984**	**5,721,810**
Deductions, of which:	1,411,819	1,033,199	1,104,470
- goodwill	1,207,423	746,187	767,921
- other intangible fixed assets	51,733	30,843	30,761
- investments in subordinated financial institutions	285,654	263,728	288,523
- net profit (loss) under approval	4,629	-	-
- financial assets revaluation reserve fund	(137,620)	(7,559)	17,265
Eligible capital	**4,198,567**	**4,663,785**	**4,617,340**
Risk-weighted assets and contingent liabilities (bank portfolio)	**16,943,450**	**20,182,125**	**19,693,189**
Total capital requirement, of which:	**1,908,467,**	**2,296,411**	**2,540,591**
- capital requirement for credit risk	1,355,476	1,614,570	1,575,455
- capital requirement due to the excess of debt concentration limit	180,556	316,477	514,282
- total capital requirement for market risks	236,714	230,669	232,083
- other capital requirements	135,721	134,695	218,771
Capital Adequacy Ratio	**17.60%**	**16.25%**	**14.54%**

* *Capital adequacy ratio for 31.12.2003 and 30.06.2003 was calculated on the basis of the principles in force in the previous years.*

V. Activities of Bank Handlowy w Warszawie SA Group in the first half of 2004

1. Activities of Bank Handlowy w Warszawie SA in the first half of 2004

1.1 Lending and other risk exposures

1.1.1 Lending

In the first half of 2004, the Bank continued its activities on the basis of the risk organization structure and the credit program in force in 2003. Despite the introduction of some procedural changes, the main principles continued to be applied and provided the basis for effective credit risk management. Generally, the Bank's lending policy is based on active portfolio management and precisely specified target market criteria designed to make it possible to control the credit exposure with respect to the potential risk of a given industry or segment of customers. In addition, individual borrowers are continuously monitored so that signs of a deterioration in credit-worthiness can be detected promptly so that potential corrective steps can be taken. The credit risk management process has resulted in active reduction of lending to customers and industries which recently faced financial difficulties (e.g. shipyard, building and heavy industries).

Considering the difficult situation in numerous sectors of the Polish economy in recent years, the Bank decided to strengthen the Restructuring Department in 2003 in order to ensure appropriate resources to manage the most difficult loans in 2004. The level of provisions required for specific risk was reduced in line with expectations, the number of borrowers with unsatisfactory financial standing was significantly lowered, and the level of new specific provisions was lowered.

In the first half of 2004, the Bank started to reorganize the Corporate Banking Division, with respect to both sales and credit risk management in order to better reflect the risk and demand for loans to small and medium enterprises.

Lending to non-bank customers (gross)

	As of			Change:	
In M PLN	30/06/2004	31/12/2003	30/06/2003	31/12/2003	30/06/2003
Loans in PLN	10,765,741	10,627,752	11,136,519	1.3%	(3.3%)
Loans in foreign currency	3,747,735	4,586,058	5,144,193	(18.3%)	(27.1%)
Total	**14,513,476**	**15,213,810**	**16,280,712**	**(4.6%)**	**(10.9%)**
Loans to non-financial sector	13,454,357	14,079,865	15,119,798	(4.4%)	(11.0%)
Loans to financial sector	1,059,047	1,131,309	1,154,400	(6.4%)	(8.3%)
Loans to public sector	72	2,636	6,514	(97.3%)	(98.9%)
Total	**14,513,476**	**15,213,810**	**16,280,712**	**(4.6%)**	**(10.9%)**
Non-financial corporates	11,798,234	12,578,169	13,742,464	(6.2%)	(14.1%)
Non-bank financial entities	1,059,047	1,131,309	1,154,400	(6.4%)	(8.3%)
Individuals	1,644,940	1,486,250	1,359,984	10.7%	21.0%
Othe non-financial entities	11,183	15,446	17,350	(27.6%)	(35.5%)
Public entities	72	2,636	6,514	(97.3%)	(98.9%)
Total	**14,513,476**	**15,213,810**	**16,280,712**	**(4.6%)**	**(10.9%)**

Loans excluding interest receivable.

As of 30 June 2004, gross credit exposure to the non-financial sector amounted to PLN 13,454 million, representing a decrease in exposure by 11% compared to the same period of the previous year. The decrease results from a combination of the Bank's prudent lending policy and the continued uncertainty over the financial standing of numerous segments.

The largest part of the Bank's loan portfolio, representing 81% of the total, is the credit exposure to non-financial corporates. Loans to individuals grew significantly to PLN 1,645 million. Loans to the public sector effectively decreased to zero.

During the first half of 2004, the currency structure of the loan portfolio remained stable and the share of foreign currency loans was 24%, compared to 28% over the first half of 2003. The Bank grants foreign currency loans to customers who can provide a natural hedge against FX risk in the form of foreign currency cash flows from exports, or to customers, who in the Bank's opinion, are able to absorb the risk of depreciation of Polish currency without significant deterioration of their financial position.

The majority of the Bank's credit exposure to non-bank financial institutions was attributable to funding of the Bank's leasing subsidiaries Handlowy-Leasing S.A. and Citileasing Sp. z o.o. As of 30 June 2004, the value of credit exposure to the larger of the two, Handlowy-Leasing S.A., amounted to PLN 691.7 million. Lending to the Bank's Capital Group entities is based on the same terms as to third-party customers.

The Bank monitors the concentration of its exposure on a regular basis, seeking to avoid a situation where the portfolio is dependent on a limited group of customers. As of 30 June 2004, the Bank's portfolio of exposure to non-bank entities did not include any exposure exceeding the exposure concentration limits laid down by the law. The largest exposure related to financing of a leasing company owned by the Bank (Customer 1).

Exposure concentration – non-bank customers

PLN '000	Total exposure	Balance sheet exposure *	Off-balance sheet exposure
Customer 1	691,701	607,919	83,782
Customer 2	364,037	3,505	360,532
Customer 3	303,816	76,302	227,514
Customer 4	286,752	165,949	120,803
Customer 5	268,317	34	268,283
Customer 6	266,015	1	266,014
Customer 7	264,485	176,994	87,491
Customer 8	260,047	108,210	151,837
Customer 9	196,248	1	196,247
Customer 10	184,937	691	184,246
Total	**3,086,355**	**1,139,606**	**1,946,749**

*)Does not include exposures due to held shares and other securities. Data for individual entities, exluding exposures to entities related to a given customer.

1.1.2 Quality of loan portfolio

The number of loans classified as irregular as of 30 June 2004 significantly decreased in comparison with the same period of the previous year, both in absolute value and with respect to the number of classified exposures. At the same time the number of loans classified as "Watch" increased, which resulted from:

- Improved financial condition of certain enterprises previously classified as irregular (reclassified to "Watch");
- Recovery of significant amounts in respect of irregular loans;
- Acquisition of additional collateral together with new regulations related to the classification of receivables and creation of specific provisions.

The number of loans classified as irregular as of 30 June 2004 dropped by 19% compared to 30 June 2003. In particular there was a significant drop of 41% in the number of loans classified as "Doubtful". The increase in the exposure classified as "Watch" by 64 % was a result of the reclassification of exposures from "Doubtful" category. The remaining part of "Doubtful" category was repaid or collaterals were reinforced.

The structure of problem loans in the loan portfolio reflects the fact that the Bank did not take the opportunity to write-off loss loan exposures against specific provisions as permitted by law. The Bank currently is in the process of implementating changes to this policy.

Indices of loan portfolio quality

	As of					
	30/06/2004		31/12/2003		30/06/2003	
Gross loans to non-bank customers						
By exposure quality	M PLN	% share	M PLN	% share	M PLN	% share
Normal	7,553,689	52.0%	9,053,548	59.5%	9,340,154	57.4%
Watch	2,582,976	17.8%	1,625,103	10.7%	1,570,152	9.6%
Problem	4,376,811	30.2%	4,535,159	29.8%	5,370,406	33.0%
- substandard	1,133,282	7.8%	709,186	4.7%	1,314,233	8.1%
- doubtful	1,311,870	9.0%	1,935,282	12.7%	2,225,823	13.7%
- loss	1,931,659	13.3%	1,890,691	12.4%	1,830,350	11.2%
Total gross loans to non-bank customers	**14,513,476**	**100.0%**	**15,213,810**	**100.0%**	**16,280,712**	**100.0%**

Despite an improvement in the structure of classified exposures, the Bank continued its policy of creation of specific provisions, increasing their level by almost 15% to PLN 1,707 million. At the same time, the Bank released PLN 105 million of general risk provision, which at the end of 2003 amounted to PLN 300 million.

