REPORT ON ACTIVITIES

OF

BANK HANDLOWY W WARSZAWIE SA

GROUP

IN 2004

citibank handlowy
Bank Handlowy w Warszawie SA

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I. The Polish economy in 2004

1. Main macroeconomic trends

In 2004, the pace of economic growth significantly accelerated, in particular in the run up to Poland's accession to the EU. As exports remained the main stimulator of economic growth, the current account deficit improved markedly as a proportion of GDP. Despite the favorable economic conditions, the situation in the labor market saw only slight improvement and, in addition, a negative consequence of EU accession was a significant increase in the inflation rate.

According to the estimates published by the Central Statistical Office, the annual GDP growth in 2004 amounted to 5.4%. Such significant growth was due to a very high GDP dynamic in the first half of the year (6.5% year on year) followed by a weaker performance in the second half, with the GDP growth at around 4.4% year on year, as the effects of Poland's entry into the EU wore off.

On the demand side, the main growth factor was net exports whereas the rate of increase of domestic demand was slower than the GDP growth rate, and reached 4.9% year on year throughout 2004. Gross investment increased sharply by 14.1% year on year, however, fixed asset investment increased by only 5.1% year on year. This, in turn, indicates that investment growth was mainly caused by a rise in inventories. On the supply side, the processing sector was the main driver of economic growth. Total industrial output grew by 13.1% year on year, and it is worth noting that in the second half of the year its growth was slower compared to the first half and amounted to 8.5% year on year (17.7% year on year in the period from January to June).

Despite noticeable economic recovery, the situation in the labor market barely improved. The registered unemployment rate decreased only marginally on the previous year, down to 19.1% at year end 2004 from 20% in the corresponding period of 2003, when adjusted. Over the year, the number of jobless people dropped by 276,100 and amounted to 2.99 million at the end of December. The weakness of the falling trend in unemployment is partially accounted for by a strong growth in industrial productivity and by likely employment growth in the grey economy.

In the first eleven months of 2004, the current account deficit shrank significantly reaching EUR 2.73 billion in comparison to EUR 3.34 billion in the corresponding period of 2003 (preliminary data of the National Bank of Poland). In relation to GDP, the eleven-month rolling deficit dropped to around 1.8% from the previous year's 2.2%, thus reaching a safe level. This was mainly caused by the improvement in the trade balance, a fall in the deficit on commodity trade, and the deficit on services moving into surplus. Such improvement was possible due to the very high exports dynamics fuelled by zloty depreciation in the pre-accession period. Following Poland's entry in the EU, exports growth was further supported by the removal of tariff barriers between EU countries. Consequently, in the first eleven months of 2004 exports rose by 21.5% year on year and their dynamics outpaced that of imports (19.5% year on year).

In 2004, the inflation growth rate accelerated sharply, with the most significant increase reported in 2Q. This was due to factors associated with Poland's accession to the EU (such as price increases due to increases in indirect tax rates and higher demand by other EU countries for Polish food products) and strong increase in raw materials prices, especially crude oil. Consequently, the prices of consumption goods and services increased by 3.0%, exceeding significantly the upper limit of NBP inflation target for 2004.

Strong growth was also reported in the prices of industrial output which peaked in May and grew as much as 9.6% year on year. Thereafter, their level decreased to reach 5.2% year on year at the end of 2004. The primary reason for production price increases was the price shock in mining and quarrying and – during the pre-accession period – higher domestic demand, which allowed manufacturers to widen margins earned on sold products.

The money supply, measured by the M3 aggregate, increased from the beginning of the year by 9%, which continues to represent a moderate increase in real terms (by 4.6% year on year). When compared against the high pace of economic activity, the level seems safe. The slow deposit growth in the first half of the year gathered momentum in the second half. Throughout 2004, total deposits increased 9.5% year on year compared to 5.6% year on year in 2003, primarily reflecting deposit growth in social security funds (75.9% over the year) and, to a lesser degree, that of local government deposits (28.8%), deposits of non-monetary financial institutions (27.4%) and corporate deposits (25.0%). In the same period, loans grew 4.0% year on year. A growth was reported in loans granted to households (16.0%) and non-monetary financial institutions (7.8%). Meanwhile, loans extended to non-commercial institutions servicing households fell (by 6.4% year on year) and so did loans to enterprises (5.3%).

The State Budget remained under control throughout 2004. The budget deficit amounted to PLN 41.5 billion, representing 91.6% of the full year 2004 budget deficit plan. The execution of the budget was, therefore, significantly better than in prior years. The lower deficit in the budget resulted from the higher than planned revenue, in particular from indirect taxes and CIT, and a greater advancement of revenue receipts compared to last year, achieved as a result of accelerated economic growth. At the same time budget expenditure was lower than planned, mainly due to lower costs of foreign debt service.

2. Money markets and FX markets

In 2004, the Monetary Policy Committee ("MPC") raised interest rates on three occasions, with the combined annual increase amounting to 125 basis points. The upward trend of market rates was reinforced by the factor, triggered by the Ministry of Finance, of increasing Treasury yields, which affected the banking system's liquidity. Fearing that the State Budget may lose its liquidity after Poland's accession to EU, the Ministry expanded its liquidity reserves. In consequence, liquidity was drained from the banking system.

Towards the end of the year, the situation eased slightly. Influenced by a strong appreciation of the Polish currency and decreasing inflationary pressure, the market began slowly to discount interest rate cuts in 2005.

The first half of the year in the market for Treasury securities was marked by substantial price volatility, dominated by downside movements. The weakness of the Polish bond market was due to a series of unfavorable events – an abrupt rise in inflation connected with Poland's accession to EU, sales in international debt securities markets and growing political risk originally caused by discussions held over the Hausner plan and later associated with the resignation of the government led by Prime Minister Miller followed by the appointment of Marek Belka. In mid-year, the trend in the bond market reversed. Appreciating debt securities in base markets, improving condition of the State Budget (higher inflows attributable to economic recovery) and, most importantly, EU accession combined with clear prospects for Poland's euro zone membership drew demand from foreign and then Polish investors. At this point, it is also worth mentioning the specific mechanism (akin to a *perpetuum mobile*) which developed in the market – appreciating debt securities attracted foreign investors and thus strengthened the Polish currency. This, in turn, led to further growth in bond prices.

Despite positive economic trends, the Polish FX market was dominated by the downward trend of the Zloty exchange rate in the pre-accession period. The Zloty depreciated both in nominal and real terms and the trend sustained later on. For eight months in a row, the Zloty recorded the best performance among all the currencies quoted in the world (appreciating some 25% against the

USD and 15% against the Euro). This was due to a number of factors, among which the key ones included political stability, attractive interest rate differential, improving economic fundamentals, and Poland's accession to the European Union.

3. Capital market

The past year was very good for the stock market. The main stock exchange index, WIG, climbed from 20,820 points at year end 2003 to 26,636 points at year end 2004 (by 27.9%). The WIG20, an index of the most liquid stock companies, grew 24.6%.

For the initial four months of 2004, the market followed an upward trend. However, falling stock indices on the US exchanges in April 2004 triggered price reduction on the WSE. Nevertheless, in August 2004 came another wave of stock price increases, which took the WIG main stock exchange index to new record highs.

The successful initial public offering of PKO BP shares and the flotation of a number of smaller companies were important events in 2004. At year end 2003, the number of stock-listed companies stood at 203. By the end of 2004, it had increased to 230. New foreign companies debuted on the stock market. During 2004, their number grew from 1 to 5. Total market capitalization noticeably improved owing to the IPOs of newly-listed companies. At the end of 2004, the market value of domestic companies reached PLN 214 billion (a 53.1% increase from PLN 140 billion). Meanwhile, total capitalization (inclusive of foreign companies) increased from PLN 167.7 billion to PLN 291.7 billion.

Stock market indices as of 31 December

Index	2004	Change (%)	2003	Change (%)	2002
WIG	26,636.2	27.9	20,820.1	44.9	14,366.7
WIG-PL	26,540.1	27.4	20,825.0	na	na
WIG20	1,960.6	24.6	1,574.0	33.9	1,175.6
MIDWIG	1,730.1	36.3	1,269.3	33.6	950.2
TECHWIG	666.3	16.5	571.9	60.6	356.1
WIRR	4,738.6	72.9	2,740.7	100.7	1,365.6
NFI	98.0	66.9	58.7	(1.8)	59.8
Sector sub-indices					
Banking	35,454.4	35.2	26,221.8	8.8	24,091.0
Construction	19,014.6	28.1	14,847.5	36.5	10,876.4
IT	12,996.5	(3.3)	13,446.1	43.1	9,394.7
Foodstuffs	23,761.6	25.1	19,000.4	50.0	12,668.4
Telecommunications	10,242.9	32.7	7,718.5	27.2	6,068.3

Source: WSE, Dom Maklerski Banku Handlowego SA

Increased index levels were positively correlated with the activity of investors in the capital market. Turnover on the equity market increased 65% from PLN 66.4 billion to PLN 109.8 billion, continuing the upward trend initiated in 2003.

The turnover value in the bond market remained virtually unchanged and amounted to PLN 7.82 billion in comparison to PLN 7.84 billion in 2003.

Index growth and the continuing bullish equity market had a negative impact on the volume of futures contracts.

In 2004, investors' activity on the futures market was 15% lower than in 2003, a record year for that market segment. The volume of futures transactions fell from 8.5 million down to 7.2 million.

Meanwhile, the number of option transactions increased almost fourfold. This attests to dynamically growing interest in new instruments. In 2004 option transaction turnover volume amounted to 157,000, whereas in the prior year the number of transactions stood at 41,300.

Equity and bond turnover, and derivative trade volumes on the WSE as of 31 December

	2004	Change (%)	2003	Change (%)	2002	Change (%)	2001
Equity (PLN million)	109,775	65.2	66,443	39.2	47,729	(21.2)	60,548
Bonds (PLN million)	7,820	(0.3)	7,840	96.7	3,986	(21.7)	5,093
Futures (volume)	7,218,250	(14.7)	8,461,206	33.3	6,349,530	(15.1)	7,481,058
Options (volume)	157,504	281.4	41,294	na	0	na	0
Number of brokers	20		21		24		30

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

Despite a substantial turnover growth in the equity market and improved economic conditions in the brokerage business, the number of WSE brokers fell from 21 to 20. This did not contribute to further turnover concentration. The share of the top five brokers in the equity turnover dropped in 2004 to 62.0% down from 64.2% in 2003.

4. Banking sector

The banking sector's net financial result for the year 2004 amounted to PLN 7.29 billion and was higher by 190% than in 2003. Such a positive result of the banking industry reflects improved economic conditions and, only to a small extent, is attributable to one-off transactions of assets sales.

The sector's profitability was primarily determined by improved results on banking activity, reduced allowances to provisions and growing participation in profits generated by subordinated entities accounted for using the equity method. In 2004, the sector's result on banking activity grew by over PLN 2 billion in comparison with 2003, the net charges to provisions and revaluation were almost PLN 2 billion lower than in 2003, whereas the participation in profits generated by subordinated entities accounted for using the equity method grew by over PLN 1 billion.

