ADDITIONAL EXPLANATORY NOTES

1. Concentration of exposure

Information about the concentration of loan exposure of the Group is presented on the basis of the Consolidated Financial Statements, adopting the respective terms and conditions of establishing concentration limits in accordance with the provisions of the Banking Act of 29 August 1997 (Journal of Laws of 2002 No. 72, item 665, as amended) and its executive regulations issued by the Commission for Banking Supervision. The adopted method of calculation of consolidated own funds is consistent with the rules set forth in the Resolution No. 6/2001 of the Commission for Banking Supervision dated 12 December 2001 regarding specific rules for calculation of own funds of banks (...)(NBP Official Journal No. 22, item 44).

The concentration of loan exposure of the Group is presented with respect to the policy pursued by the Bank which in accordance with the provisions of the Banking Act is obliged to establish and periodically verify limits of concentration of receivables with respect to one entity or related entities and in individual economy sectors, while maintaining the standards and limits set forth in the Act.

Concentration limits

The Banking Act of 29 August 1997 (Journal of Laws of 2002 No. 72, item 665, as later amended) and its executive regulations issued by the Commission for Banking Supervision define maximum exposure limits for the Bank. Under article 71 paragraph 1 of the Act, which came into force as of 1 January 2002, total balance sheet and off-balance sheet exposure from one or more capital and organisationally related entity cannot exceed 20% of the Bank's equity when one of the entities is a parent entity or subsidiary undertaking of the Bank or is a subsidiary undertaking to a parent entity of the Bank or cannot exceed 25% of the Bank's equity when there is no such relationship between the Bank and such entities. Pursuant to provisions of the Resolution No. 5/2001 of the Commission for Banking Supervision dated 12 December 2001 regarding specific rules for calculating capital requirements for banking risk categories, including capital requirement for exposure exceeding concentration limits, method and detailed rules for calculation of the bank solvency ratio (…) (NBP Official Journal No. 22, item 43 as amended), the Bank is allowed to maintain exposure exceeding concentration limits, as defined in article 71 paragraph 1 of the Banking Act, solely with respect to debt arising from operations included in the trading portfolio.

As of 31 December 2004, the Bank had an exposure to a related party from the banking sector exceeding the statutory debt concentration limits. The excess exposure was related to debt arising from transactions in derivative instruments. Due to the fact that the debt concentration limit has been exceeded, an additional capital requirement for excess exposure was factored into the calculation of the Bank's capital adequacy ratio as of 31 December 2004.

The Bank sets out to limit its exposure to individual clients. In the presented reporting periods the Bank's exposure did not exceed the statutory limits in respect of banking portfolio exposure to a single entity or a group of entities related by equity or organisationally and did not exceed other concentration limits set by the Banking Law Act. As of 31 December 2004, the Bank's exposure in banking portfolio transactions with customers, which exceeded 10% of the Bank's equity, amounted to PLN 991,597 thousand, i.e. 24.0% of these funds (31 December 2003: PLN 762,565 thousand, i.e. 16.4%).

Concentration of exposure in individual economy sectors

To avoid excessive concentration of credit risk, the Bank monitors its exposure in individual sectors of the economy, defining the areas where the Bank's exposure should grow and the areas where opportunities for development are poor, and where the exposure should be reduced. The policy of the Bank's exposure to customers in individual sectors is pursued separately with respect to corporate customers within Corporate

Banking Divisions and with respect to small and medium-sized enterprises within the Commercial Bank.

The Bank's policy regarding exposures to corporate customers in particular sectors is developed through identification of target markets. A key component in this identification of markets is an assessment of sectoral risk. To this end, specialists in particular industries carry out sectoral analyses. Within the framework of the target markets specified, lending programmes are drawn up with documented requirements for approving the risk involved in specific kinds of business. The higher the sectoral risk, the tighter the criteria for risk approval. The assessment of the financial condition and development prospects of individual industries is a major element in the internal rating assigned to a customer.

In terms of small and medium enterprises, the Bank's policy on exposures consists of identifying a target market by negative selection particular industries. This involves eliminating from the target market those industries where the risk of doing business is considered too high in view of the standards in force in the Bank.

The Bank's policy distinguishes the following criteria as the basis for negative selection:

A/ industries excluded in view of their incompatibility with the characteristics of small and medium enterprises,
B/ industries excluded in view of their sensitivity to market factors and earnings volatility,
C/ industries excluded in view of their declining trends in performance.

The target market is then defined as all other industries that have not received an adverse assessment. A selective approach is admissible in relation to specific industries excluded due to sensitivity and volatility factors or to downward performance trends, whereby those customers with the highest internal ratings in those industries are retained.