As a result of changes in specific provisions and general risk provision during the first half of 2004, the ratio of specific provisions to classified loans increased from 33% to 43% compared to the same period in the previous year, while the provision coverage of the total loan portfolio increased only by 2%.

Provisions against non-bank loan portfolio

M PLN	As of 30/06/2004	31/12/2003	30/06/2003	Change: 31/12/2003	30/06/2003
Specific provisions	1,707,449	1,505,931	1,493,664	13.4%	14.3%
- watch	0	0	541	---	(100.0%)
- problem	1,707,449	1,505,931	1,493,123	13.4%	14.4%
General risk provision	195,000	300,000	300,000	(35.0%)	(35.0%)
Total provision	**1,902,449**	**1,805,931**	**1,793,664**	**5.3%**	**6.1%**
Index of provision coverage of total loan portfolio	13.1%	11.9%	11.0%		
Index of provision coverage of problem loans	43.5%	39.8%	33.4%		

1.1.3 Off-balance sheet exposures

As of 30 June 2004, off-balance sheet exposure amounted to PLN 11,331 million, which represented an increase of 17% in comparison with the same period of the previous year, mainly due to an increase in undrawn credit lines, which increased by 19% up to the level of PLN 7,645 million. Undrawn credit lines represented 67% of total off-balance sheet exposure.The amount of guarantees issued by the Bank increased slightly from PLN 2,662 million to PLN 2,864 million. Letters of credit were characterized by similar increases.

Off-balance sheet exposures

M PLN	As of 30/06/2004	31/12/2003	30/06/2003	Change 31/12/2003	30/06/2003
Guarantees	2,864,046	3,020,936	2,662,641	(5.2%)	7.6%
Letters of credit issued	128,143	160,337	117,036	(20.1%)	9.5%
Third-party confirmed letters of credit	19,377	16,969	20,577	14.2%	(5.8%)
Undrawn credit lines	7,645,301	8,034,233	6,403,718	(4.8%)	19.4%
Forward placements	38,923	3,179,425	40,106	(98.8%)	(2.9%)
Other financing	635,678	646,991	436,468	(1.7%)	45.6%
Total	**11,331,468**	**15,058,891**	**9,680,546**	**(24.8%)**	**17.1%**
Provisions for off-balance sheet liabilities	83,068	145,019	138,041	(42.7%)	(39.8%)
Provision coverage index	0.73%	0.96%	1.43%		

1.2 External Funding

As of 30 June 2004, the total value of external funding of the Bank was PLN 23,657 million and was higher by PLN 3,262 million (16.0%) than as of 30 June 2003. Liabilities to the non-financial sector, which increased by PLN 1,498 million (9.2%), were the main factor increasing the external funding of the Bank's activities.

External funding

M PLN	As of 30/06/2004	31/12/2003	30/06/2003	Change: 31/12/2003	30/06/2003
Due to the Central Bank	**1,666**	**40,816**	**82,895**	**(95.9%)**	**(98.0%)**
Due to financial sector	**4,747,755**	**3,806,003**	**3,501,433**	**24.7%**	**35.6%**
Current	2,630,003	2,343,320	2,339,609	12.2%	12.4%
Time deposits	2,117,752	1,462,683	1,161,824	44.8%	82.3%
- banking deposits	1,425,499	611,635	416,944	133.1%	241.9%
- received loans	513,172	545,332	559,535	(5.9%)	(8.3%)
- time deposits of non-bank institutions	179,081	305,716	185,345	(41.4%)	(3.4%)
Due to non-financial sector	**17,759,623**	**17,976,054**	**16,261,223**	**(1.2%)**	**9.2%**
Current	10,066,073	8,877,277	8,373,192	13.4%	20.2%
Term	7,693,550	9,098,777	7,888,041	(15.4%)	(2.5%)
Due to public sector	**589,771**	**464,801**	**502,789**	**26.9%**	**17.3%**
Current	359,283	304,107	301,589	18.1%	19.1%
Term	230,488	160,694	201,200	43.4%	14.6%
Sell-Buy-Backs	**557,947**	**470,508**	**46,241**	**18.6%**	**1106.6%**
External funding	**23,656,762**	**22,758,182**	**20,394,591**	**3,9%**	**16,0%**

Excluding interest to be paid.

Taking into account all sectors, the largest growth area for the external funding was noted by the Bank in the non-financial economic entities sector. At the end of the 2Q of 2004, in comparison with the same period of the previous year, deposits increased by PLN 1,490 million (15.8%). However, such an increase was lower than the increase in the banking sector as a whole, which reflected a decrease in the Bank's market share of such deposits from 13.6% to 12.1%. The increase of such deposits resulted from improvement in enterprises' financial results and lower investments, resulting in an increase in enterprises' liquidity. Moreover, the increase was triggered by the transactional banking offer, which was perfectly tailored to market needs. The Bank plays a leading role on this market, and its strong position is mainly a consequence of the competitive product offer in the area of transactional banking. As of 30 June 2004, the volume of individual customers' deposits increased only slightly. The increase in such deposits and the fall noted in the whole banking sector resulted in an increase in the Bank's market share, in the period described, from 2.9% to 3.0%.

Liabilities to non-bank customers

	As of:			Change:	
M PLN	30/06/2004	31/12/2003	30/06/2003	31/12/2003	30/06/2003
Liabilities towards:					
Individual customers	5,957,075	5,977,170	5,871,492	(0.3%)	1.5%
Non-financial economic entities	10,939,398	11,133,152	9,449,356	(1.7%)	15.8%
Non-profit institutions	801,902	830,607	869,158	(3.5%)	(7.7%)
Non-bank financial institutions	1,662,458	1,802,576	1,327,122	(7.8%)	25.3%
Public sector	589,769	464,801	502,789	26.9%	17.3%
Suspense account liabilities	61,245	35,126	71,222	74.4%	(14.0%)
Total	**20,011,847**	**20,243,432**	**18,091,139**	**(1.1%)**	**10.6%**
Current	11,909,038	10,678,242	9,816,560	11.5%	21.3%
Term	8,102,809	9,565,190	8,274,579	(15.3%)	(2.1%)
Total	**20,011,847**	**20,243,432**	**18,091,139**	**(1.1%)**	**10.6%**
PLN	14,220,876	14,927,513	13,005,704	(4.7%)	9.3%
Foreign currency	5,790,971	5,315,919	5,085,435	8.9%	13.9%
Total	**20,011,847**	**20,243,432**	**18,091,139**	**(1.1%)**	**10.6%**

Excluding interest to be paid.

1.3 Corporate funds management

The Bank has a rich, comprehensive and modern product offer related to financial and transactional servicing of enterprises. Apart from providing traditional services such as current accounts, domestic and foreign transfers, deposits, and loans, the Bank also provides customers with more sophisticated transactional banking products, particularly in the area of electronic and Internet banking. Development of such activities is facilitated by access to world-class Citigroup technological resources.

1.3.1 Transaction servicing

The modern transactional banking offer is the result of continuous efforts to provide services which meet the needs of the Bank's customers in the most effective manner. Economic growth and new business ideas of our customers stimulates the implementation of new practical solutions.

On 25 June 2004, the Cash Processing Agreement between Bank Handlowy w Warszawie S.A. and Polska Wytwórnia Papierów Wartościowych S.A. was signed. Accordingly, outsourcing of three sorting companies of the Bank could be completed, such companies being located in Warsaw, Katowice and Łódź. At present, the whole network of Counting Units is serviced by external entities. This structure enables annual cost savings of PLN 1.6 million with quality standards for processing maintained.

Responding to the requirements of foreign customers operating outside Poland, the Bank developed and implemented the SpeedCollect Plus platform for servicing mass payments for these customers. The platform makes it possible both to rapidly process the data received (incoming payments) as well as to deliver the data in the format defined by customers taking into account their financial and accounting requirements.