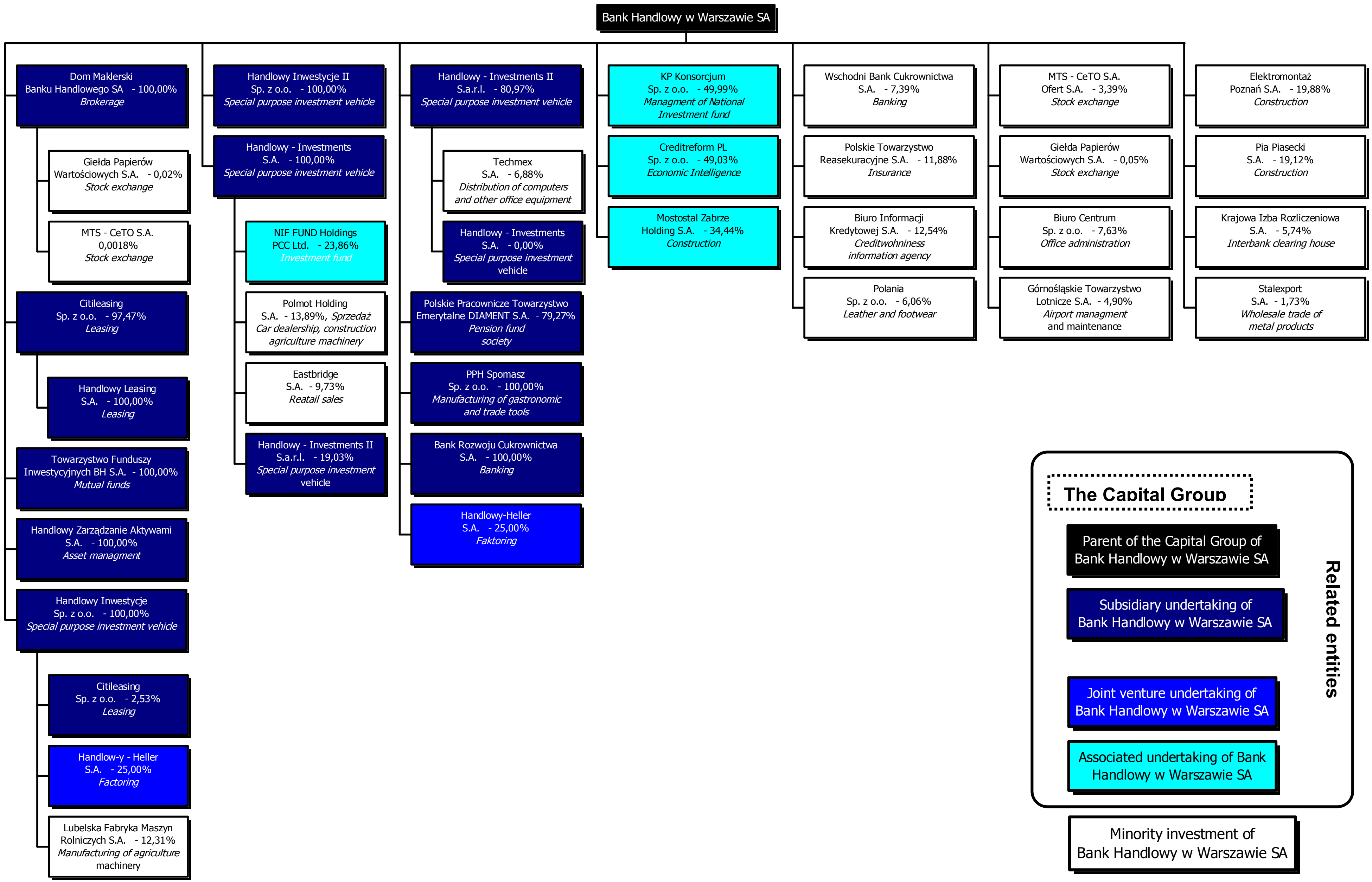
The sector's result on banking activity in 2004 increased in relation to the previous year by more than PLN 2.3 billion. This was attributable to increases in net interest income, fees and commissions and a slight increase in the result on financial operations. On the other hand, income on shareholdings, other securities and other financial instruments with variable income, and the result on foreign exchange operations dropped in 2003. In 2004, the banks' interest expense increased in comparison with 2003 as a result of interest rate increase. That growth, however, was smaller than the growth in interest income, which had a positive impact on the banks' net interest income.

In 2004, the growth of loans to individual customers was stable and amounted to around 17% year on year. Nevertheless, the downward trend of individual customers' deposits continued (a 3% fall year on year). This was mainly due to the low attractiveness of bank placements caused by low interest rates and tax on interest introduced in late 2001.

The portfolio of loans offered to economic entities decreased by 4% compared to the end of 2003. Meanwhile, the situation in the market of corporate deposits improved significantly and reflected a 24% increase.

II. Organizational structure of the group of entities related to Bank Handlowy w Warszawie SA

The organizational structure of the equity portfolio held by Bank Handlowy w Warszawie SA ("the Bank"), as the percentage ownership of the capital on 31 December 2004, can be illustrated by the following chart:


Bank Handlowy w Warszawie SA
Dom Maklerski Banku Handlowego SA - 100,00% Brokerage
Giełda Papierów Wartościowych S.A. - 0,02% Stock exchange
MTS - CeTO S.A. 0,0018% Stock exchange
Citileasing Sp. z o.o. - 97,47% Leasing
Handlowy Leasing S.A. - 100,00% Leasing
Towarzystwo Funduszy Inwestycyjnych BH S.A. - 100,00% Mutual funds
Handlowy Zarządzanie Aktywami S.A. - 100,00% Asset managment
Handlowy Inwestycje Sp. z o.o. - 100,00% Special purpose investment vehicle
Citileasing Sp. z o.o. - 2,53% Leasing
Handlow-y - Heller S.A. - 25,00% Factoring
Lubelska Fabryka Maszyn Rolniczych S.A. - 12,31% Manufacturing of agriculture machinery
Handlowy Inwestycje II Sp. z o.o. - 100,00% Special purpose investment vehicle
Handlowy - Investments S.A. - 100,00% Special purpose investment vehicle
NIF FUND Holdings PCC Ltd. - 23,86% Investment fund
Polmot Holding S.A. - 13,89%, Sprzedaż Car dealership, construction agriculture machinery
Eastbridge S.A. - 9,73% Reatail sales
Handlowy - Investments II S.a.r.l. - 19,03% Special purpose investment vehicle
Handlowy - Investments II S.a.r.l. - 80,97% Special purpose investment vehicle
Techmex S.A. - 6,88% Distribution of computers and other office equipment
Handlowy - Investments S.A. - 0,00% Special purpose investment vehicle
Polskie Pracownicze Towarzystwo Emerytalne DIAMENT S.A. - 79,27% Pension fund society
PPH Spomasz Sp. z o.o. - 100,00% Manufacturing of gastronomic and trade tools
Bank Rozwoju Cukrownictwa S.A. - 100,00% Banking
Handlowy-Heller S.A. - 25,00% Faktoring
KP Konsorcjum Sp. z o.o. - 49,99% Managment of National Investment fund
Creditreform PL Sp. z o.o. - 49,03% Economic Intelligence
Mostostal Zabrze Holding S.A. - 34,44% Construction
Wschodni Bank Cukrownictwa S.A. - 7,39% Banking
Polskie Towarzystwo Reasekuracyjne S.A. - 11,88% Insurance
Biuro Informacji Kredytowej S.A. - 12,54% Creditwohniness information agency
Polania Sp. z o.o. - 6,06% Leather and footwear
MTS - CeTO S.A. Ofert S.A. - 3,39% Stock exchange
Giełda Papierów Wartościowych S.A. - 0,05% Stock exchange
Biuro Centrum Sp. z o.o. - 7,63% Office administration
Górnośląskie Towarzystwo Lotnicze S.A. - 4,90% Airport managment and maintenance
Elektromontaż Poznań S.A. - 19,88% Construction
Pia Piasecki S.A. - 19,12% Construction
Krajowa Izba Rozliczeniowa S.A. - 5,74% Interbank clearing house
Stalexport S.A. - 1,73% Wholesale trade of metal products
The Capital Group
Parent of the Capital Group of Bank Handlowy w Warszawie SA
Subsidiary undertaking of Bank Handlowy w Warszawie SA
Joint venture undertaking of Bank Handlowy w Warszawie SA
Associated undertaking of Bank Handlowy w Warszawie SA
Related entities
Minority investment of Bank Handlowy w Warszawie SA

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

Bank Handlowy w Warszawie SA Capital Group ("Group") consists of the parent company and subsidiaries:

ENTITIES OF BANK HANDLOWY W WARSZAWIE SA CAPITAL GROUP

Entity	Objects	Capital relationship	% of authorised capital owned	Accounting method	Own equity (PLN thousand)
Bank Handlowy w Warszawie SA	banking	parent company	-	-	6,152,785*
Dom Maklerski Banku Handlowego S.A.	brokerage	subsidiary	100.00%	full consolidation	93,266
Handlowy Leasing S.A.	leasing	subsidiary	100.00%**	equity valuation	25,671
Citileasing Sp. z o.o.	leasing	subsidiary	100.00%**	equity valuation	167,410
Handlowy Inwestycje Sp. z o.o.	investments	subsidiary	100.00%	equity valuation	9,253
Handlowy Inwestycje II Sp. z o.o.	investments	subsidiary	100.00%	equity valuation	4,074
Handlowy Investments S.A.	investments	subsidiary	100.00%	equity valuation	(67,698)
Handlowy Investments II S.a.r.l.	investments	subsidiary	100.00%**	equity valuation	18,591
Handlowy Zarządzanie Aktywami S.A.	brokerage	subsidiary	100.00%	equity valuation	4,567
Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A.	investments	subsidiary	100.00%	equity valuation	23,446
Bank Rozwoju Cukrownictwa S.A.	banking	subsidiary	100.00%	equity valuation	40,559
Polskie Pracownicze Towarzystwo Emerytalne DIAMENT S.A. in liquidation	insurance	subsidiary	79.27%	equity valuation	235
PPH Spomasz Sp. z o.o. in 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 equity of Bank Handlowy w Warszawie SA according to its individual financial statements for 2004.*

** *Taking into account indirect shareholdings.*

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

In 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. In the period under discussion, the Group's structure did not change.

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2. Changes in the structure of other related entities of the Bank

In 2004, the structure of **subsidiaries** and **affiliates** changed as a result of the following transactions:

- sale by the subsidiary, Handlowy Investments S.A., of all its shares held in Polimex Cekop S.A., representing 36.64% of equity and shareholders' votes of that entity,
- redemption of a portion of equity stake in the affiliate, NIF Fund Holdings PCC Ltd., held by the subsidiary, Handlowy Investments S.A. The redeemed shares represented 10.19% of the company's equity. The Bank's stake in equity and shareholders' votes at that entity did not change and represents 23.86%,
- sale of a portion of shares held in the affiliate, Pia Piasecki S.A. The sold shares represented 17.40% of its equity. As a result of the transaction, the Bank now holds a 19.12% stake in equity and shareholders' votes of that entity,
- sale of all of the shares held in the affiliate, IPC JV Sp. z o.o., representing a 31.00% stake in the equity and shareholders' votes of that entity,
- sale of a portion of shares held in the affiliate, Elektromontaż Poznań S.A. The sold shares represented 5.42% of its equity. As a result of the transaction, the Bank now holds a 19.88% stake in equity and shareholders' votes of that entity.

3. Changes in companies consolidation/ valuation

In 2004, no changes occurred in the scope of consolidation or valuation of other Group entities.

Presented below is a list of entities under common control and affiliates which do not form part of the Group but are taken into account in the equity method valuation.

Entity	Objects	Nature of capital links	Equity stake	Consolidation/ valuation method applied	Equity, (PLN thousand)
Handlowy-Heller S.A.	factoring	entity under common control	50.00%*	equity method	27,102
KP Konsorcjum Sp. z o.o.	investment funds management	affiliate	49.99%	equity method	26,604

*Including indirect interests held through other subordinated entities.

IV. Major balance sheet data and financial results of Bank Handlowy w Warszawie SA Capital Group

1. *Summarized historical financial data of the Capital Group*

PLN million	1998	1999	2000	2001	2002	2003	2004
Balance sheet total	17,801.0	19,117.3	20,946.2	33,081.1	32,402.5	34,035.0	33,948.1
Equity*	2,585.4	2,822.4	2,974.4	5,673.2	5,733.3	5,651.0	5,739.4
Profit on banking activity	1,192.3	1,254.2	1,476.6	2,052.8	2,107.3	1,971.9	1,965.9
Gross profit/loss	493.9	531.3	196.7	386.5	349.0	459.1	499.4
Net profit/loss	326.1	347.7	182.3	163.3	232.0	296.6	416.1

** Excluding current period's net profit.*

2. *Financial results of the Group in 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

The net profit of the Group in 2004 was PLN 416.1million and was by PLN 119.6 million, i.e. 40.3 % higher than in the corresponding period of the previous year. The following were among the main factors which contributed to the increase in the net profit of the Group:

- Reduction in net write-downs for specific provisions and revaluation of financial assets, which amounted to a net charge of PLN 8.7 million in comparison with a net charge of PLN 181.0 million in the corresponding period of the previous year (reducing by 95.2%);
- Decrease in the charge for corporate income tax by PLN 65.8 million (34.3%) which amounted to PLN 126.1 million at the end of 2004;
- Increase in participation in net profits generated by subordinated entities accounted for using the equity method up to PLN 42.8 million, i.e. by PLN 13.5 million (46.0%).

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

- Decrease in profit on banking activity and the net FX results by PLN 201.5 million (32.8%),
- Increase in the Group's general expenses by PLN 147.4 million (12.9%).