Given there is a large diversity of customers representing the individual industries, the table below shows aggregated data for the Bank's exposure to the 20 largest industries.

Sector of the economy according to Polish Classification of Economic Activity (PKD)	***31 December 2004*** *in %*	***31 December 2003*** *in %*
Wholesale trade and sales on commission excluding motor vehicles and motorcycles	19.60	20.84
Financial intermediary excluding insurance and pension funds	10.73	7.41
Generation and distribution of electrical energy, gas, steam, and hot water	8.64	6.80
Production of food and beverages	6.66	7.25
Production of chemicals	3.73	3.80
Construction	3.66	4.07
Manufacture of machines and equipment not classified elsewhere	3.50	3.67
Post and telecommunications	3.39	3.03
Sale, service, and repair of mechanical vehicles and motorcycles, retail sale of fuel for motor vehicles	3.07	3.61
Production of other means of transport	2.69	3.29
Top 10 sectors	***65.67***	***63.77***

Sector of the economy according to PKD	***31 December 2004*** *in %*	***31 December 2003*** *in %*
Other economic activities	2..44	2.39
Production of radio, television, and communication hardware and equipment	2.30	1.70
Retail sale excluding motor vehicles and motorcycles; repair of household items and consumer products	2.25	2.23
Production of rubber and plastic products	2.21	2.36
Production of electric machines and equipment not classified elsewhere	2.16	2.36
Production of furniture; manufacturing activities not classified elsewhere	2.13	1.70
Production of coke and refining products of crude oil and nuclear fuels	2.07	1.64
Production of motor vehicles, trailers and semitrailers	1.94	2.70
Land transport, transport by pipelines	1.57	1.43
Manufacture of products from other non-metal raw materials	1.46	1.75
Top 20 sectors	***86.20***	***84.03***
Other industries	*13.80*	*15.97*
Total Bank	***100.00***	***100.00***

2. Sources and uses of funds

in PLN thousand

Source of funds	**31 December 2004**	**31 December 2003**
Funds from banks	1,898,252	1,868,837
Funds of customers and public sector	20,027,857	20,502,765
Other external funds	5,866,425	5,712,852
Own funds and net profit	6,155,553	5,947,523
Total source of funds	**33,948,087**	**34,034,977**

in PLN thousand

Use of funds	**31 December 2004**	**31 December 2003**
Bank placements*	7,043,329	7,283,176
Amounts due from customers and public sector	11,172,631	14,472,046
Securities, shares, and other financial assets	12,042,009	7,837,443
Other uses	3,690,118	4,442,312
Total use of funds	**33,948,087**	**34,034,977**

*including the following one-day deposits: „overnight”, „tom/next”, „spot/next”.

Set out below are amounts due to and from customers and the public sector as at 31 December 2004 related to operations carried out by the Bank branches, presented by Regions created in 2004, within which the Bank branches are grouped.

in PLN thousand

Name of region / Geographic operating area by provinces - districts	**Amounts due to customers and public sector**	**Amounts due from customers and public sector**
NORTHERN Region provinces: Kujawsko – Pomorskie, Pomorskie, Warmińsko – Mazurskie and districts of the Zachodnio – Pomorskie Province: sławieński, koszaliński, kołobrzeski, białogardzki, świdwiński, szczecinecki, drawski, grodzki Koszalin.	**944,001**	**975,195**
SOUTHERN Region provinces: Śląskie, Opolskie, Małopolskie, Podkarpackie, Świętokrzyskie	**1,359,975**	**1,173,741**
WESTERN Region provinces: Lubuskie, Wielkopolskie, Dolnośląskie, Zachodnio – Pomorskie without districts allocated to the Northern Region	**1,199,392**	**1,516,851**
CENTRAL-EASTERN Region city of Warsaw, provinces: Mazowieckie, Lubelskie, Łódzkie, Podlaskie	**10,658,921**	**5,461,223**
Consumer Bank – CITIBANK HANDLOWY	**5,865,568**	**2,045,621**
TOTAL	**20,027,857**	**11,172,631**

Set out below are amounts due to and from customers and the public sector as at 31 December 2003 related to operations carried out by the Bank branches, presented by Regions created in 2004, within which the Bank branches are grouped.