During the first half of this year, the Bank continued its efforts to limit the exchange of hard copy documents between the Bank and its customers. At the end of June 2004, over 40% of total corporate customer statement output was transmitted exclusively by electronic means. This service was rendered to over 4,000 customers.

The period during which the Bank is liable for transactions made via stolen cards has been lengthened to 72 hours (previously 48 hours). This offer represents the so-called Security package for Citibank Business cards.

The Bank maintained its leading position on the market for Prepaid Payment Cards Visa Electron issued to corporate customers within loyalty and promotional programs and in the form of Electronic Coupon. In the first six months, the number of customers using this product increased by 12%. At the end of June of this year, the number of issued Prepaid Payment Cards amounted to almost 122 thousand.

The first six months of this year saw the development of the customer base. The number of customers using Citibank Business Debit Cards increased by 166%, and in the same period of the previous year the number of issued Citibank Business Debit Cards increased by 140%.

At present, Internet electronic banking systems are considered to be the standard channels for servicing corporate customers with respect to transactional banking products. The first half of 2004 was characterized by a significant increase in their popularity, which is demonstrated by the fact that a further 1,273 systems (CitiDirect, Goniec, MTMS) were installed at customer locations.

The first half of 2004 saw further development of *SpeedCollect*, which is a mass payments servicing system. It enables the Bank's corporate customers to automatically allocate payments made by their clients to appropriate accounts and to reconcile account balances. The system is offered to cellular and cable telecom operators, cable TV providers, distributors of gas and power supply and insurance companies. At the end of the first half of 2004, the system was used by 1,016 customers, including 13 customers who used the version of *SpeedCollect Plus* added to the Bank's offer in 2002. In the first half of 2004, the average number of monthly transactions processed by *SpeedCollect* amounted to 11 million.

In the first half of 2004, the Bank played an active role on the market of servicing payments by direct debit. In total, in the period described, 2,092 thousand of such transactions were processed.

The UniKasa service introduced in 2002, which enables customers to make payments in shops, has gained growing popularity. Increase in turnover of Unikasa Payment Servicing Network resulted from the launch of this product in the supermarket networks of Geant (17 outlets), Leader Price (100), Karpacka Spółka Gazownicza (74), Tesco (39), Germanos (61), Statoil (61) and Orlen (72). Customers became more interested in this method of paying invoices due to promotional campaigns conducted by supermarkets Tesco, Telekomunikacja Polska S.A., Telefonia Dialog S.A, Netia S.A., Aster, UPC and Canal +. As a result, the monthly number of transactions concluded by means of Unikasa Payment Servicing Network increased to 270 thousand. Moreover, the product will further develop since it will be implemented in the network of supermarkets ELEA and in 600 PKN Orlen petrol stations.

1.3.2 Trade Finance products

During the first six month of 2004 the Bank has introduced two new types of guarantee, excise guarantee and guarantee granted for the benefit of the Agricultural Market Agency, thereby extending its Bank Guarantee product offering. The excise guarantee is an obligation contracted by the Bank to the Customs Office Head upon the Bank customer's order and in accordance with the customer's instructions as well as pursuant to the Excise Tax Act of 23 January 2004. The guarantee represents a collateral securing the payment of excise tax. The guarantees granted for the benefit of the Agricultural Market Agency represent obligations contracted by the Bank towards the Agricultural Market Agency upon the Bank Customer's order and in accordance with the Customer's instructions, pursuant to the specimen attached to the Regulation of the Minister of Finance of 21 April 2004. The guarantee represents a security for proper performance of obligations resulting from the Common Agricultural Policy mechanisms.

The number of customers using trade service and finance products as of 30 June 2004 amounted to 2,574.

During the first six months of 2004 the Bank purchased approximately USD 210 million worth of invoices, and additional USD 12 million as factoring secured by third parties, such as KUKE S.A.

1.3.3 Foreign trade settlements

Some of the aforementioned programs involve foreign trade settlements, an area in which the Bank maintains its leading position on the market. It is based on an extensive customer base and long-standing experience in financial services provided to Polish exporters and importers. A key strength of the Bank in the foreign trade settlements market is also the complete range of products offered, which includes all types of letters of credit, documentary collections, guarantees, bankers' acceptances, bills of exchange discounting, and discounting of invoiced receivables. Also the cooperation with Korporacja Ubezpieczeń Kredytów Eksportowych S.A. has brought favorable results, especially in terms of insuring trade receivables originated by transactions with the countries of Eastern Europe.

1.3.4 Custody services

As part of its statutory activities, pursuant to the relevant license of the Securities and Exchange Commission, the Custody Department operates securities accounts, settles securities transactions, handles dividend and interest payments, portfolio valuation, individual reports, and arranges for customer representation at general meetings of shareholders of listed companies. It also maintains registers of foreign securities, which also involves intermediation in the settlement of transactions for domestic customers on foreign markets.

As at 30 June 2004 the Bank operated 6,667 securities accounts. It also acted as depositary for seven open-ended pension funds (Commercial Union OFE, BPH CU WBK, AIG OFE, SAMPO OFE, OFE Pocztylion, Pekao OFE, Generali OFE, ING Nationale Nederlanden Polska OFE) and for the employees pension fund Pracowniczy Fundusz Emerytalny Telekomunikacji Polskiej S.A. Moreover, the Bank acted as depository for nineteen investment funds managed by the following investment fund societies: SKARBIEC TFI S.A., BZ WBK AIB TFI S.A., SEB TFI S.A., PIONEER PEKAO TFI S.A., DWS Polska TFI S.A.

1.4 Money market and FX market

Bank Handlowy maintained its leading position on the Polish FX market, money market and bonds market. In the first half of 2004 the number of customers using FX products increased by 8% in comparison with the previous year. Therefore, the Bank was able to increase its market share in FX transactions to 23%. Throughout the year 2004 to date the Bank maintained its leadership position on the Polish bonds market with market share at the level of 19%. In this period the Bank's liquidity improved significantly thanks to a significant increase of deposits in different customer segments.

During the first six months of 2004 the sales and structured transactions team of the Treasury Division introduced many new products both for corporate customers and private individuals. In March 2004, targeting the deposits of enterprises, the Bank introduced the "Market Linked Deposits" (MLD) program. The product is complementary to a standard customer deposit and attracts customers who seek higher rates of return without compromising the safety of the deposited funds.

The Treasury Division sales team acquired 39 new customers for currency option transactions, while 6 new option structures were introduced to the offering. This achievement contributed to the reinforcement of the Bank's leading position on the derivatives market, with the market share reaching 35%.

The first half of 2004 was marked by two main transactions. The Bank organized the first private issue of structured coupon bonds of the Ministry of Finance amounting to PLN 750 million. The issue was organized independently by the Bank and the whole offer was sold to domestic and international institutional investors. The Bank also performed the first commodity swap on the Polish market.

Furthermore, the Bank is well positioned to benefit from future economic growth. The basic trends of the customer-oriented activities of the Bank in the first six months of this year were strongly positive and thanks to numerous new products it is more than probable that the Bank's position will be additionally strengthened.

1.5 Corporate Banking

The Corporate Banking Division has been created to provide comprehensive service for more than 140 major customers, whose demands exceed the basic product range and require advice in the area of financial engineering that optimizes their cooperation with the Bank. Individual departments of the Division provide for co-ordination of the treasury and financial management products available and prepare offers that embrace lending, debt equity financing, mergers and acquisitions.

1.5.1 Financial advisory for enterprises

- In 1Q and 2Q of 2004 the Bank acted as financial advisor for PKN ORLEN S.A. in relation to its purchase of Unipetrol a.s. – a leading Czech company of the petroleum sector. The scope of the Bank's advice related to the analysis of the indebtedness encumbering the companies of the Unipetrol group and to determining the methods of restructuring that debt, as well as the analysis of the impact of the company acquisition on PKN ORLEN S.A.'s financing conditions.
- In March 2004, the Bank participated in the arrangement of a syndicated loan of PLN 88 million for thermal heating station Elektrociepłownia Wybrzeże S.A.
- In April 2004 Royal & Sun Alliance Insurance Group plc and Bank Przemysłowo-Handlowy PBK S.A. (BPH) sold 100% shares of Towarzystwo Ubezpieczeń na Życie Royal PBK S.A. (Royal PBK) insurance company. Upon request of Royal & Sun Alliance Insurance Group plc the Bank acted as its financial advisor. The work performed by the Bank covered preparation of the information memorandum and the process of searching for a strategic investor for the Company.