The relatively small difference between the Group's consolidated financial results (PLN 416.1 million) and the individual financial results of the Bank (PLN 414.2 million) is the consequence of equity method valuation of subordinated undertakings applied in the Bank's individual financial statements.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

PLN thousand	2004	2003	Change PLN thousand	Change %
Interest income	1,653,161	1,380,857	272,304	19,7%
Interest expense	(748,842)	(635,391)	(113,451)	17,9%
Net interest income	904,319	745,466	158,853	21,3%
Net fee and commission income	632,117	547,356	84,761	15,5%
Income on shares, other securities and other financial instruments with variable income	16,526	64,750	(48,224)	(74,5%)
Gains on financial operations	52,554	133,041	(80,487)	(60,5%)
Foreign exchange profit	360,349	481,361	(121,012)	(25,1%)
Profit on banking activity	**1,965,865**	**1,971,974**	**(6,109)**	**(0,3%)**
Other operating income	91,925	77,872	14,053	18,0%
Other operating expenses *)	(48,240)	(42,552)	(5,688)	13,4%
Group's general expenses	(1,286,179)	(1,138,799)	(147,380)	12,9%
Depreciation and amortization	(142,834)	(155,948)	13,114	(8,4%)
Goodwill amortization	(72,445)	(72,445)	-	0,0%
Net charges to provisions and revaluation	(8,676)	(180,991)	172,315	95,2%
Operating profit	**499,416**	**459,111**	**40,305**	**8,8%**
Extraordinary items	-	-	-	-
Profit before taxation	**499,416**	**459,111**	**40,305**	**8,8%**
Corporate income tax	(126,102)	(191,882)	65,780	(34,3%)
Participation in net profit/(loss) of subordinated entities accounted for under the equity method	42,818	29,330	13,488	46,0%
Net profit	**416,132**	**296,559**	**119,573**	**40,3%**

**) Goodwill amortization shown as a separate item*

The Group's overall revenues, including profit on banking activity and other operating income, were PLN 2,057.8 million in 2004, remaining practically at the same level as in 2003, while total expenses, comprising other operating expenses, bank's general and administrative expenses, as well as fixed assets and intangible assets depreciation, increased to PLN 1,477.3 million i.e. by PLN 140.0 million (10.5%) in comparison with the corresponding period of the previous year.

2.1.1 Profit on banking activity

In 2004, the Group reported a decrease in the profit on banking activity by PLN 6.1 million, i.e. 0.3%. The current year's profit on banking activity in comparison with the previous year was influenced in particular by the following factors:

- increase in net interest income by PLN 158.9 million (i.e. 21.3%), mainly as a result of higher interest income on debt securities due to a marked increase in the portfolio of these securities;

- increase in net commission income by PLN 84.7 million (i.e. 15.5%), mainly due to commissions on insurance products, retail loans and payments for issuance and use of payment and credit cards;
- decrease in net profit on foreign exchange by PLN 121.0 million (i.e. 25.1%), mainly as a result of losses on foreign exchange differences (revaluation).
- decrease in gains on financial operations by PLN 80.5 million (i.e. 60.5%), mainly due to lower gains on securities transactions, primarily shares and minority interests.

RESULT ON FEES AND COMMISSIONS

PLN thousand	2004	2003	Change PLN thousand	Change %
Fees and commissions from banking activity	655,854	570,945	84,909	14.9%
Fees and commissions on brokerage activities	54,411	34,483	19,928	57.8%
Total fee and commission income	710,265	605,428	104,837	17.3%
Fee and commission expenses	(78,148)	(58,072)	(20,076)	34.6%
Net fee and commission income	**632,117**	**547,356**	**84,761**	**15.5%**

2.1.2 Expenses

The Group's total expenses increased from PLN 1,294.7 million in 2003 to PLN 1,429.0 million, i.e. by PLN 134.3 million or 10.4%.

EXPENSES

PLN thousand	2004	2003	Change PLN thousand	Change %
Salaries	482,066	460,864	21,202	4.6%
Social security and other benefits	93,276	84,468	8,808	10.4%
Total personnel expenses	**575,342**	**545,332**	**30,010**	**5.5%**
Administrative expenses	661,583	574,318	87,265	15.2%
Taxes and fees	8,526	8,060	466	5.8%
Contributions and payments to the Bank Guarantee Fund	7,680	11,089	(3,409)	(30.7%)
Restructuring charge – personnel costs	33,048	-	33,048	-
Total general expenses	**1,286,179**	**1,138,799**	**147,380**	**12.9%**
Depreciation	142,834	155,948	(13,114)	(8.4%)
Total expenses	**1,429,013**	**1,294,747**	**134,266**	**10.4%**

In 2004, the Group continued to pursue its restructuring activities with the aim to improve profitability by lowering the costs of operation. The most significant event during that period related to further employment reduction. Changes in the structure of employment followed the reorganization of individual areas and the introduction of new technological and organizational solutions. However, as a result of activities undertaken to adjust the level and structure of employment to changes in strategies and methods of operation, mainly of Bank Handlowy w Warszawie SA, a significant number of employees designated for reduction were redeployed to the fast growing Consumer Sector of the Bank. As a consequence of this decision, the total severance expenses incurred in 2004 reached PLN 33.0 million.

Important factors which also affected the level of salaries were agreements concerning the participation of the Group's employees in Citigroup Inc. incentive plans. A provision of PLN 8.5 million was created in 2004 in respect of future payments.

Other important factors affecting the level of expenses included:

- the opening of 23 new CitiFinancial branches (a fast growing sector of the Consumer Bank) in 2004,
- the signing, in April 2004, of agreements between the Bank and Citibank N.A. for the provision of a number of administrative support services relating to current Bank activity, which include consultation and advice in the areas of management, finance, accounting, auditing etc., as well as the maintenance of IT systems to service operational activity. Information relating to the above mentioned agreements is presented in the Additional Explanatory Notes.

2.1.3 Provisions and revaluation of financial assets

NET CHARGES TO PROVISIONS AND REVALUATION

PLN thousand	2004	2003	Change PLN thousand	Change %
Specific provisions	(148,861)	(161,633)	12,772	7.9%
- non-financial sector	(329,255)	(88,417)	(240,838)	(272.4%)
- subordinated loans	68,703	(68,961)	137,664	199.6%
- other	6,024	(2,944)	8,968	304.6%
- off-balance sheet contingent liabilities	105,667	(1,311)	106,978	8160.0%
Provision for general risk	136,000	-	136,000	-
Revaluation of financial assets	4,185	(19,358)	23,543	121.6%
Total net charges to provisions and net revaluation	**(8,676)**	**(180,991)**	**172,315**	**95.2%**

In 2004, net write-downs to provisions and revaluation of financial assets decreased by PLN 172.3 million (i.e. 95.2%) in comparison with 2003. As a result of the review of the Bank's loan portfolio conducted in 2004 and the increase in specific provisions, the Bank decided to reduce the general provision by PLN 136 million. The remaining amount of the general provision is PLN 164 million and is considered adequate to cover the credit risk relating to the consumer portfolio and the credit exposure from the "watch" category.

The share of problem loans in the gross loan portfolio of non-banking institutions amounted to 26.9% as of 31 December 2004 as compared to 29.8% at year-end 2003. The significant share of problem loans was mainly due to the decrease in the nominal value of the total loans portfolio. However as of 31 December 2004, loans classified as irregular decreased by 30.9% in comparison with the same period of the previous year, in particular a significant decrease by 66.5% was noted in loans classified in the "doubtful" category.

In 2004, the Group released specific provisions of PLN 68.7 million on receivables from subordinated loans funding the operations of special purpose investment vehicles Handlowy

Investments S.A. and Handlowy Investments S.a.r.l., following the current assessment of the possibility of repayment of the above mentioned loans.

2.1.4 Accounting for subordinated entities

In 2004, the net profit of the Group increased by PLN 42.8 million from valuation of significant shareholdings in subordinated undertakings valued using the equity method. This amount was disclosed in the profit and loss account under the item “Participation in net profits (losses) of subordinated entities accounted for using equity method” and comprised valuations of the following entities: Handlowy-Leasing S.A., Citileasing Sp. z o.o., Handlowy Zarządzanie Aktywami S.A., Towarzystwo Funduszy Inwestycyjnych BH SA, Handlowy Inwestycje Sp. z o.o., Handlowy Inwestycje II Sp. z o.o., Handlowy Investments S.A., Handlowy Investments II S.a.r.l., Bank Rozwoju Cukrownictwa S.A., Polskie Pracownicze Towarzystwo Emerytalne DIAMENT S.A., Handlowy-Heller S.A., KP Konsorcjum Sp. z o.o. The largest portion of that amount was the effect of net assets valuation of Citileasing Sp. z o.o. amounting to PLN 25.8 million.

2.2 Consolidated balance sheet

As of 31 December 2004, the Group’s balance sheet total amounted to PLN 33,948.1 million and was lower by 0.3% than the year before.

CONSOLIDATED BALANCE SHEET OF THE GROUP - ASSETS

BALANCE SHEET

	As of		Change:	
PLN thousand	2004	2003	PLN thousand	%
Cash, operations with the Central Bank	841,114	1,186,514	(345,400)	(29.1%)
Due from the financial sector*	7,955,458	8,009,705	(54,247)	(0.7%)
Due from the non-financial sector	9,715,147	13,254,962	(3,539,815)	(26.7%)
Due from the public sector	1,650	3,239	(1,589)	(49.1%)
Receivables subject to securities sale and repurchase agreements	293,209	288,601	4,608	1.6%
Debt securities*	7,303,284	3,842,305	3,460,979	90.1%
Due from subordinated undertakings accounted for under the equity method *)	748,491	866,228	(117,737)	(13.6%)
Equity investments in subordinated undertakings accounted for under the equity method	302,681	259,340	43,341	16.7%
Other investments	37,682	40,729	(3,047)	(7.5%)
Other securities and financial assets	4,105,153	3,624,910	480,243	13.2%
Intangible assets	1,237,294	1,295,051	(57,757)	(4.5%)
- including: goodwill	1,171,200	1,243,645	(72,445)	(5.8%)
Tangible fixed assets	713,024	764,609	(51,585)	(6.7%)
Other assets	693,900	598,784	95,116	15.9%
TOTAL ASSETS	**33,948,087**	**34,034,977**	**(86,890)**	**(0.3%)**

** In 2003, convertible bonds of Handlowy Investments S.A. were reclassified to capital investments.*

2.2.1 Assets

Despite a substantial decline in the loan portfolio as a result of the prudent lending policy pursued by the Bank, a decline in the nominal value of loans registered in foreign currencies due to strong zloty appreciation and a reduced demand for loans from large companies, receivables due from the non-financial sector remain the largest component of the Group's assets. As of 31 December 2004, net credit exposure to non-financial entities amounted to PLN 9,716.8 million, which represented a reduction of exposure by 26.7% in comparison with the corresponding period of the previous year.

In the twelve months of 2004, the Group's structure of assets changed. Debt securities portfolio increased in the period by PLN 3,461.0 million (90.1%), mainly due to the growth of the portfolio of treasury bonds and treasury bills. That growth was driven by the need to place liquid funds derived from the reduced loans portfolio.

DEBT SECURITIES PORTFOLIO

	As of		Change	
PLN thousand	2004	2003	PLN thousand	%
Treasury bonds	6,263,335	2,640,357	3,622,978	137.2%
NBP bonds	384,287	384,884	(597)	(0.2%)
Treasury bills	303,770	146,106	157,664	107.9%
Certificates of deposit and bonds issued by banks	160,727	116,627	44,100	37.8%
Issued by other financial institutions	-	298	-	-
Issued by non-financial sector	191,165	554,033	(362,868)	(65.5%)
TOTAL	**7,303,284**	**3,842,305**	**3,460,979**	**90.1%**

The Bank pursues a strategy of reducing its equity investments. In 2004 the Bank sold its entire share in IPC JV Sp. z o.o. as well as part of its holding of shares in Pia Piasecki S.A. and Elektromontaż Poznań S.A. As a result of valuation of strategic subsidiaries, mainly Citileasing Sp. z o.o and Towarzystwo Funduszy Inwestycyjnych Banku Handlowego SA, the value of equity investments portfolio increased by PLN 40.3 million (13.4%) in 2004. Detailed information on the above mentioned transactions is presented in Additional Notes to the Consolidated Financial Statement.

2.2.2 Liabilities

There were no significant changes in the structure of liabilities of the Group in 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 liabilities due to the non-financial sectors. In comparison with the end of 2003, this item decreased by PLN 1,201.9 million (i.e. 6.5%), inter alia due to the decrease in foreign currency liabilities resulting from Polish zloty appreciation.

Liabilities due to banks, which represent the majority of Group's liabilities to the financial sector, increased in the period from PLN 1,792.9 million to PLN 1,859.6 million, i.e. by PLN 66.7 million (3.7%).

An important item on both sides of the Group's balance sheet is the significant share of unrealized profits/losses on derivative operations, which reflects the scale of off-balance sheet purchase/sale operations carried out by the Bank. The balance sheet valuation of these instruments is presented in "Other securities and other financial assets" on the asset side and in "Other liabilities arising from financial instruments" on the liabilities side of the balance sheet.