1.5.2 Issuance of corporate debt securities

The Bank has been one of the top companies operating on the primary market for debt securities issued by corporations and financial institutions. In the first half of 2004 the Investment Banking, Consulting and Capital Markets Department participated in launching the following new issues:

- In January 2004, the Bank participated in the short-term debt securities issuance program of Europejski Fundusz Leasingowy S.A. with the indebtedness limit of PLN 600 million. The Bank acted as co-arranger and dealer of the program.

- In June 2004 the Bank participated in the short- and medium-term bonds issue program of Carrefour Polska Sp z o.o. with the indebtedness limit of PLN 300 million. The Bank acts as a dealer of the program.

As of the end of June 2004 the Bank had a leading share in the short-term debt securities issuance market reaching 16.4%. As of the end of June 2004 the Bank has serviced 30 issuance programs for 22 issuers and the total indebtedness related to the securities launched to the market with the intermediation of the Bank amounted to PLN 1,849 million.

1.6 Commercial Banking

In the first half of 2004 the Commercial Banking Division was separated from other divisions. It is responsible for servicing public sector institutions and enterprises classified between SMEs and the largest corporations. The Commercial Banking Division is oriented towards countrywide servicing of enterprises with optimal usage of branch network and on the basis of the complete product offering, with special focus on liquidity management and trade financing.

The establishment of the Commercial Banking Division will ensure more effective servicing and optimal adjustment of the Bank offer to the expectations and needs of the Division's customers. The feature of this service relates to the credit risk management process. This process entails adjustment of the risk approval and monitoring procedure to the characteristics of the client portfolio, and hence the credit portfolio.

The service model provided to locally serviced enterprises eligible for being handled by the new division shall not change. The most important objective will consist in making available the hitherto product offering of the Bank (funds management, treasury services and basic corporate finance and investment banking products) to an extended customer base and the intensification of cross-selling of products.

1.7 Cooperation with international financial institutions

1.7.1 Cooperation with Hansabanka

The Bank and the Latvian AS Hansabanka signed a mutual cooperation agreement. The agreement aims to ensure high quality financial services offered by both banks in Poland and Latvia to institutional customers of the Bank and Hansabanka.

Hansabanka is the second largest bank in Latvia which belongs to Hansabank Group. In August of the previous year the Bank signed a similar agreement with Lithuanian Hansabankas. Hansabank Group is the largest local banking group operating in Lithuania, Latvia and Estonia. It is owned by Swedbank. At the beginning of 2003 the Bank and Swedbank concluded a mutual cooperation agreement

In order to develop the cooperation with Hansabank Group the Bank opened nostro accounts in LTL, LVL and EEK enabling customers to make payments in those currencies within one working day.

1.8 Retail Banking

1.8.1 Consumer Banking Sector

In the first half of 2004 there was further intensification of competition on the retail banking market in Poland. The products offered and customer service level improved significantly.

Nevertheless, credit cards offered by the Bank recorded stable growth, both in terms of their volume and results. In the first half of 2004 interest rate dynamics have changed, the fall in market interest rates has stopped, and even a slight increase was observed due to the expected increase of the official interest rates to be announced by the Central Bank, which influenced the amount of interest margin gained by the Bank. As a result of a dispute between POHiD (representing supermarkets) and banks in Poland, pursuant to the recommendation issued by the Association of Polish Banks, the banks that issue Visa and MasterCard cards (including the Bank) agreed to reduce the transaction fee by 10 basis points.

On 18 February 2004, Citibank Credit Card holders were granted the ability to make automated payments via direct debit order from an account operated in another bank.

In June 2004 the number of issued Citibank Credit Cards exceeded half million. The Bank is the undisputed leader of the credit card market in Poland (40% share in the number of issued cards). As of the end of June 2004 the number of credit card accounts increased by 19.5% in comparison with the end of June 2003. Credit card sales were driven by the launching of co-branded Motokarta Kredytowa Citibank-BP card issued in cooperation with BP Polska Sp. z o.o. Up to the end of the first half of 2004 the Bank managed to acquire 50,000 Motokarta Kredytowa Citibank-BP card holders (Motokarta was launched on the market in November 2003). Motokarta combines all the advantages of Citibank Credit Card, additionally providing the holders with BP partnerclub points and rebates. The Bank also witnessed record sales of Spłaty Ratalne Komfort (Komfort Installment Plans – a unique, modern feature of the Citibank Credit Card, which enables credit card debt to be repaid in fixed monthly installments).

For the Consumer Banking Sector the first six months of 2004 represented a period of growth in sales of loans and credits. In the first half of the year the volume of loans and credits grew by 2.2% (excluding CitiFinancial and CitiBusiness).

The first half of 2004 saw further development of CitiGold Wealth Management – a consumer banking service based on an integrated package of savings, investment, and insurance products, supported by computer applications Wealth Plan and Portfolio Analyst. The new offering operates under a separate sub-brand and is designated for customers who have at their disposal investment funds in excess of PLN 100,000 and who expect customized financial advice. CitiGold Wealth Management ensures a comprehensive analysis of the customer's investment profile and makes it possible to create a product tailored to individual needs of each customer with the use of a wide array of products and adjusted to the individual needs of each customer. CitiGold Wealth Management is available in 11 branches of CitiGold and 18 corporate branches of the Bank. Poland was the first country in Europe, where the program of the CitiGold Wealth Management type was launched.

The over-the-phone direct debit service continued to develop. Over the period from the launch of the service on 1 November 2003 until the end of June 2004, individual customers of the Bank made 7,000 direct debit orders on the phone.

The Investment Portfolio introduced to the Consumer Banking Sector offering in 4Q of 2003 recorded the highest sales volume of all insurance products offered by that Sector. It is an attractive innovative solution that enables customers to increase their financial resources held in investment funds while ensuring appropriate protection of their capital and favorable legal and interest terms.

In March 2004, the Bank, in cooperation with GE Bank Mieszkaniowy S.A., provided a new mortgage loan offering. In selected multi-functional branches and CitiGold branches across Poland customers gained access to basic information about the offering and terms of credit and were able to make an appointment with a representative of GE Bank Mieszkaniowy S.A. The mortgage loan is intended for the purchase of an apartment or a house in the primary or secondary market, and also for construction or enlargement of a house, on attractive economic terms. Loans are available in four currencies – zlotys, euros, Swiss francs and US dollars, and have a variable interest rate.

The first six months of 2004 saw the increase of the number of registered customers of Citibank Online (CBOL) Internet platform. As of the end of June 2004 the number of users exceeded 180,000. Generally, the number of customers using Internet banking grew from 153 thousand to 180 thousand i.e. by 18%. CBOL reinforced its position as the leading service channel. In the first half of 2004 the share of financial transactions initiated through CBOL increased by 23%. The growing utilization of the Internet channel brings substantial benefits to the Bank through savings generated in other service channels.

The first half of 2004 was a period of further growth in the use of the CitiGSM service, through which the customer is provided with daily reports on the balance on his or her current account or credit card account via an SMS message. As at the end of June 2004 the number of customers using the service amounted to 46,800, i.e. by 5,100 (12.2%) more than at the beginning of the year.

Users	June 2003	December 2003	June 2004
Citibank Online	108,900	153,100	180,000
CitiGSM	33,900	41,700	46,800

In May CitiPhone call center became a distribution channel for unsecured credits in current accounts. At present, customers may be granted a credit line for unsecured credit in current accounts without paying a visit to the Bank’s branch office.

As of the end of June 2004 the Consumer Banking Sector maintained 355 thousand current accounts in comparison with 329 thousand at the beginning of the year and the Bank’s market share in private deposits amounted to 3%.

Apart from offering own investment funds, the Bank currently distributes the participation units of TFI DWS Polska, TFI ING and TFI UI investment funds. The Bank’s offer includes 25 investment funds with diversified investment strategies, which belong to the top investment funds on the market.

1.8.2 CitiFinancial

The strategic goal of CitiFinancial is to become the fastest growing and the most profitable enterprise on the Polish market of consumer loans. The goal is achieved by establishing and maintaining strong customer relations, the key element of which is treating customers’ needs as top priority with a simultaneous focus on profitability of products and customers. The main principle consists of a personalized approach to every customer in order to build a long-standing relationship beneficial for both parties.

The target market of CitiFinancial is 15.5 million of private individuals, more than 7 million households. This is a significant market to be approached with the Bank’s credit offering. First and foremost, CitiFinancial focuses on customers, who have not found a product offer adjusted to their needs in traditional banks. The majority of them are customers of medium or lower monthly income, who appreciate the accessibility of the Bank’s outlets. For this reason there is rapid development of the network of branch offices located in shopping centers and near housing estates. As of the end of June 2004 the bank had 31 branch offices.

CitiFinancial product offering includes consumer loans (secured and unsecured) and sales of insurance products. Granted loans constitute an important element for starting cooperation and offering other products from our offer, which we plan to develop and adjust to the needs of our customers.

The group of products created as described above and sold under the brand name of CitiFinancial is characterized by strong, more than nine-fold growth in sales in the period from 30 June 2003 until 30 June 2004, which demonstrates the adequacy of the implemented market penetration model.

1.8.3 SME Banking: Citibusiness

Since May 2004 the Bank's offering has been enriched by CitiBusiness designed for small and medium-sized enterprises. The target market of CitiBusiness are business entities, regardless of their legal status, with annual sales turnover not exceeding PLN 8 million, and whose business activity has not been excluded from the Bank's target market.

The CitiBusiness offering is based on the concept of selling products and services in the form of 4 Product Packages. Thanks to their variety they meet all the needs of the business persons from the target market. Packages currently available include the following:

Package	Target customers
CitiBusiness Start	Small enterprises and enterprises starting their operation
CitiBusiness Działanie	Transactionally active enterprises
CitiBusiness Finansowanie	Enterprises looking for sources of financing their current operation and investments
CitiBusiness Premium	Enterprises expecting prestige service and comprehensive product offering

The transfer of SME service to the Consumer Banking Sector provided an extension of the product offer in comparison to the Interbizness offer. It also enabled the Bank to extend account access with Consumer Banking distribution channels, such as CitiPhone 24 hour, Citibank Online electronic banking and the network of retail branch offices and ATMs

Moreover, thanks to a common reporting and accounting platform, the inclusion of Citibusiness in Consumer Banking facilitated personal accounts and company accounts to be combined, a novelty in the Bank's product offering. Customers have the possibility to establish close relation between their personal accounts and company accounts. This solution is designed for customers who conduct business activities as private individuals or who are professionals. The solution enables them to manage their financial means in the company account through their personal account. Additionally, it allows for cost reduction due to free transfers between the related accounts.

The new CitiBusiness offering is aimed at building the Bank's image as a partner for entrepreneurs from the very start-up of their operations that supports their development. The Bank's experience, knowledge of the financial services and modern technologies translate into a comprehensible, customer-friendly offer in the form of Packages, available through various channels. The CitiBusiness offering should be perceived as competitive in terms of price and should be identified with all widely known advantages of Citibank Handlowy: high quality, modern service and professionalism.

1.9 Insurance

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

The CitiInsurance offering is made available to customers of the Consumer Banking Sector and CitiFinancial. The Bank charges CitiInsurance with commissions for intermediation in sales of the Company's insurance products.

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

1.10 Branch network

In the first six months of 2004, the Bank continued the intensive restructuring of its branch network, aimed at optimization of operations from the perspective of cost-effectiveness and availability both for individual and corporate customers. The corporate network was divided into four regions with head offices in Warsaw (Central-Eastern Region), Cracow (Southern Region), Bydgoszcz (Northern Region) and Wrocław (Western Region), which have 160 different outlets as follows:

- 46 Corporate Banking branches, of which 4 may serve CitiGold Wealth Management customers;
- 78 Consumer Banking branches, of which 7 are dedicated to CitiGold Wealth Management customers;
- 8 combined Consumer Banking and Corporate Banking branches, designed to provide optimal access to services for customers of both sectors;
- 31 CitiFinancial branches in convenient locations for the public: in shopping centers and near housing estates.

Moreover, 58 branch offices of the Consumer Banking and Corporate Banking network provide services for CitiBusiness customers.

1.11 Changes in IT

The objective of IT development is to provide optimal processes while ensuring data security and continuity, and implementation of new solutions reflecting technological progress, product needs and the Bank regulatory environment. The implementation and upgrade of systems in the first six months of 2004, which amounted to PLN 8 million, provides evidence of the sophistication of the Bank's technological infrastructure.

The need for standardization of operating systems in specific Bank areas is one of the top priorities. An example of such standardization was the roll out of Service Pro, a customer communication management application, to the Corporate Bank, which enabled consolidation of application management between consumer and corporate banking.

Activities that optimize processes help to reduce costs and increase reliability. A good example is the implementation of the digital office concept by means of extending electronic archiving and document circulation processes for the credit documentation of the Bank's customers. As a result more efficient access to archived documents can be achieved resulting in savings in office space previously used for archiving paper documents.

Another example is the automated handling of payments based on the agreement between the Bank and Poczta Polska. The implementation of the solution allowed the processing of paper transactions initiated in post offices by means of the CitiGateway system and ensured savings thanks to elimination of manual processing.

Another example is the introduction of an automatic interface between the Bank's main accounting system Flexcube and the Sorbnet system. The new interface reduces the processing time for Sorbnet messages down to 1 minute.

IT solutions that have supported the development of the competitive product offering include:

- Introduction of a data feed from the Skarbiec system to the Portfolio Tracker system, which increased the range of Wealth Management products for CitiGold customers.
- The implementation of new payment means for Social Security (ZUS) and Tax Office, processed through CitiGateway, CitiDirect, Goniec and Elixir-OK.

The Bank makes every effort to meet its regulatory requirements with more efficiency. In the first half of 2004 the Bank achieved full functionality of the nCAPS system enabling it to automatically calculate, record and report specific provisions required by Polish regulator and the Bank. Also, some modifications to WEBIS and Abacus/Fire applications were implemented to reflect changes in NBP reporting requirements. A system for reporting suspicious transactions has been developed and implemented in accordance with the Act on Counteracting Money Laundering („Dimon - AML Register").

In addition the BFG application allowing for automated charging of fees from Bank customers for the benefit of the Bank Guarantee Fund has been launched, so that the requirements imposed by the National Bank of Poland are met in an accurate and timely manner (annual BGF fees amount to PLN 4 million).

Another initiative that is managed by the Operations and Technology Division is the redevelopment and centralization of customer service systems. For example the telecommunication infrastructure for the Customer Service Department in Katowice was extended together with the provision of a backup solution and implementation of IVR infrastructure.

In the first half of 2004 the Bank implemented a new server center for CitiDirect, which increased system efficiency. The Bank also implemented changes to CitiDirect to make it compliant with the IBAN accounts' format and initiated money transfers to ZUS (Social Security Fund) and US (Treasury Revenue Office).