CONSOLIDATED BALANCE SHEET OF THE GROUP - LIABILITIES

BALANCE SHEET

	As of		Change	
PLN thousand	2004	2003	PLN thousand	%
Due to the Central Bank	718	41,145	(40,427)	(98.3%)
Due to the financial sector	3,959,909	3,582,256	377,653	10.5%
Due to the non-financial sector	16,791,566	18,060,427	(1,268,861)	(7.0%)
Due to the public sector	533,050	466,056	66,994	14.4%
Liabilities in respect of securities subject to sale and repurchase agreements	408,559	470,803	(62,244)	(13.2%)
Due to subordinated undertakings accounted for under the equity method	397,757	224,719	173,038	77.0%
Other liabilities arising from financial instruments	4,194,290	3,651,195	543,095	14.9%
Other liabilities	1,289,647	1,143,522	146,125	12.8%
Provisions	217,038	447,331	(230,293)	(51.5%)
Equity and retained earnings	5,739,421	5,650,964	88,457	1.6%
Net profit	416,132	296,559	119,573	40.3%
TOTAL LIABILITIES	**33,948,087**	**34,034,977**	**(86,890)**	**(0.3%)**

2.3 Consolidated liabilities and capital adequacy

The Group's equity is sufficient to ensure financial security and the security of deposits.

In 2004, Group's equity increased by PLN 88.5 million (i.e. by 1.6%), in particular, as a result of:

- increase in the revaluation fund by PLN 32.9 million, caused by an increase in the value of debt securities available for sale.
- changes in bookkeeping principles for repo/reverse repo transactions of the sell-buy-back and buy-sell-back type on securities. The positive effect of the changes introduced in accounting principles, of PLN 46.0 million, was disclosed in equity as an adjustment of the net profit/loss from previous years in the item of profit (loss) from previous years.

Other changes in the structure of equity occurred in the period under discussion. These changes included:

- the transfer of PLN 498 thousand from the revaluation capital to reserve capital in relation with sale of fixed assets, as a result of which the revaluation reserve was utilized.

CONSOLIDATED EQUITY OF THE GROUP

PLN thousand	As of 2004	As of 2003	Change PLN thousand	Change %
Authorized capital	522,638	522,638	0	0.0%
Capital surplus	3,047,807	3,068,974	(21,167)	(0.7%)
Reserve capital	1,723,356	1,692,580	30,776	1.8%
Revaluation capital	19,651	(13,212)	32,863	248.7%
General risk fund	390,000	390,000	0	0.0%
Profit (loss) from previous years	35,969	(10,016)	45,985	459.1%
Total equity	**5,739,421**	**5,650,964**	**88,457**	**1.6%**
Core capital	5,683,801	5,674,192	9,609	0.2%
Supplementary capital	19,651	(13,212)	32,863	248.7%
Profit (loss) from previous years	35,969	(10,016)	45,985	459.1%

As of 31 December 2004, the consolidated capital adequacy ratio was 19.56% and was higher than at the end of 2003 by 3.31%. The increase in the ratio was mainly due to a reduction in the capital requirement for credit risk by PLN 418.3 million. The lower capital requirement for credit risk resulted from a decline in risk weighted assets and off-balance sheet commitments by PLN 5,228.4 million, to which the drop in the loan portfolio contributed to a significant extent. The surplus of cash was primarily invested in securities with a low risk weight.

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

CONSOLIDATED CAPITAL ADEQUACY RATIO (*)

As of, PLN thousand	2004	2003
Balance sheet value of capital funds	**5,739,421**	**5,696,984**
Deductions, of which:	1,613,694	1,033,199
- goodwill	1,171,200	746,187
- other intangible fixed assets	66,094	30,843
- investments in subordinated financial institutions	385,770	263,728
- financial assets revaluation reserve fund	(9,370)	(7,559)
Eligible capital	**4,125,727**	**4,663,785**
Risk-weighted off-balance sheet assets and contingent liabilities (bank portfolio)	**14,953,689**	**20,182,125**
Total capital requirement, of which:	**1,687,599**	**2,296,411**
- capital requirement for credit risk	1,196,295	1,614,570
- capital requirement due to the excess of credit concentration limit	197,218	316,477
- total capital requirement for market risks	191,878	230,669
- other capital requirements	102,208	134,695
Capital Adequacy Ratio	**19.56%**	**16.25%**

* *Capital adequacy as of 31 December 2003 was calculated on the rules applicable in previous years.*

V. Group activities in 2004

1. Bank Handlowy w Warszawie SA – Group's parent company

1.1 Lending and other risk exposures

1.1.1 Lending

In 2004, the Bank reorganized its Corporate Banking Division in order to adapt its organization to the needs of customers from the small and medium enterprise segments. The process of reorganization was completed in July 2004.

Generally, the Bank's lending policy includes active portfolio management and precisely specified target market criteria, designed to make it possible to control the credit exposure with respect to a given industry or segment of customers. In addition, individual borrowers are continuously monitored to detect deterioration in the financial standing promptly and to apply the necessary and timely corrective steps.

Lending to non-bank customers (gross)

	As of		Change	
PLN thousand	31/12/2004	31/12/2003	PLN thousand	%
Loans in PLN	9,493,432	10,627,752	(1,134,320)	(10.7%)
Loans in foreign currency	2,164,590	4,586,058	(2,421,468)	(52.8%)
Total	**11,658,022**	**15,213,810**	**(3,555,788)**	**(23.4%)**
Loans to non-financial sector	10,652,847	14,079,865	(3,427,018)	(24.3%)
Loans to financial sector	1,003,899	1,131,309	(127,410)	(11.3%)
Loans to public sector	1,276	2,636	(1,360)	(51.6%)
Total	**11,658,022**	**15,213,810**	**(3,555,788)**	**(23.4%)**
Non-financial corporates	8,697,683	12,578,169	(3,880,486)	(30.9%)
Non-bank financial entities	1,003,899	1,131,309	(127,410)	(11.3%)
Individuals	1,946,151	1,486,250	459,901	30.9%
Other non-financial entities	9,013	15,446	(6,433)	(41.6%)
Public entities	1,276	2,636	(1,360)	(51.6%)
Total	**11,658,022**	**15,213,810**	**(3,555,788)**	**(23.4%)**

Loans excluding interest receivable.

As of 31 December 2004, the gross credit exposure to the non-financial sector amounted to PLN 11,658 million, representing a decrease in exposure by 23,4% compared to 31 December 2003.

The decrease resulted from a combination of the Bank's prudent lending policy and the increased liquidity of numerous segments of the economy, as well as the decrease in nominal value of loans denominated in foreign currencies. High competition among banks for the assets of small and medium enterprises and alternative ways of financing also contributed to the shrinking of the credit portfolio.

The largest part of the Bank's loan portfolio, representing 74,6% of the total, is the credit exposure to non-financial corporates. Compared to 2003, loans to individuals grew significantly to PLN 1,946 million representing growth of almost 31%.

During 2004, the currency structure of the loan portfolio slightly changed as the result of strengthening of PLN against world currencies. The share of foreign currency loans decreased significantly to 19% in 2004 compared to 26% over the first half of 2004 and 30% in 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.

The Bank monitors the concentration of its exposures on a regular basis, seeking to avoid a portfolio concentrated in limited group of customers. As of 31 December 2004, the Bank's portfolio of exposure to non-bank entities did not include any exposure exceeding the 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 thousand	Total exposure	Balance sheet exposure *	Off-balance sheet exposure
Customer 1	560,076	502,258	57,818
Customer 2	492,762	29	492,733
Customer 3	483,731	75,742	407,989
Customer 4	324,840	122,769	202,071
Customer 5	279,327	198,425	80,902
Customer 6	276,384	127,672	148,712
Customer 7	254,341	0	254,341
Customer 8	221,032	1,294	219,738
Customer 9	212,787	158,028	54,759
Customer 10	142,658	6,020	136,638
Total 10	**3,247,938**	**1,192,237**	**2,055,701**

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

1.1.2 Quality of loan portfolio

Loans classified as irregular as of 31 December 2004 dropped by 30.9% compared to 31 December 2003. In particular there was a significant drop of 66.5% in loans classified as "Doubtful" which were partially reclassified to "Watch" category. A significant part of the "Doubtful" category was also repaid. At the same time, the share of loans classified as "Watch" increased significantly up to 16,2%, which resulted from:

- Improved financial condition of certain customers previously classified as irregular and reclassified to "Watch";
- New regulations related to the classification of receivables and creation of specific provisions.

Indices of loan portfolio quality

	As of			
	31/12/2004		**31/12/2003**	
Gross receivables from non-bank customers				
by exposure quality	PLN thousand	% Share	PLN thousand	% Share
Normal	6,636,893	56.9%	9,053,548	59.5%
Watch	1,888,525	16.2%	1,625,103	10.7%
Problem	3,132,604	26.9%	4,535,159	29.8%
- substandard	660,385	5.7%	709,186	4.7%
- doubtful	647,725	5.6%	1,935,282	12.7%
- loss	1,824,494	15.7%	1,890,691	12.4%
Total receivables from non-bank sector	**11,658,022**	**100.0%**	**15,213,810**	**100.0%**

Despite an improvement in the structure of classified exposures, the Bank continued its policy of creating specific provisions, increasing their level by almost 12% to PLN 1,688 million during 2004. At the same time, the Bank released PLN 136 million of general risk provision, which at the end of 2004 amounted to PLN 164 million. As a result of the changes in specific provisions and the general risk provision, the provisions to classified loans ratio increased from 40% as of 31 December 2003 to 59% as of 31 December 2004.

Provisions for non-bank loan portfolio

PLN thousand	As of 31/12/2004	31/12/2003	Change since 31/12/2003
Specific provisions for receivables	1,688,538	1,505,931	12.1%
- watch	---	---	---
- problem	1,688,538	1,505,931	12.1%
General risk provision	164,000	300,000	(45.3%)
Total provisions	**1,852,538**	**1,805,931**	**2.6%**
Index of provision coverage of problem loans	59.1%	39.8%	

1.1.3 Off-balance sheet exposures

As of 31 December 2004, off-balance sheet exposure amounted to PLN 11,763 million, which represented a decrease of 21,9% in comparison with the same period of the previous year. Undrawn credit lines represented 71% of total off-balance sheet exposure. The amount of guarantees issued by the Bank decreased from PLN 3,021 million to PLN 2,351 million. Changes in letters of credit were insignificant. The decrease in "Forward placements" mainly reflected the significant value of above mentioned placement as of 31 December 2003. This was due to the Bank's exposure to Citibank Bahrain, a subsidiary of Citigroup. The exposure included two forward placements of 350 and 500 million US dollar. These placements were short term financial instruments at market price, for the management of the Bank's liquidity.

Off-balance sheet contingent commitments

PLN thousand	As of 31/12/2004	31/12/2003	Change PLN thousand	%
Guarantees	2,351,306	3,020,936	(669,630)	(22.2%)
Letters of credit issued	168,073	160,337	7,736	4.8%
Third-part confirmed letters of credit	17,108	16,969	139	0.8%
Committed loans	8,353,739	8,034,233	319,506	4.0%
Forward placements	121,359	3,179,425	(3,058,066)	(96.2%)
Other financing	751,277	646,991	104,286	16.1%
Total	**11,762,862**	**15,058,891**	**(3,296,029)**	**(21.9%)**
Provisions for off-balance sheet liabilities	39,352	145,019	(105,667)	(72.9%)
Provision coverage index	0.33%	0.96%		

1.2 External funding

As of the end of 2004, the total value of external funding of the Bank was PLN 21,917 million and was lower by PLN 848 million (3.7%) than as of the end of 2003. Liabilities to the non-financial sector, which decreased by PLN 1 284 million (7.1%), were the main factor changing the external sources of funding for the Bank's activities, which mainly resulted from decreasing PLN equivalent of foreign currency deposits.

External funding

	As of		Change	
PLN thousand	**31/12/2004**	**31/12/2003**	**PLN thousand**	**%**
Due to the Central Bank	**718**	**40,816**	**(40,098)**	**(98.2%)**
Due to financial sector	**4,285,896**	**3,806,003**	**479,893**	**12.6%**
Current	3,039,901	2,343,320	696,581	29.7%
Long-term	1,245,995	1,462,683	(216,688)	(14.8%)
- banking deposits	598,548	611,635	(13,087)	(2.1%)
- received loans	446,825	545,332	(98,507)	(18.1%)
- time deposits of non-bank institutions	200,622	305,716	(105,094)	(34.4%)
Due to non-financial sector	**16,691,138**	**17,976,054**	**(1,284,916)**	**(7.1%)**
Current	8,422,514	8,877,277	(454,763)	(5.1%)
Long-term	8,268,624	9,098,777	(830,153)	(9.1%)
Due to public sector	**531,213**	**464,801**	**66,412**	**14.3%**
Current	338,869	304,107	34,762	11.4%
Long-term	192,344	160,694	31,650	19.7%
Sell-Buy-Backs	**408,361**	**470,508**	**(62,147)**	**(13.2%)**
Total external funding	**21,917,326**	**22,758,182**	**(840,856)**	**(3.7%)**

Excluding interest payable.