1.12 Other information about the Bank

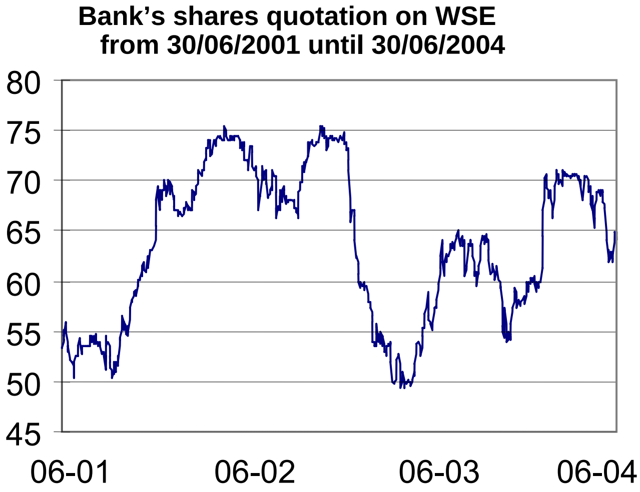
1.12.1 Rating

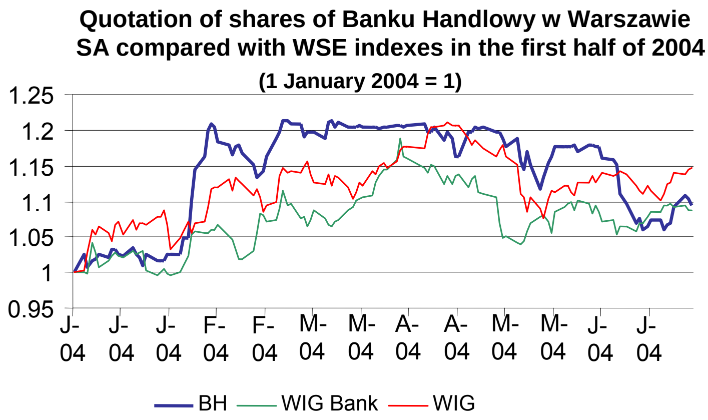
The Bank has a full rating from the international rating agency Moody's Investors Service.

Since January 2003 Moody's has maintained A2 rating for long-term deposits (investment grade, 6th on the 21 point rating scale) and Prime-1 for short-term deposits (1st on the 4 point rating scale). The Bank ratings are at the highest level available for entities domiciled in Poland.

1.12.2 The Bank's stock performance on the Warsaw Stock Exchange

In the first half of 2004 the Bank's share price on the Warsaw Stock Exchange (WSE) rose from PLN 58.5 (2 January 2004) to PLN 64.0 (30 June 2004), i.e. by 9.4%. As a comparison, in the same period the WSE banking sector index WIG-BANKI rose by 8.8%, while the main index of the WSE, WIG, increased by 14.6%.





1.13 Awards and honors

Awards and honors granted to Bank Handlowy w Warszawie SA in the first half of 2004:

1. The prestigious financial monthly, Global Finance, recognized the Bank as the best bank in Poland in the foreign exchange market ("Best Foreign Exchange Bank 2004").
2. For the first time in the history of Dom Maklerski Banku Handlowego S.A., the President of the Warsaw Stock Exchange honored it with an award for the largest share of stock exchange turnover and for the largest share of market maker activity.
3. The Editing Board of the Polish edition of "Newsweek" awarded the Bank the title of the best employer of 2003 in the financial institutions category.
4. The Bank was recognized as the best bank in Poland in the ranking list of "Best Emerging Market Banks 2004" published by the Global Finance magazine.
5. "Twój Styl" magazine granted to the Bank the special award "Alicja 2003" as a member of the Coalition for Direct Debit.
6. Analysts of the Bank were ranked number one for their forecasts of macroeconomic indices published in Gazeta Bankowa in 2003.
7. MasterCard International awarded Bank Handlowy the silver "Rock Award 2003" in the category of highest achievements in credit card development.

1.13.1 Sponsoring activity and cultural patronage

- 2004 started with the concert entitled „VIVA KARNAWAŁ" *{Long Live the Carnival}*, performed in Witold Lutosławski Concert Studio in Warsaw.
- The Bank, as the National Philharmonics Patron of the Year 2004, was the main sponsor of the King's Singers concert on 27 April 2004 in the National Philharmonics Concert Hall in Warsaw.

- The Bank sponsored the Extraordinary Symphonic Concert to commemorate the 10th Anniversary of Witold Lutosławski's death on 17 May 2004 in the National Philharmonics Concert Hall in Warsaw.
- The artistic season at the National Philharmonics ended in a gala concert on 28 May 2004 together with the Patron of the Year awards, one of which was bestowed upon the Bank. The program of the concert included one of the most eminent opera masterpieces: "Cavalleria Rusticana" by Pietro Macagni.

In addition, from 28 to 30 April 2004 the European Economic Summit "Europe: Enlargement and Beyond" was organized in Warsaw by the World Economic Forum ("WEF"), the host of annual conferences in Davos. WEF was assisted by the Polish Organization Committee based on private-public partnership, headed by Jerzy Koźmiński, former Polish ambassador in Washington. The Bank was one of the Summit partners together with other important companies, such as: PZU SA and PZU Życie (Main Partner), PKN Orlen, PGNiG, Eurobank, KGHM, Kulczyk Holding, PSE, and Polkomtel.

2. Fully consolidated subsidiaries in the Bank Handlowy w Warszawie S.A. Capital Group

2.1 Dom Maklerski Banku Handlowego w Warszawie S.A.

2.1.1 Secondary Market

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

Continuously improved quality of services provided by DMBH, especially in the corporate customer segment as well as favorable trends on the market contributed to a significant increase in turnover in the first half of 2004, which amounted to 212% in comparison with the first six months of 2003. In the same period the growth trend that started in the summer of 2002 on the WSE continued. WIG20 reached a long-term high of 1875 points and the basic market index WIG reached a new long-term high of 25290 points. The above was a result of more dynamic growth of companies with average capitalization. In the first half of 2004 WIG20 increased by 9.7%, WIG increased by 15.0% and mid-cap index increased by as much as 33.1%. Since the beginning of the year 86% of listed companies have provided profits to their shareholders.

The bullish market trend had a positive impact on the primary market. During the first six months of 2004 the WSE saw the debut of 11 new companies, while in the whole of 2003 only 6 new companies appeared on the market. Total market capitalization increased in the first half of the current year by 15.4%.

2.1.2 Primary Market

DMBH arranged 2 issues during the first half of 2004 which were the IPOs of Betacom and JC Auto. The total value of those offers amounted to PLN 13.5 million and PLN 67.5 million, respectively. The placement of these initial offers provided DMBH with 7.4% market share in terms of transactions and 2.6% share in terms of value.

In the first half of 2004 the number of individual customer accounts increased. DMBH is of the opinion, however, that most of these accounts will remain inactive because they were opened because of the numerous issues on the primary market. As at the end of June 2004, DMBH maintained 22.6 thousand investment accounts, almost ten thousand more than as of 30 June 2003.

2.1.3 DMBH as a Market Maker

DMBH commenced its operations on the Warsaw Stock Exchange in 1994, firstly as a Stock Exchange Member – Specialist, and then as a Market Maker. Since the creation of the futures market on WSE, DMBH acts as a Market Maker for futures contracts for the WIG20 index. Also for eight years the brokerage house was the market Organizer on the Central Table of Offers (CTO), whose operating principles are similar to those of a Market Maker.

Both Market Makers and Organizers are responsible for placing and maintaining put and call offers of fixed value on the order cards of individual companies. This provides investors with a guarantee of order execution. It is especially important for companies with low liquidity.

For three years DMBH has been the top Market Maker among 14 brokerage offices who act as Market Makers. As of 30 June 2004 DMBH was the Market Maker for 43 corporate shares, representing 21.3% of all shares listed on WSE, one convertible bond and futures contracts for the WIG20 index. As an Organizer at CTO the brokerage house performed its task for one share and for the investment certificate of US Dollar CitiBonds of Mixed Investment Fund.

The value of turnover achieved by DMBH as a Market Maker, places the house as a market leader. In the first half of 2004 DMBH's share in this market segment amounted to 31.86% of total turnover achieved by all brokerage houses that act as Market Makers.

DMBH has been awarded with a prize granted by the President of the WSE Management Board for the third year in a row in relation to its Market Maker activity.

Company name	Registered office	The Bank's share in the shareholders' equity	Balance Sheet amount	Shareholder's equity*	Net financial profit /(loss)*
		%	in PLN '000		
Dom Maklerski Banku Handlowego S.A.	Warsaw	100.00	215,028	84,147	6,864

** Before consolidation adjustments*

The market environment was a significant influence on DMBH's financial results in the first half of 2004. The substantial increase of WSE turnover directly translated into increased turnovers achieved by the brokerage house. DMBH maintained its leadership measured by share in market turnover intermediation thanks to ongoing quality improvement of services provided to its customers. On the other hand a strong pressure on the level of commission gained in turnover agency. In the first half of 2004 DMBH achieved a net result of PLN 6,864 thounsands, as compared with the result of 1,074 thousands for the same period in 2003.