Taking into account all sectors, the largest decrease in external funding, as of the end of 2004, as compared to 2003, was in the group of individual customers by PLN 487 million (8.2%), mainly in term deposits both in PLN and foreign currency. In the case of currency deposits, the decline resulted from a strong zloty appreciation while currency deposits in nominal terms increased slightly. The fall of zloty deposits was the effect of an increased competitiveness of alternative offers of capital market investments. Despite the decrease as of the end of 2004, the Bank still maintains its stable position in the market for individual customers' deposits.

The reason for the decrease of PLN 383 million (3.4%) in non-financial entities deposits as of the end of 2004, compared to 2003, was mainly sight deposits. During the year, the Bank noted a significant increase in deposits made by corporate entities who, as a result of economic improvement, placed their liquidity surpluses in bank accounts. By the end of the year, given the stronger zloty and reduced liquidity of exporters, a decrease in deposits was observed.

Liabilities to non-bank customers

PLN thousand	As of 31/12/2004	31/12/2003	Change PLN thousand	%
Liabilities towards:				
Individuals	5,489,847	5,977,170	(487,323)	(8.2%)
Non-financial economic entities	10,749,745	11,133,152	(383,407)	(3.4%)
Non-profit institutions	424,038	830,607	(406,569)	(48.9%)
Non-bank financial institutions	2,247,722	1,802,576	445,146	24.7%
Public sector	531,212	464,801	66,411	14.3%
Suspense account liabilities	27,510	35,126	(7,616)	(21.7%)
Total	**19,470,074**	**20,243,432**	(773,358)	(3.8%)
Current	10,808,488	10,678,242	130,246	1.2%
Long-term	8,661,586	9,565,190	(903,604)	(9.4%)
Total	**19,470,074**	**20,243,432**	(773,358)	(3.8%)
PLN	14,508,306	14,927,513	(419,207)	(2.8%)
Foreign currency	4,961,768	5,315,919	(354,151)	(6.7%)
Total	**19,470,074**	**20,243,432**	(773,358)	(3.8%)

Excluding interest payable.

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 overdrafts, 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 services

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 stimulate the implementation of new practical solutions.

Escrow Account is one of the new products implemented in 2004, which has been included in the catalogue of bank accounts in the Banking Law amended on 1 April 2004. Escrow Account provides an additional level of security of transactions in the form of the guaranteed manner of effecting payment instructions, precisely defined in the Escrow Account Agreement and protecting the funds in the account against third party claims.

Based on "SpeedCollect" - the mass payment processing platform, which facilitates processing of the incoming payments, the product team developed another solution called "SpeedCollect Plus", which allows for adding any payment data not recognized automatically.

On 30 November 2004, the Bank established a relationship with the Italian Bank Monte dei Paschi di Siena. As a result of this relationship, the „Italian Desk" was established in Warsaw. The project aims at acquiring customers trading with Polish or Italian contractors and supporting their development with modern banking solutions offered by the Bank.

In addition to product development, the Bank seeks to optimize existing processes, starting from cost reduction. In 2003, the Bank started to limit the number of printed hard copies of bank statements. The implementation of electronic statements was one of the process solutions. Such statements are identical with their hard copies both in terms of appearance and content. Electronic statements were well received by corporate customers. At the end of June 2004, over 40% of total corporate customer statement output was transmitted exclusively by electronic means. By the end of 2004, approximately 60 % of statements were transmitted electronically. This service was rendered to over 12,000 customers. Also, the Bank offers the possibility to save electronic statements on CD's.

In 2004, the Bank continued its efforts to limit the number of hard copy instructions delivered by the customers directly to the Bank's branches and replace them with electronic communication. The number of transactions ordered electronically increased from 95% to 98% of the total volume of the transaction orders received by the Bank. As a result, the number of hard copy instructions decreased by several thousand a month.

At present, internet electronic banking systems are considered to be the standard channels for servicing corporate customers with respect to transactional banking products. The year 2004 was characterized by a significant increase in their popularity. Several changes have been introduced to both the traditional electronic banking and internet banking system to enhance and improve their performance. The most important was the introduction of CitiDirect LITE - the new version of CitiDirect. CitiDirect LITE operates in parallel to CitiDirect and focuses in particular on the Corporate Banking Customers. As a result of the efforts taken to improve the software operation and stability, the customers' satisfaction has increased.

In addition to new products and solutions, the Bank still strives for acquiring customers for well-known products. The marketing of Prepaid Payment Cards Visa Electron, where the Bank has been maintaining its leading position may serve as an example. The Cards are issued to corporate customers within loyalty and promotional programs and in the form of Electronic Coupon. In 2004 the number of customers using this product increased by 49%. By the end of the year, the number of issued Prepaid Payment Cards amounted to 127,000.

The Bank also actively acquires customers for Citibank Business Debit Cards. The number of customers using Citibank Business Debit Cards increased by 135% and the number of issued Cards increased by 123%.

In 2004, the UniKasa Payment Servicing Network (S.O.P.) grew rapidly. The number of UniKasa terminals within the network increased by 1,200 compared to December last year. In addition to the major national invoice issuers, the creditors taking advantage of the network services also include local companies, which has made the network even more attractive. In December, the number of transactions concluded by means of UniKasa Payment Servicing Network exceeded 300,000.

2004 saw further development of SpeedCollect, which is a basic version of a mass payments servicing system. The system is offered to cellular and cable telecom operators, cable TV providers, distributors of gas and power supply and insurance companies. Throughout 2004, SpeedCollect automatically processed over 130 million payments. In July, the elimination of paper-based transaction servicing led to further automation and cost reduction. A joint undertaking of the Bank and Poczta Polska resulted in shorter post office payments transfer to the Bank, which now takes only 2 business days. The launching of CitiConvert – an integrated electronic report system - was one of the major projects influencing the time and data quality of payments delivered to SpeedCollect customers..

In 2004, the Bank played an active role on the market of servicing payments by Direct Debit. Throughout 2004, the Bank processed more than 4,76 million customer transactions, which in

December reached over 50% share of the Direct Debit market. The Bank was able to retain this leading position thanks to participating in various initiatives aimed at promoting direct debit among Bank's customers. The customers also highly appreciated the Bank's active participation in the Coalition for Direct Debit, which organized and carried out a Direct Debit promotional campaign in newspapers, on the Internet and TV. As a result of the activities undertaken by the Coalition, the Bank was awarded a prestigious *Twój Styl* prize - Alicja 2003. In addition, the Corporate Bank in cooperation with the Consumer Bank introduced the possibility to activate Direct Debit by individual customers via CitiPhone and CitibankOnline.

1.3.2 Trade Finance products

In 2004, the Bank significantly enhanced and developed the electronic platforms, through which trade finance products are offered.

Due to a high level of interest shown by Bank's customers, the guarantee products offer was extended to include excise guarantee which is an obligation contracted by the Bank towards the Customs Office, upon the Bank customer's order, representing a collateral securing payment of the excise duty.

The Bank's guarantee offer was also extended to include the standards required by beneficiaries of PHARE, European Union and World Bank programs and by the Customs Authorities.

A further innovation is the contract signed between the Bank and the Agricultural Market Agency on cooperation in issuing and servicing bank guarantees issued by the Bank in favor of the Agricultural Market Agency, representing a security for proper performance of financial obligations by the Agricultural Market Agency resulting from the Common Agricultural Policy mechanisms.

In addition to guarantee products within trade finance products, the Bank developed Supplier Finance – an option within factoring. The financing mechanism involves the discount of receivables from the selected group of suppliers of the given debtor, without the right to recourse against the supplier. The Bank's entire risk is associated with the debtor, who is also a borrower who, for the purpose of the program, uses its credit line. The implementation of this product enables the debtor to extend the payment dates and the supplier to improve financial liquidity.

Commercial Revolving Loan is another new solution offered by the Bank. It has been designed for financing the customer's operating activity. The loan is secured with confirmed assignment of receivables from selected local debtors. The main feature of the product is the weekly adjustment of available credit line according to the amount of submitted receivables. What is distinctive in this product is the automation ensured by CitiConnect, which makes it very user-friendly for the customer and efficient for the Bank. Another advantage for the customer is the Bank's contact with debtors, which makes the debtors more disciplined.

The following are the most important trade finance transactions executed by the Bank in 2004:

- Framework agreement on issuing bank guarantees with a construction company, for the amount of PLN 80 million;
- Payment guarantee issued within a consortium of banks, upon the request of a petroleum industry customer, for the total amount of USD 96 million (the Bank's share was USD 48 million), which secured proper performance of contractual obligations towards suppliers;
- Letter of credit, constituting security for the amount of EUR 37.5 million, issued upon the request of a petroleum industry customer and securing contractual obligations during the investment project;

- Launch of export pre-financing programs for a shipyard industry customer for the amount of USD 34.2 million for a foreign shipowner in cooperation with KUKE and the State Treasury;
- Short-term financing of a tire industry customer distribution network (over 80 distributors) based on Paylink Card (a tool giving access to trade receivables next day after the invoice date or its due date, with the possibility to credit the debtor automatically) for the total amount of PLN 34 million;
- Advancement of the first tranche of a special purpose loan (short-term financing of seasonal purchase) to a sugar industry customer for the amount of PLN 30 million, with the target amount of PLN 60 million;
- Advancement of an export prefinancing loan for the total amount of USD 87 million (the Bank's share was USD 29 million), granted by a banking consortium to a shipyard industry customer for the construction of 10 container ships over three years;
- Advancement of an export prefinancing loan for the amount of PLN 12 million to a machine-building industry customer;
- Supplier finance program for a construction industry customer for the amount of PLN 10 million to cover 10 new suppliers.

Some of the above programs involve foreign trade settlements, an area in which Bank Handlowy w Warszawie SA maintains its leading market position. 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 borne fruit, especially in terms of insuring trade receivables originating in transactions with Eastern European countries.

1.3.3 Custody services

The Bank is the leading depositary bank in Poland. It offers custody services to foreign institutional investors and depositary services to domestic financial institutions, in particular pension funds, investment funds and insurance capital funds.

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 involves intermediation in the settlement of transactions for domestic customers on foreign markets.

The Bank has also been actively participating in improving the quality of legal regulations concerning the securities market, by taking part, through its delegated representatives, in the Council of Depositary Banks at the Association of Polish Banks. The Bank's strong position enables it to propose changes in legal regulations and to create practices which bring the Polish market closer to international standards. The Bank introduces new system solutions in cooperation with the Securities and Exchange Commission, Krajowy Depozyt Papierów

Wartościowych S.A. (National Depository of Securities), the Warsaw Stock Exchange and the Insurance and Pension Funds Supervisory Commission.

As of the end of 2004, the Bank acted as depositary for 7 open-end pension funds and 12 investment funds managed by 4 investment fund societies.

1.4 Money market and FX market

In 2004, the Bank maintained its leading position on the Polish FX market, money market and interest rate market. In 2004, the value of FX turnover increased by 17% compared to 2003, thereby increasing the Bank's market share up to 23%. In 2004, the Bank maintained its leading position on the corporate bonds market with market share at the level of almost 20%.

In 2004, the Bank acquired over 100 new customers trading in options and introduced several new option structures to the offering. This achievement contributed to the reinforcement of the Bank's leading position in the derivatives market. 2004 also saw a growing demand for Euro FX options, reflecting increasing settlements made by Polish enterprises with the countries of the European Monetary Union.

In 2004, the Treasury Division introduced many new products both for corporate customers and private individuals. In March 2004, the Bank introduced the "Market Linked Deposits" (MLD) program, designed for customers with large financial surpluses. The product is complementary to standard customer deposits and attracts customers who seek higher rates of return, depending on the selected market ratio performance, while ensuring safety of the invested capital. In the second half of 2004, to meet customers' requirements, the Bank enriched the scope of currencies in which MLD contracts may be executed. In 2004, 64% of the MLD volume was based on USD and 31% on Euro.

Notable transactions executed by the Bank in 2004, were an independent private placement transaction for the Ministry of Finance involving the first private issue of structured coupon bonds amounting to PLN 750 million and a structured transaction hedging the raw material price for the power industry customer. The Bank has observed increasing demand for hedging transactions; this also resulted in concluding several hedging contracts in 2004 covering raw material prices and interest rates.