3. Equity method accounted subsidiaries and affiliates in the Bank Handlowy w Warszawie S.A. Capital Group

3.1 Handlowy Leasing S.A. and Citileasing Sp. z o.o.

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

- industrial machinery and equipment, complete technological lines, equipment of production plants;
- fleets of cars, vans and trucks;
- trailers, semi-trailers, refrigerated trucks;
- typographic machines;
- construction machines.

Additionally, in the first half of 2004, upgraded versions of transport and typographic programs were introduced and a financing program for plastics processing machines has been created and implemented.

The first six months of 2004 was also a period during which both companies made considerable effort to standardize internal procedures and further extend distribution channels by developing cooperation with the Bank's branch network. Moreover, the implementation of a new integrated financial and accounting system EGERIA is under way. The system shall meet the expectations in terms of IT security as well as providing multi-layer financial accounting, reporting and internal control.

In the first half of 2004 the leasing companies of the Capital Group, headed by Handlowy–Leasing S.A. , had more than 1,900 customers. The total value of active lease contracts as of 30 June 2004 amounted to almost USD 250 million, which represented a total market share of 3.9%.

The leasing companies used credit lines granted by the Bank. As at the end of June 2004 the total value of the Bank's receivables from both Companies amounted to PLN 858 million.

Company name	Registered office	The Bank's share in the shareholders' equity	Balance Sheet amount	Shareholder's equity*	Net financial profit /(loss)*
		%	in PLN '000		
Handlowy-Leasing S.A.	Warsaw	100.00	1,076,133	10,681	23,099
Citileasing Sp. z o.o.	Warsaw	100.00	222,710	174,944	11,115

*) the Bank's share in shareholder's equity together with indirect shares, financial data before consolidation adjustments

3.2 Handlowy Zarządzanie Aktywami S.A.

Asset management business in the Capital Group is performed by the subsidiary- Handlowy Zarządzanie Aktywami SA (HanZA). As of 30 June 2004 the value of assets under management amounted to PLN 1,551.7 million. The value of portfolios held by private individuals using the service of securities portfolio management upon orders amounted to PLN 623.3 million as at the end of the first half of 2004. The assets of corporate customers amounted to PLN 928.4 million, of which PLN 565.7 million came from CitiFunds, PLN 310.3 million from insurance companies and other financial institutions, and PLN 52.4 million from other corporate customers.

In the first six months of 2004 portfolios managed by HanZA produced excellent results. The majority of investment strategies underlying the management of customer portfolios exceeded their respective benchmarks. The highest rate of return was obtained on portfolios invested in stocks quoted on the Warsaw Stock Exchange, which gained 24.0%.

Sales revenues in the first half of 2004 amounted to PLN 2,546 thousand.

3.3 Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A.

Investment Funds management business is performed by the Bank's subsidiary Towarzystwo Funduszy Inwetycyjnych Banku Handlowego SA. As of the end of June 204 the value of assets managed by Towarzystwo Funduszy Inwetycyjnych Banku Handlowego SA amounted to PLN 1,046.2 million. In the first half of the year the value of assets increased by 14.1% from PLN 917 million as of 31 December 2003. On 30 June 2004 the biggest fund in terms of assets was CitiLiquidity Specialised Open-Ended Investment Fund designed for those corporate customers who seek an alternative to short-term deposits. The assets of this fund increased almost by 500% and amounted to PLN 331 million as of the end of June 2004, which represented 31.6% of total CitiFunds assets. Other funds that also recorded growth in assets during the first six months of the year include: CitiBalanced FIO (increase by 17.4%), CitiEquities FIO (increase by 34.5%), CitiSenior SFIO (increase by 41.1%) and Fundusz Własności Pracowniczej PKP SFIO (increase by 72.4%). The value of assets under management as of 30 June 2004 gave TFI Banku Handlowego SA tenth position on the market with the share amounting to 3% approximately.

The first half of 2004 was another period of prosperity for funds investing in Polish stocks that enjoy growing popularity due to decrease in attractiveness of bank deposits. Apart from the growth in assets, those funds recorded good investment results. The highest rate of return in this period was achieved by the fund that invests 100% assets in stocks: CitiEquities FIO that recorded growth of 11.82%. CitiBalanced FIO ensured a 7.09% growth to the holders of its participation units. The value of CitiBonds FIO participation unit grew by 0.40% and the value of CitiLiquidity SFIO units, by 2.52%. The Company expects further growth of the customers' interest in balanced and stock funds. Therefore TFI BH plans to transform CitiBalanced FIO into CitiBalanced Central Europe and to introduce a new investment strategy taking advantage of the potential of stock exchanges in Central Europe.

A new savings product intended for private investors: Celowe Plany Oszczędnościowe CitiFundusze (CPO – CitiFunds Targeted Savings Plans) grew in popularity. CPOs involve investing of savings into participation units in one of the CitiFunds for 3, 5, 10 or 15 years. During the first six months of the current year 1,577 CPOs were opened. By the end of June 2004 customers invested PLN 36.72 million on accounts opened under CPOs.

The network distributing CitiFunds participation units continues to expand. Since 29 March five CitiFunds: CitiEquities FIO, CitiBalanced FIO, CitiBonds FIO, CitiMoney FIO and CitiSenior SFIO are available in Deutsche Bank PBC outlets.

The company also improved its financial performance in the first half of the current year. Sales revenues amounted to PLN 10,631 thousand and were higher by PLN 3,403 thousand, i.e. by 47.08%, than in the same period of the previous year. Net profit in the first half of the year amounted to PLN 2,882 thousand, and was higher by 956 thousand, i.e. by 49% than in the first half of 2003.

3.4 Special purpose investment companies

In the first half of 2004 the Group conducted capital operations through the intermediation of four special purpose investment companies, whose activities were financed by means of returnable contributions to shareholder's equity, subordinated loans and also by financial profits of the companies. As the group intends to limit this type of activity, the special purpose investment companies will be gradually restructured and liquidated. According to current information available, selected financial data of these entities was as follows:

Company name	Registered office	The Bank's share in the shareholders' equity	Balance Sheet amount	Shareholder's equity	Net financial profit /(loss)
		%	in PLN '000		
Handlowy Inwestycje Sp. z o.o.	Warsaw	100.00	13,951	7,193	(7)
Handlowy Inwestycje II Sp. z o.o.	Warsaw	100.00	4,004	3,999	99
Handlowy Investments S.A.	Luxembourg	100.00	141,307	(61,229)	(2,660)
Handlowy Investments II S.a.r.l.	Luxembourg	100.00	33,087	17,331	(579)

3.4.1 Handlowy Inwestycje Sp. z o.o.

In the first half of 2004 Handlowy Inwestycje Sp. z o.o. managed the portfolio comprising stocks and shares of the following companies:

1. Handlowy-Heller S.A. with 25.00% share in the company's equity
2. Lubelska Fabryka Maszyn Rolniczych S.A. with 12.31% share in the company's equity
3. Citileasing Sp. z o.o. with 2.53% share in the company's equity of total net value in the amount of PLN 10,120.1 thousand according to the data available as of the financial statement preparation date. In addition, the company held receivables subject to an arrangement with Z.O. Bytom S.A. with gross value totaling PLN 3,793 thousand, for which a provision has been created.

3.4.2 Handlowy Inwestycje II Sp. z o.o.

In the first half of 2004 Handlowy Inwestycje II Sp. z o.o. managed Rafamet S.A. and held receivables subject to arrangement with Z.O. Bytom S.A., the gross value of which amounted to PLN 3,930 and was fully covered with provisions.

In April and May 2004 20,400 Rafamet S.A. shares representing 1.42% of the company's equity were sold, realizing a profit of PLN 67 thousand. As of 30 June 2004 the company owned 0.43% share in Rafamet S.A.

3.4.3 Handlowy Investments S.A.

In the first half of 2004 the investment portfolio of Handlowy Investments S.A., with its registered office in Luxembourg, was decreased due to the sale of the entire holding of Polimex Cekop S.A. shares. The Company managed a portfolio that included stocks and shares in Eastbridge N.V., NIF Fund Holdings PCC Ltd., Handlowy Investment II S.a.r.l., and Pol-Mot Holding S.A. As of the end of June 2004 the net balance sheet value of shares owned by the Company amounted to EUR 19,305.