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 cash management products available and prepare offers that embrace lending, debt and equity financing, mergers and acquisitions.

1.5.1 Financial and advisory for enterprises

The following are the main transactions that were executed by the Bank in 2004:

- During the first half of 2004 the Bank acted as a financial advisor for a petroleum industry customer during purchase of a foreign petroleum company. The scope of the Bank's advice related to the analysis of the indebtedness of the group companies being acquired and to setting the methods of restructuring that debt, as well as analysis of the impact of the acquisition on the customer's rating and financing conditions;

- In March 2004, the Bank participated in the arrangement of a syndicated loan of PLN 88 million for a power industry company;
- In April 2004, the Bank acted as financial advisor for an international insurance group during the sale of its shares in a Polish company. The Bank also prepared an information memorandum and carried out the process of searching for a strategic investor for the company;
- Also, in 3Q of 2004, the Bank closed a 5-year loan agreement with a telecom company for the amount of EUR 550 million. There are 14 banks participating in this transaction and the Bank acts as a syndication leader and syndication agent;
- In 4Q of 2004, the Bank closed a 2.5-year loan agreement with an aircraft company in the amount of PLN 400 million. There are 5 banks participating in this transaction and the Bank acts as a syndication leader and syndication agent;
- In 4Q of 2004, the Bank concluded a commission contract with a transport company to arrange a 10-year syndicated loan in the total amount of EUR 130 million. In this transaction the Bank will act as a syndication leader and syndication agent.

1.5.2 Issuance of corporate debt securities

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

- In January 2004, the Bank participated in the short-term debt securities issue program of a leasing company with the indebtedness limit of PLN 600 million. The Bank acted as a co-arranger and dealer of the program.
- In June 2004, the Bank joined the short- and medium-term bonds issue program of an entity managing a hypermarkets chain, with the indebtedness limit of PLN 300 million. The Bank acts as a dealer of the program.
- In July 2004, the Bank concluded a commission contract with a power industry company to arrange long-term bonds issue program for the total amount of PLN 600 million. The purpose of the issue is to finance the construction of a power unit. The Bank acts as the main bank structuring the transaction and one of three authorized arrangers.
- In September 2004, the Bank singed annexes to the contracts on debt securities issue program for a group of entities in automotive industry, increasing the indebtedness limit within the program up to PLN 2 billion. The Bank acts as a lead manager, paying agent, depositary and dealer of the program.
- In 4Q of 2004, the Bank concluded a contract on debt securities issue program for an automotive company with the indebtedness limit of PLN 500 million. The Bank acts as arranger, issuing agent, paying agent, depositary and dealer of the program.

As of the end of 2004, the Bank had a leading share in the short-term debt securities issuance market reaching over 20%.

1.6 Commercial Banking

In 2004, the Commercial Banking Division was established as a separate division. 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 an optimal usage of branch network on the basis of the complete product offering, with a special focus on liquidity management and trade financing.

The establishment of the Commercial Banking Division ensures more effective servicing and optimal adjustment of the Bank offer to the expectations and needs of the Division's customers. The key 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 local enterprises serviced by the new division has not change. The product offering of the Bank (funds management, treasury services and basic corporate finance and investment banking products) has been made available to an extended customer base through the intensification of cross-selling of products.

In 2004 for several weeks, the Bank conducted a press campaign for the Commercial Bank in prestigious and authoritative magazines. The purpose of this campaign was to promote the image of Citibank Handlowy as an institution offering a unique combination of local know-how and experience on the Polish market, and a professional team with an access to global solutions, innovative products and modern technology.

1.7 Cooperation with international financial institutions

1.7.1 Bank's relationship with Hansabanka

The Bank and Latvian AS Hansabanka signed an agreement on mutual cooperation. The agreement is to provide the institutional customers of the Bank and Hansabanka with high quality financial services offered by both banks, both in Poland and Latvia.
Hansabanka is the second largest bank in Latvia, part of the Hansabank Group.

In August last year, the Bank signed a similar agreement with Lithuanian Hansabankas. The Hansabank Group is the largest local banking group present in Lithuania, Latvia and Estonia. It is part of Swedbank. In early 2003, the Bank and Swedbank signed a cooperation agreement.

As part of the developing cooperation with the Hansabank Group, the Bank set up nostro accounts in LTL, LVL and EEK, allowing customers to make payments in those currencies within a single business day.

1.8 Retail Banking

1.8.1 Global Tetail Banking

In 2004, Retail Banking faced opportunities relating to a growing consumer demand for banking products, as well as challenges of the financial services market, opened to competition form the EU countries. Banks provided inducements in the form of lower fees and margins, which generally sharpened the efforts to win and maintain customers.

Under such circumstances, it is even more noteworthy that the Bank was able to maintain its leading position on the credit card market throughout 2004, generating a growth of 14% in the number of cards issued in comparison to 2003 year-end figures. The Motokarta Kredytowa Citibank-BP, issued through the BP gas station network, has been the key growth factor. The total number of credit cards issued by the Bank in 2004 (Citibank Silver, Citibank Gold, Citibank-BP, Citibank-Era, Citibank-Elle) exceeded 520,000.

Another well received development was Installment Plan "Komfort", enabling convenient arrangement of monthly installments for chosen credit card transactions. Moreover, since 2004, credit cards issued by Citibank enable repayment by direct debit orders from accounts serviced by another bank.

Other credit products provided by the Bank were also very popular. The volume of Citibank Credits granted, provided with minimum formalities and for any financing purpose, was twice as high as in 2003. The product's popularity was also boosted by the option enabling consolidation of several facilities into one

Other credit products provided by the Bank enjoying significant popularity included the Citibank Credit Line and the Citibank Secured Credit Line, which offered higher interest rates and enabled completion of an intended purchase without liquidation of deposit savings. Another advantage of the credit product is zero interest rate during the first seven days. The volume of Credit Lines granted throughout 2004 grew by 9%.

In order to extend its credit range, in March 2003 the Bank entered into cooperation with GE Money Bank SA in the area of mortgage credits. At selected multi-role branches and CitiGold branches countrywide, the customers were provided with access to basic information on the range and terms & conditions of credits, plus a possibility to make an appointment with a representative of GE Money Bank SA. The credit may be earmarked for purchase of an apartment or a house on the primary or secondary market, and also for building or alteration work. Credits are available in four currency options – PLN, EUR, CHF and USD – with a variable interest rate.

In 2004, the Bank recorded a significant increase in demand for investment and insurance products, and the number of customers interested in above-average profits with acceptable risk level increased by nearly 35% in comparison with 2003.

The Bank's range of insurance products includes e.g. the Savings Program with Life Insurance Plus, Investment Program with Life Insurance and Investment Portfolio. The latter, introduced in Q4 of 2003, saw a very dynamic growth rate in 2004. The product offers with a very attractive and innovative solution, which enables customers to allocate their resources in many investment funds and move resources flexibly between various funds. At the same time, the product ensures protection of the capital and attractive legal and fiscal conditions.

Among the investment products, the CitiFunds Targeted Savings Plans (CPO) should be distinguished, as their sales in 2004 doubled in comparison with 2003. Equally noteworthy are Market-Linked Deposits (MLD). There were 34 subscriptions for MLD in 2004, enabling customers to take advantage of favorable conditions on capital markets, and 17 subscriptions for structured bonds.

In October 2004, the Bank launched agency services in connection with sale of the product provided by the Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A. – the Individual Pension Account (IKE) with CitiFunds, enabling investments in chosen funds. Within an IKE, investments can be made in safe or more risky funds, which may generate much higher profits on a long-term basis.

2004 saw further growth of CitiGold Wealth Management – a retail-banking service based on an integrated package of savings, investment and insurance products, supported by Plan Majątkowy (Wealth Plan) and Analityk Portfela (Portfolio Analyst) software applications. The package is provided under a sub-brand addressed to customers who hold investment resources of not less than PLN 100,000 and who expect customized financial advice. CitiGold Wealth Management ensures a comprehensive assessment of the customer's investment profile and makes it possible to create a customized model meeting its financial needs with use of a wide range of products.

CitiGold Wealth Management is available at 11 CitiGold branches and 18 corporate branches of the Bank.

In spite of alternative savings products being popularized and significant competition in the area of customer deposits, the Bank maintains a stable position on the market without an aggressive pricing policy. This is due to a range of leading-edge online T-lokaty (T-Deposits), which ensure easy and quick access to the product, a wide choice of currencies and tenors, as well as competitive interest rates.

The development of the product range is accompanied by implementation of pioneering distribution channels. In 2004 the Bank observed a development of the over-the-phone payment service implemented in 2003. Moreover, the Bank launched an option for ordering of services online. In the area of payment services initiated over the phone and online, throughout 2004 the Bank cooperated with such operators as: Netia, Swiat Internet, Plus GSM, Era GSM, Idea, TP SA, UPC and Cyfra Plus.

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.

In 2004, the Bank continued the popularization of the Citibank Online (CBOL) Internet platform and recorded an increase in the number of registered platform customers to 230,000, i.e. a growth by 56% in comparison to 2003 year-end figures. Additionally, it has been established that over 70% of transactions are initiated via the Internet platform, a measurable benefit for the Bank through savings in other distribution channels.

2004 saw also a substantial growth of interest in the CitiGSM service, which provides customers daily SMS reports concerning the balance on their current account or credit card account. The number of service users increased to over 54,000 at the end of 2004, which means there was a growth by 32% in comparison to 2003 year-end data.

At the end of 2004 the Consumer Banking Sector serviced 345,500 current accounts, compared to 329,200 at the beginning of the year.

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 pursued by establishing and maintaining strong customer relations, where the top priority is given to customers' needs, with a simultaneous focus on profitability of products and customers. The main principle is a personalized approach to every customer, with a view to building a long-standing relationship, beneficial for both parties.

The target market of CitiFinancial are 15.5 million private individuals, in more than 7 million households. This is a significant market where the access is guaranteed through the Bank's credit offering. First and foremost, CitiFinancial focuses on customers who have not found a product range adjusted their needs at traditional banks. Most of them are customers with medium or lower monthly incomes who appreciate the accessibility of the Bank's outlets. The Bank has rapidly developed its network of branch offices located at shopping centers and in the vicinity of housing estates. At the end of 2004, the Bank operated 39 branch offices, compared with 16 at the end of 2003.

The CitiFinancial product offering includes consumer loans (secured and unsecured) and sales of insurance products. Granted loans constitute an entry product, which is the basis for developing customer relationships and offering other products which CitiFinancial plans to develop in order to adjust to the needs of customers.

The group of products described above, developed and sold under the brand name of CitiFinancial, is characterized by a strong, more than nine-fold sales dynamics, which proves the implemented market penetration model to be efficient.

1.8.3 CitiBusiness

Since May 2004 the Consumer Bank 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 enterprises from the target market. Packages currently available include the following:

Package	**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

Moving small and medium enterprise services to the Consumer Bank Sector made it possible to systematize and expand the product range in comparison with the products offered under Interbiznes brand. Access to accounts was also broadened to include Consumer Banking distribution channels, such as CitiPhone 24 hour, Citibank Online electronic banking and the network of Consumer Banking branch offices and Citibank Online 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 a link 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 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.

In Q4 of 2004 the CitiBusiness range was extended with trade products and services: Letters of Credit, Documentary Collection, Letters of Credit Discount and Bank Guarantee. In December

2004 a web page *www.citibusiness.pl* was also launched, providing detailed information on the products, application forms and contact data.

1.9 Branch network

2004 was a period of intensive restructuring of the Bank's branch network, aiming at optimization of the operating cost and accessibility to retail and corporate customers. The corporate network has been divided into four Macro-Regions with Headquarters in Warsaw (Central-Eastern), Cracow (Southern), Bydgoszcz (Northern) and Wrocław (Western), which had 54 branches in total at the end of 2004.

The Consumer Banking branch network had 86 branches at the end of 2004, including 11 branches dedicated to CitiGold Wealth Management customers.

One of the highlights in 2004 was an extension of branches' functionality to include both retail and corporate customer services; as a result of which 28 out of 54 Corporate Banking branches and 10 out of 86 Consumer Banking branches may serve customers of both divisions. Moreover, the networks of both divisions' – 129 branches in total – may serve CitiBusiness customers.

Additionally, the Bank has rapidly developed its CitiFinancial branch network. In 2004 the number of branches grew by 23, amounting to 39 at the end of the year.

1.10 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, which amounted to nearly PLN 50 million in 2004, provides evidence of the sophistication of the Bank's technological infrastructure.

The following solutions supported the development of a leading-edge product range, improvement in quality and efficiency, and reduction in cost:

- 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;
- Implementation of a pilot multi-station version of the NBP Skarbnet system, which enables dealers to enter into online transactions on money bills, treasury bonds and debentures;
- Implementation of the CRM application for serving the Bank's biggest customer segment, enhancing relationship management;
- Integration of the acquisition and sales elements in the CRM application in the Commercial Bank Division, implementation of mechanisms synchronizing customer and prospect data with the marketing base in order to enhance customer service;
- Automation of payments delivered under an agreement between the Bank and Poczta Polska. The implementation enabled processing of 'paper' transactions initiated at the post office through the CitiGateway system (the Poczta Polska project), and substantial savings due to elimination of manual processing;

- Implementation of an automated interface between FlexCube, the Bank's main accounting system, and Sorbnet. The interface reduces the waiting time for processing of Sorbnet messages to 1 minute.
- Conversion of customers' securities records from the Skarbiec system to the Securities module in the Bank's main accounting system, which made it possible to withdraw the Skarbiec system, and in consequence to reduce the cost of service;
- Implementation of Straight Through Processing (STP) for MT202 messages, which enabled an improvement of the customer service and reduced the use of paper.

In order to reduce expenses, the Bank uses state-of-the-art technological achievements, implementing the idea of an e-office. This may be evidenced by the extension of electronic archiving and documents circulation processes for customers' credit documentation. In result, the Bank obtains more efficient access to archival documents and saves office space necessary for paper archives. Moreover, a piloting version of an e-order module was implemented among employees of technological departments to replace the circulation of paper documents connected with administration of equipment removal, equipment replacement or repairs at the Bank.

While operating a large number of branches countrywide, the Bank also works on development of internal communication among its employees. In 2004 a videoconference platform was launched, which enables videoconference meetings of Bank's employees with Management. Also the intranet Źródło (Source) service is now being upgraded with an enhanced news services, which has contributed to significant improvement in communication between many of the Bank's units.

Additionally, the Bank takes care to optimize the fulfillment of its regulatory obligations. In 2004 the Bank launched the full functionality of the nCAPS system, facilitating automated calculation, recording and reporting of loan provisions required by the regulator and the Bank. Also a number of changes have been implemented in the WEBIS and Abacus/Fire applications in the area of functionality for NBP reporting.

A system has been developed and implemented for reporting of suspicious transactions, pursuant to the Anti-Money Laundering Act (Dimon – AML Register).

An additional functionality was also developed and implemented in the BoP system, facilitating generation of reports sent to the NBP pursuant to new requirements of the EU (Resolution No. 48/2003 of the Management Board of the NBP of 14 November 2003).

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.

Moreover, in 2004 the Bank launched an additional server center, which increased the efficiency of the CitiDirect system; the Bank implemented changes adapting the system to the new IBAN format.

In order to ensure high quality of service, in 2004, the Bank started replacing its ATMs with more advanced and more efficient devices, meeting the most recent requirements of Visa and MasterCard systems. Changes were also introduced into the Citibank Online e-banking system, improving its functionality and reliability.

In addition, together with development of the product range for CitiBusiness customers, the Bank performed a number of operations in order to adapt the system to that group of customers, and in order to provide access to CitiBusiness products in branch networks of both the Corporate Bank and the Consumer Bank Divisions.

1.11 Other Information about the Bank

1.11.1 Rating

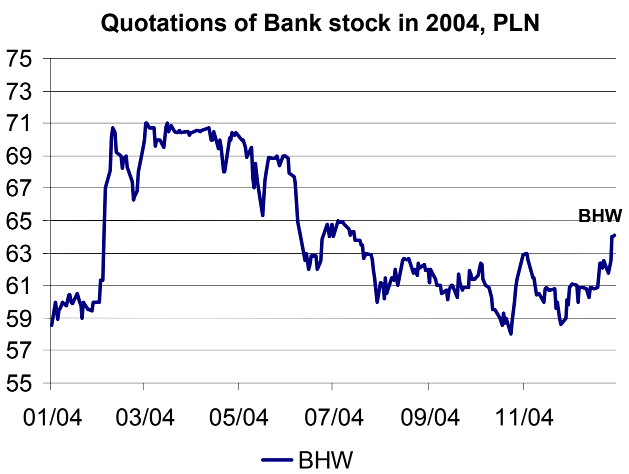
The Bank has a full rating from the international rating agency Moody's Investors Service.

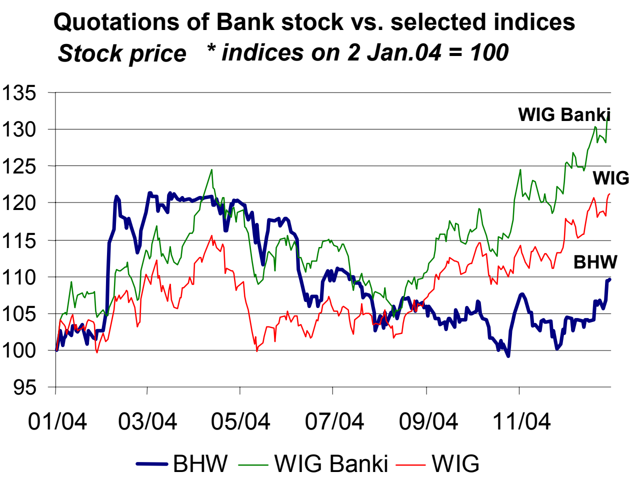
Since January 2003 Moody's has maintained an A2 rating for long-term deposits (investment grade, 6th on the 21 point rating scale) and Prime-1 for short-term deposits (1st on the 4 point rating scale). The Bank ratings are at the highest level available for entities domiciled in Poland.

Additionally, on October 31, 2004, the agency notified the Bank of a change in outlook of the financial strength rating, now at D+ level, from stable to positive, which was justified by the Bank's leading market position in the area of credit cards, corporate and investment banking, capital market expertise, as well as cash and trade services and the expansion of mass-market Consumer Banking under the CitiFinancial brand.

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

The Bank's share prices on the Warsaw Stock Exchange (WSE) in 2004 grew from PLN 58.5 (2 January 2004) to PLN 64.10 (31 December 2004), i.e. by 9.6%. In comparison, the WIG-BANKI banking sector index in the same period grew by 32.3%, and the main exchange index, grew by WIG, 21.3%.





1.11.3 Awards and honors

Awards and honors granted to Bank Handlowy w Warszawie SA in 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 in 2003 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. Bank Handlowy 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 Bank Handlowy were ranked number one for their most accurate 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.
8. Corporate branches of Citibank Handlowy in Bydgoszcz and Słupsk were awarded in the category of customer-friendly banks in the Kujawsko-Pomorski Region in a 'Golden 100' ranking published by *Gazeta Pomorska,*, Poland's largest local daily.
9. Corporate Customer-Friendly Bank 2004 – a promotional emblem, Golden Branch – Corporate Customer-Friendly Bank, received by all branches entered by the Bank: Bydgoszcz, Gorzów Wielkopolski and Poznań.
10. The Bank received, as the first financial institution in Poland, an award of the European Foundation for Quality Management "Recognized for excellence".

1.11.4 Sponsoring activity and cultural patronage

- 2004 started with a 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 at 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 at 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 Mascagni.
- In December 2004 the Bank sponsored a concert of Diana Krall, a renowned jazz singer, which took place at the Congress Hall of the Warsaw Palace of Culture and Science.

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

2. Fully Consolidated Subsidiaries of the Capital Group

2.1 Dom Maklerski Banku Handlowego S.A.

2.1.1 Secondary Market

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

The bullish trend on the securities market in 2004 was a consequence of, among other factors, Poland's accession to the European Union and a number of exchange debuts, including that of Poland's largest bank PKO BP. There has also been a growing interest of foreign investors in the Polish capital market, with a particular focus on participation in trading on the Warsaw Stock Exchange. DMBH largely benefited from the bullish trend, and – having a very strong sales and transaction management team, specialized in serving large institutional customers whose assets are kept at trustee banks – DMBH was a leader on the stock market, with a share of 18.5% in the total turnover generated by all brokerage houses on that market.

In 2004, DMBH recorded an increase in turnover of 64% in comparison with 2003. The value of transactions settled in 2004 exceeded PLN 20 billion, with a subsequent increase in the transaction volumes to 432,000, i.e. a growth by more than 11% in comparison with 2003.

The bullish market trend had a positive impact on the popularity of stock market investments, which was manifested by a 13% increase in the number of investment accounts managed by DMBH in 2004, which exceeded 14,500.

2.1.2 Primary Market

In 2004, DMBH arranged five issues, including a pioneering transaction where the first American company, IVAX Corporation, listed simultaneously on the AMEX and London Stock Exchange markets, entered the Warsaw Stock Exchange. The shares entered the market under the first stock swap call in Poland. The company taken over under that call was Polfa Kutno, and its shares were paid for with the stock of IVAX Corporation. DMBH intermediated in the call.

The total value of offerings managed by DMBH was PLN 666 million, which is 4.9% of the value of securities offered on the market. With respect to the number of offerings, DMBH managed over 10% of transactions on the primary market.

2.1.3 DMBH as Market Maker

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

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. At the end of 2004 DMBH acted as Market Maker for 44 company shares, i.e. 19.1% of all shares listed on the WSE, one convertible bond and futures contracts for the WIG20 index. It is noteworthy that among companies managed by Market Makers, there were three foreign companies quoted in parallel on their home markets.

On the CeTO, DMBH operated as a Market Maker for one stock and USD CitiBonds investment certificate of the Mixed Investment Fund. DMBH held a leading position with respect to the value of transactions managed as Market Maker. The share in this market segment in 2004 reached 28.0% of the total turnover managed by all brokerage houses acting as Market Makers.

Company	Headquarters	Bank's stake in company's equity	Balance sheet sum	Equity*	Net profit/loss*
		%	PLN thousand		
Dom Maklerski Banku Handlowego S.A.	Warsaw	100.00	361,542	93,266	18,261

** Prior to consolidation adjustments.*

The decisive impact on the improvement of DMBH's 2004 financial performance was driven by the market environment – the bullish securities market was caused by, among other things, Poland's accession to the EU and numerous exchange debuts. A significant growth in trading volumes on the WSE translated directly into higher turnovers obtained through the brokerage house. DMBH maintained its leadership measured in terms of its share in market trade brokerage as a result of a continuous improvement of the quality of services provided to its customers. Additionally, DMBH's good results were helped by its active involvement on the primary market.

3. Subsidiary undertakings constituting the Capital Group and other subordinated undertakings excluded from consolidation but accounted for under the equity method

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

Leasing services are provided by two subsidiary undertakings of the Bank: Handlowy-Leasing S.A. and Citileasing Sp. z o.o. The offering of Handlowy-Leasing S.A. and Citileasing Sp. z o.o. is primarily aimed at corporate customers serviced by the Bank. The range of products includes operating leases, finance leases and sale and lease back of fixed assets in the following groups:

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

- typesetting equipment;
- construction machines.

Additionally, in 2004, upgraded versions of transport and typesetting programs were introduced and a financing program for plastics processing machines was created and implemented.

2004 was also a period during which both companies made considerable effort to standardize and adapt internal procedures and to further extend distribution channels by developing cooperation with the Bank's branch network.

The development of the product range reflected adaptation to changes connected with Poland's accession to the European Union. In Q4 of 2004, Handlowy-Leasing S.A. issued lease commitments within the first round of applications for structural funds of the European Union granted to small and medium enterprises under the auspices of the Sectoral Operational Programme – Increase of Competitiveness of Enterprises (SOP – ICE).

In 2004, the Group's leasing companies, with Handlowy–Leasing S.A. as a leader, had over 1,900 customers. The total value of active lease contracts at the end of 2004 was over PLN 200 million, which represented a total market share of 1.7%.

Leasing companies used credit lines granted by the Bank. As of the end of December 2004, the total credit receivables of the Bank from both Companies amounted to PLN 349 million.

Company	Headquarters	Bank's stake in company's equity*	Balance sheet sum	Equity*)	Net profit/loss
		%	PLN thousand		
Handlowy-Leasing S.A.	Warsaw	100.00	755,202	25,671	21,920
Citileasing Sp. z o.o.	Warsaw	100.00	189,273	167,410	3,580

**) Bank's stake in the core capital together with indirect interests.*

3.2 Handlowy Zarządzanie Aktywami S.A.

At the end of 2004, the value of assets managed by Handlowy Zarządzanie Aktywami S.A. (HanZA) was PLN 2,439 million, a growth of over 50% in comparison with 2003 year-end figures. The portfolio value of individual customers using the on-call securities portfolio management service was PLN 775 million at the end of the year. The value of institutional customers' assets was PLN 1,664 million, where PLN 415 million were assets of CitiFunds and PLN 1,221 million came from insurance companies and other financial institutions.