3.4.4 Handlowy Investments II S.a.r.l.

In the first half of 2004 Handlowy Investments II S.a.r.l., with its registered office in Luxembourg, managed a portfolio that included shares of Techmex S.A. and one share in Handlowy Investments S.A. During this period the Company sold part of its holding of Techmex S.A. shares. According to the data available as of the financial statement preparation date, the net value of Handlowy Investments II S.a.r.l. investment portfolio amounted to EUR 2,990 thousand.

3.5 Handlowy-Heller S.A.

Part of the trade funding activity of the Capital Group is performed by Handlowy-Heller S.A. affiliteted company, a joint venture undertaking.

In May 2004 Bank Handlowy w Warszawie S.A. entered into an agreement with Handlowy-Heller S.A., a factoring company related to the Bank. This cooperation enables the Bank to refer its customers to the products offered by Handlowy-Heller S.A., which represents both an alternative as well as a supplementary range of trade financing products offered by the Bank.

The amount of loans granted to Handlowy-Heller S.A. by the Bank increased from PLN 55 million as at the end of 2003 to PLN 125 million as of the end of first half of 2004.

The company actively develops its product offering. During the first six months of 2004 the “Factoring for SMEs” service was implemented as well as Foreign Currency Financing. In order to improve customer service and optimize operations, the new IT system called Faktorlink was implemented, and development of the CRM application and launch of new on-line access to current service and customer information continued.

In spite of the amendments to the Value Added Tax Act, which excluded factoring services from the hitherto VAT exemption and obliged the company to apply 22%VAT rate on the sales of provided factoring services, including tax on interest of advanced amounts, the revenues from sales of factoring services in the first six months of 2004 increased by 41.4% in comparison with the first half of 2003. This revenue increase was achieved thanks to significant growth of purchased receivables by 51.1% and growth of factoring commissions by 47.3%.

In the first half of 2004 turnover on the factoring services market grew by 32.3% in comparison with the first half of the previous year and the market share of Handlowy-Heller S.A. increased in the period from 12.9% to 14.8%.

The structure of factoring revenues improved. With the growth of total receivables, the amount of non-financial receivables dropped by 22.9% in comparison with the end of 2003. Also the office space rented in Warsaw was reduced in order to optimize costs.

As a result of increased revenues, improved receivables portfolio quality and cost cutting initiatives the net profit in the first half of 2004 amounted to PLN 1,736 thousand, which represented a 24% growth in comparison with the first half of 2003.

Company name	Registered office	The Bank's share in the shareholders' equity	Balance Sheet amount	Shareholder's equity*	Net financial profit /(loss)
		%	in PLN '000		
Handlowy-Heller S.A.	Warsaw	50.00	344,555	22,747	1,736

**) the Bank's share in shareholder's equity together with indirect shares, financial data before consolidation adjustments*

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

1. Competition within the banking sector

Mounting competition is observable on the Polish banking market between banks active in particular segments of that market. Many international financial institutions have been investing in the Polish banking industry. In addition, corporates are making use of financing alternatives to bank loans, such as commercial paper, bonds, equity issues or lease finance. There is a strong likelihood that the increase in foreign investment in the banking sector, coupled with the consolidations taking place in that sector and accession to the European Union will result in fiercer competition on the banking market. Polish banking industry will be more exposed to competition from foreign institutions, particularly in such segments of the market as asset management and corporate finance advisory services (including mergers and taking over).

Poland's integration with the European Union should not trigger spectatular changes in the banking sector. It is expected that banks that offer high quality products coupled with fast and efficient customer servicing will win the competitive edge. Electronic banking will be an increasingly important product.

As a result of Poland's accession to the European Union, banks may face strong competition from non-bank financial institutions.

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

2. Equity investment risk

Due to a number of macroeconomic effects, the situation on equity market and other factors having an impact on activities of the companies, in which the Bank is a shareholder, the risk associated with equity investments is estimated moderate.

VII. Prospects for the Group's development

Equity investments of Bank Handlowy w Warszawie SA are divided into three categories:

- strategic investment portfolio
- available-for-sale investment portfolio
- active investment portfolio

The Group will continue its policy of restructuring equity investment portfolio to achieve the target profile of the Group while optimising the earnings stream from capital transactions and minimising the risk, including reputation risk carried by those transactions.

1. Strategic Investment Portfolio

The Group seeks to expand its product range and presence and also strengthen its competitive position on financial services market. The strategy is implemented through specialised strategic subsidiary undertakings of the Bank. Examples of these investments include Dom Maklerski Banku Handlowego S.A. Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A., Handlowy Zarządzanie Aktywami S.A., Handlowy Leasing S.A., Citileasing Sp. z o.o. and Handlowy Heller S.A.

1.1 Brokerage activity

Brokerage activity of the Group is performed by fully-owned Dom Maklerski Banku Handlowego SA (DMBH). Major client of DMBH in terms of revenue generation are institutional investors. DMBH aims at increasing its efforts to seek new institutional customers, especially among foreign institutions. In addition, DMBH will focus on increasing its share in servicing of domestic retail customers. Cost efficiency in this case will be achieved by close cooperation of DMBH with the Consumer Banking Sector.

1.2 Asset management

Asset management services (AM) are conducted by two entities from the Group fully owned by the Bank: Handlowy Zarządzanie Aktywami S.A. (HanZA) and Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A. (TFI BH). The companies will expand penetration of the institutional clientele and seek to increase their market share in retail segment using the branch network of the Consumer Banking Sector of Bank Handlowy w Warszawie SA. Actions have been undertaken to widen cooperation with insurance companies offering insurance with investment fund and to expand distribution network for TFI BH funds by offering them through other financial institutions outside the Group.

1.3 Leasing activity

The Group's leasing activities are currently performed via two entities fully owned by the Bank: Handlowy Leasing S.A. and Citileasing Sp. z o.o. It is planned to merge the entities, increase market share and further develop the sale of leasing products to corporate customers of the Bank.

1.4 Factoring activity

Factoring services are provided both directly by Bank Handlowy w Warszawie SA and by the specialised company of Handlowy-Heller S.A. It is planned the acquisition of new clients and in the same way the increase in volume and the value of the factored invoices.

2. Available-for-sale investment portfolio

The available-for-sale portfolio comprises of equity investments without a predetermined rate of return (including restructuring related investments) and former strategic investments that were reclassified.

3. Active investment portfolio

The active investment portfolio comprises equity holdings offering a potentially high return on investment. Investments within active investment portfolio are undertaken directly by Bank Handlowy or indirectly by its specialised investment subsidiaries (where the Bank holds 100%

stake), i.e. Handlowy Inwestycje Sp. z o.o. Handlowy Inwestycje II Sp. z o.o., Handlowy Investments S.A., Handlowy Investments II S.a.r.l. There are no plans to acquire any new investments into the active portfolio in 2004.

4. Co-operation with other Citigroup members operating in Poland

Corporate finance advisory services of Bank Handlowy w Warszawie SA will be offered in a close co-operation with Citigroup Global Markets (former Schroder Salomon Smith Barney) in order to merge the execution of large, multinational transactions with local operations conducted with smaller entities.

The customers of the Consumer Banking Sector of Bank Handlowy w Warszawie SA and CitiFinancial are offered the insurance products developed in co-operation with CitiInsurance Polska Towarzystwo Ubezpieczeń na Życie S.A. Activities will be undertaken to widen this co-operation by development of the insurance offer dedicated for corporate customers of the Bank.

Signatures of all members of the Management Board

Date	Name	Position	Signature
25.10.2004	Sławomir Sikora	Prezes Zarządu	
25.10.2004	Sunil Sreenivasan	Wiceprezes Zarządu	
25.10.2004	Philip Vincent King	Wiceprezes Zarządu	
25.10.2004	David J. Smith	Wiceprezes Zarządu	
25.10.2004	Lidia Jabłonowska-Luba	Wiceprezes Zarządu	
25.10.2004	Michał Mrożek	Wiceprezes Zarządu	