In 2004 the portfolios managed by HanZA generated good results. Most investment strategies used for management of customer portfolios exceeded the applicable reference rates (benchmarks). The highest rate of return was generated by portfolios investing in shares quoted on the Warsaw Stock Exchange – selective securities portfolios generated 33.2%. Debt securities portfolios, which belong to products most often chosen by institutional customers, had also generated a competitive rate of return of 7.5%.

Company	Headquarters	Bank's stake in company's equity	Balance sheet sum	Equity	Net profit/loss
		%	PLN thousand		
Handlowy Zarządzanie Aktywami S.A.	Warsaw	100.00	6,352	4,567	(412)

3.3 TFI Banku Handlowego S.A.

The investment funds management business at the Group is performed by the subsidiary Towarzystwo Funduszy Inwestycyjnych Banku Handlowego SA.

The value of assets managed by the subsidiary at the end of December 2004 exceeded PLN 1 billion. In comparison with the volume of assets at the level of PLN 917 million on 31 December 2003, in 2004 the value of assets rose by ca. 10%. The fund with the highest volume of assets on 31 December 2004 was the CitiSenior Specialist Open-Ended Investment Fund (SFIO), whose asset value exceeded PLN 252 million.

2004 was another successful year for equity and mixed funds, which doubled their assets in comparison with 2003. Apart from a growth in assets, these funds also reported very good investment results. The highest rate of return in that period was generated by a fund investing 100% in equities – the CitiEquity Open-Ended Investment Fund (FIO), an increase by 20.42%. The CitiBalanced Eastern European FIO generated 16.17% for holders of participation units, and the CitiSenior SFIO 9.08%. The value of CitiBonds FIO participation units grew by 5.43%, and CitiMoney FIO by 4.58%. Very good results were also generated by the CitiLiquidity SFIO – a growth by 5.64%.

An important event of 2004 was a change of the strategy implemented since September by the CitiBalanced FIO, which opened its assets to investments in stocks of companies listed on exchanges in Central European countries. This new strategy has also been reflected in the fund's new name – now CitiBalanced Central European FIO.

There has been a growing interest in CitiFunds Targeted Savings Plans (CPO) – a savings product addressed to individual customers. CPO assumes systematic investment of savings in participation units of one of the CitiFunds for a period of 3, 5, 10 or 15 years. This year, 5,662 CPO registers were opened. By the end of December, customers accumulated over PLN 118 million in registers opened under CPOs.

The network of entities distributing participation units of CitiFunds is being constantly developed. Since 29 March, five CitiFunds – CitiEquity FIO, CitiBalanced Central European FIO, CitiBonds FIO, CitiMoney FIO and CitiSenior SFIO – are available at outlets of Deutsche Bank PBC S.A.

Company	Headquarters	Bank's stake in company's equity	Balance sheet sum	Equity	Net profit/loss
		%	PLN thousand		
Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A.	Warsaw	100.00	26,839	23,446	6,315

3.4 Special purpose investment companies

In 2004, the Group performed capital operations through four investment vehicles whose activities were financed by the Bank with repayable contributions to their equity capital, subordinated loans, and also with financial surpluses of the companies. Given the intention to phase out those activities, it is expected that the vehicles will be gradually divested or wound up. According to the information available on the date of the financial statements, selected financial data of those entities as of 31 December 2004 was as follows:

Company	Headquarters	Bank's stake in company's equity	Balance sheet sum	Equity	Net profit/loss
		%	PLN thousand		
Handlowy Inwestycje Sp. Z o.o.	Warsaw	100.00	15,307	9,253	706
Handlowy Inwestycje II Sp. z o.o.	Warsaw	100.00	4,100	4,074	175
Handlowy Investments S.A. *	Luxembourg	100.00	120,151	(67,698)	(15,101)
Handlowy Investments II S.a.r.l. *	Luxembourg	80.97	34,069	18,591	1,239

** The financial data of individual entities originates from non-audited financial statements.*

3.4.1 Handlowy Inwestycje Sp. z o.o.

In 2004, Handlowy - Inwestycje Sp. z o.o. managed a portfolio comprising investments in the following companies:

1. Handlowy-Heller S.A. with a 25.00% equity stake.
2. Lubelska Fabryka Maszyn Rolniczych S.A. with a 12.31% equity stake.
3. Citileasing Sp. z o.o. with a 2.53% equity stake.

Moreover, the company had a claim of PLN 3,793 thousand gross, sought under composition proceedings with Zakłady Odzieżowe „Bytom" S.A., provided for in 100%.

On 28 December 2004, under a Claims Sale Agreement with Handlowy – Inwestycje II Sp. z o.o., Handlowy – Inwestycje ZO "Bytom" SA to Handlowy - Inwestycje II Sp. z o.o.

3.4.2 Handlowy Inwestycje II Sp. z o.o.

In 2004 took place the sale of shares of FO "Rafamet" SA. The transaction conducted in two stages through packet-sale on Stock Exchange, allowed to sell all shares of the company.

In 2004, the Company also had a claim of PLN 3,390,000 against Zakłady Odzieżowe „Bytom" S.A., comprising the nominal value of bonds convertible into shares of Z.O. „Bytom" S.A., interest on the bonds and a premium for the bond holder. The claim was settled in a final court composition entered into at the meeting of creditors on 7 June 2002, approved by a decision of the Katowice Regional Court, X Commercial Division, dated 25 June 2002. The Company provided for 100% of the claim.

On 28 December 2004, as a result of a Claims Sale Agreement concluded with Handlowy – Inwestycje Sp. z o.o., Handlowy – Inwestycje II Sp. z o.o. acquired a claim of Handlowy - Inwestycje Sp. z o.o. against ZO „Bytom" S.A. for the issue of 23 Series III registered bonds of ZO „Bytom" S.A.

As of 31 December 2004, Handlowy – Inwestycje II Sp. z o. o. had in its portfolio claim in respect of bonds of ZO „Bytom" S.A.

3.4.3 Handlowy Investments S.A.

In 2004, the investment portfolio of Handlowy Investments S.A. registered in Luxembourg, was reduced through a sale of entire holding of shares in Polimex Cekop S.A. At the end of 2004, Handlowy Investments S.A. managed a portfolio consisting of investments in Eastbridge N.V., NIF Fund Holdings PCC Ltd., Handlowy Investment II S.a.r.l., and Pol-Mot Holding S.A.

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

In the first half of 2004, the company sold some of its shares in Techmex S.A. At the end of 2004, Handlowy Investments II S.a.r.l. registered in Luxembourg managed a portfolio containing shares of Techmex S.A. and one share of Handlowy Investments S.A.

3.5 Handlowy-Heller S.A.

The Group performs some of its trade financing operations through Handlowy-Heller S.A.

At the end of 2004, Bank Handlowy w Warszawie SA, partially through its subsidiary, Handlowy – Inwestycje Sp. z o.o., held a 50% equity interest (direct and indirect) in Handlowy – Heller SA

In 2004, Handlowy – Heller SA and Bank Handlowy w Warszawie SA engaged in cooperation under the agreement made in May 2004 with regard to cooperation consisting of the Bank providing to Handlowy-Heller S.A. with the service of advising Bank customers of an option to use the products offered by Handlowy-Heller S.A. The subject and scope of cooperation, as defined in the agreement, is both an alternative and complementary range of products related to trade financing, offered to date by the Bank.

The Company has actively been developing its product offer (factoring for Small and Medium Enterprises, foreign currency financing). To improve customer services and facilitate work, a new IT system, Faktorlink, was improved and a CRM (Customer Relationship Management) system was implemented.

In 2004, the turnover of Handlowy–Heller S.A. was at PLN 2,041 million, i.e. 51.8 % higher than in 2003. Handlowy-Heller S.A., with its 19% market share, ranks third in factoring services.

The Company’s total balance sheet assets at the end of 2004 was PLN 395.8 million, 31.5% higher than the year before.

The 2004 net profit was at PLN 6.1 million and was over twice as high as the previous year.

In 2004, Handlowy – Heller S.A. focused mainly on:

- winning new customers,
- developing direct distribution channels,
- enhancing quality and expanding the scope of services,
- implementing a new IT system for factoring transaction processing,
- efforts on the CRM system.

Figures as of 31 December 2004

Company	Headquarters	Bank's stake in company's equity *	Balance sheet sum	Equity	Net profit/loss
		%	PLN thousand		
Handlowy-Heller S.A.	Warsaw	50.00	395,842	27,102	6,091

*) Bank's stake in the core capital together with indirect interests

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

1. Competition within the banking sector

Mounting competition is observable on the Polish banking market amongst banks active in particular segments of that market. Many international financial institutions have been investing in the Polish banking sector. In addition, corporates are making use of financing alternatives to bank loans, such as commercial paper, bonds, equity issues or lease finance. Due to growth in foreign investment in the banking sector, sector consolidation as well as Poland's accession to the European Union, an increase in competition will be observed in the financial services market in Poland. The Polish financial sector will be more exposed to competition from foreign institutions, especially in segments such as asset management and corporate finance

Changes in the banking sector resulting from Poland's EU accession should not revolutionize banking activity. Banks are expected to compete mainly in the area of service quality, especially the speed and efficiency of customer service. The significance of electronic access channels to customer accounts will grow.

As a result of European accession, a sharper competition in the non-bank financial institutions market may be expected. The growing level of competition within the banking sector may have an adverse effect on the activities of Bank Handlowy w Warszawie SA Group.

2. Equity investment risk

For some equity investments, their pricing is based on the assumption of finding a strategic investor for the company, in which the Bank holds shares. Therefore, a continuous high level of foreign investment may be crucial to the valuation of such investments. Moreover, due to a number of macroeconomic effects, the situation on equity markets and other factors having an impact on activities of the companies in which the Bank is a shareholder, may mean that the selling price of owned shares may turn out to be lower than expected, or even lower than their value in the Bank's books, which may have a negative impact on market valuation of the Bank's investments. The Bank has already created substantial provisions related to its equity investments and hence the risk level connected with a further drop in the value of the Bank's investment portfolio is low.

VII. Prospects for the Group's development

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

- Strategic investment portfolio,
- Restructuring exposures portfolio

1. Strategic Investment Portfolio

The Group seeks to expand its product range and presence and also strengthen its competitive position on the 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..

Brokerage activities

Brokerage activity of the Group is performed by wholly-owned Dom Maklerski Banku Handlowego SA (DMBH). The major clients 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.

Asset management

Asset management activities are conducted by two wholly-owned subsidiaries of the Bank Handlowy w Warszawie SA Group: Handlowy Zarządzanie Aktywami S.A. (HanZA) and Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A. (TFI BH). Their objective is to further penetrate the market of institutional customers and to increase market share in retail customers, mainly through the use of the Consumer Bank's extensive distribution network. It is also planned to expand the distribution network for TFI BH funds to include non-Group financial institutions.

Leasing activity

Leasing activities are currently conducted within the Bank Handlowy w Warszawie SA Group by two entities: Handlowy Leasing S.A. (100% indirect equity stake held by Bank Handlowy via Citileasing Sp. z o.o.) and Citileasing Sp. z o.o. (direct equity stake of 97.47%, the remaining 2.53% owned by Handlowy – Inwestycje Sp. z o.o.). The companies are currently in the process of merging. Their market share is expected to grow and sales of leasing products are to be developed among customers of the Commercial and Investment Bank Sector.

Factoring activity

Factoring is currently carried out at the Bank Handlowy w Warszawie SA Group directly by the Bank and through a subsidiary, Handlowy Heller S.A. New customers of factoring services are planned to be acquired, thus increasing both the volumes and values of invoices purchased.

2. Restructuring portfolio

Apart from strategic companies, the remaining investments are classified by the Bank in the restructuring portfolio. The Bank's objective is to reduce its exposure in that portfolio.

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

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

Transfer agent services, including registry services, data processing and funds accounting were provided to TFI Banku Handlowego SA by Citigroup Globalne Usługi Transakcyjne Sp z.o.o. (which became a member of Citigroup in December 2003).

The customers of the Consumer Banking Sector of Bank Handlowy w Warszawie SA and CitiFinancial are offered insurance products developed by CitiInsurance Polska Towarzystwo Ubezpieczeń na Życie S.A.

Signatures of all Members of the Management Board

Date	Name	Position/Function	Signature
24.05.2005	Sławomir Sikora	President of Management Board	
24.05.2005	Philip Vincent King	Vice-President of Management Board	
24.05.2005	Reza Ghaffari	Vice-President of Management Board	
24.05.2005	Lidia Jabłonowska-Luba	Member of Management Board	
24.05.2005	Michał H. Mrożek	Member of Management Board	