in PLN thousand

Name of region / Geographic operating area by provinces - districts	Amounts due to customers and public sector	Amounts due from customers and public sector
NORTHERN Region provinces: Kujawsko – Pomorskie, Pomorskie, Warmińsko – Mazurskie and districts of the Zachodnio – Pomorskie Province: sławieński, koszaliński, kołobrzeski, białogardzki, świdwiński, szczecinecki, drawski, grodzki Koszalin.	**825,853**	**1,619,226**
SOUTHERN Region provinces: Śląskie, Opolskie, Małopolskie, Podkarpackie, Świętokrzyskie	**1,397,428**	**2,084,312**
WESTERN Region provinces: Lubuskie, Wielkopolskie, Dolnośląskie, Zachodnio – Pomorskie without districts allocated to the Northern Region	**1,613,975**	**2,595,867**
CENTRAL-EASTERN Region city of Warsaw, provinces: Mazowieckie, Lubelskie, Łódzkie, Podlaskie	**10,613,314**	**6,839,564**
Consumer Bank – CITIBANK HANDLOWY	**6,052,195**	**1,333,077**
TOTAL	**20,505,765**	**14,472,046**

3. Contributions to foreign branches

The Bank and other entities of the Bank's Capital Group do not conduct any operations through foreign branches

4. Financial instruments of the Bank's Capital Group

4.1. Financial instruments by categories of financial assets and liabilities

		PLN thousand
	31 December 2004	**31 December 2003**
Financial assets for trading purposes	5,317,395	4,745,314
Financial liabilities for trading purposes	4,194,290	3,651,195
Loans granted and own receivables	18,495,262	22,262,489
Financial assets held until maturity	-	70,159
Financial assets available for sale	6,118,946	2,747,108
Total financial instruments	**34,125,893**	**33,476,265**

4.1.1. Financial assets for trading purposes

Financial assets for trading purposes by particular groups of assets:

		in PLN thousand
	31 December 2004	**31 December 2003**
Debt securities	1,212,091	1,118,834
Shares in entities which are not subordinated	151	1,570
Investment certificates	30	15
Amounts receivable from revaluation of derivative instruments	4,105,123	3,624,895
Total financial assets for trading purposes	**5,317,395**	**4,745,314**

Change of financial assets for trading purposes:

in PLN thousand

	2004	2003
Opening balance	**4,745,314**	**6,082,840**
- change in accounting principles	-	160,804
Opening balance after restatement to conform with current year presentation	**4,745,314**	**6,243,644**
increases (due to)	124,065,256	104,379,534
- purchases	123,947,389	104,347,086
- FX differences	735	1
- revaluation	2,552	438
- settlement of discount, premium, interest	114,580	32,009
reductions (due to)	(123,493,175)	(105,877,864)
- sale	(123,487,696)	(104,948,316)
- revaluation	(25)	(900,456)
- settlement of discount, premium, interest	(5,454)	(29,092)
Balance of financial assets for trading purposes as of the end of the period	**5,317,395**	**4,745,314**

Debt securities for trading purposes

Debt securities for trading purposes include securities purchased in order to benefit from short-term price fluctuations. Debt securities for trading purposes are accounted for at their fair value, and the result of the valuation is recognised in gains on financial operations. Interest, discount or premiums on these securities are accrued to the profit and loss account on a straight line basis

Shares in undertakings other than subordinated undertakings, investment certificates

Shares in undertakings other than subordinated undertakings and investment certificates included in the category of financial assets for trading purposes are accounted for at their fair value, and the result of the valuation is recognised in the profit and loss account.

Amounts receivable from valuation of derivative instruments

Amounts receivable from valuation of derivative instruments represent positive revaluation of derivative instruments, i.e. forward FX transactions, interest rate products and options.

The Bank enters into various derivative transactions for speculation purposes and to manage its own risks arising from movements in currency and interest rates. The settlement date of open positions in derivative instruments depends mainly on the nature of the instrument. In case of these transactions the floating interest rate is based on interbank interest rates prevailing at the beginning of the interest period and the fixed interest rate depends on the nature of instrument and the objective of particular transaction.

As of 31 December 2004, the Bank placed deposits at other institutions as collateral against derivative transactions amounting in total to PLN 215,578 thousand (31 December 2003: PLN 8,117 thousand), and for derivative transactions, the Bank received collateral totalling PLN 8,116 thousand (31 December 2003: PLN 4,270 thousand).

Forward and swap FX contracts

Forward foreign exchange contracts are agreements to exchange specific amounts of currency at a specified exchange rate, with settlement date falling two working days after the transaction date. Foreign currency swaps are combinations of spot (settlement on the second working day following transaction date) and forward foreign exchange contracts whereby a specific amount of currency is exchanged at the current rate for spot date, and then exchanged back at a forward rate and date. The nominal value of foreign exchange contracts expresses the amount of foreign currency purchased or sold under the contracts and does not represent the actual market or credit risk associated with these contracts.

Forward and swap FX contracts are used for closing daily open foreign currency positions and for speculative purposes. Foreign currency swaps are used for managing the Bank's liquidity and position on nostro accounts.

Forward and swap FX contracts are valued and accounted for in the profit and loss account at their market value. A discounted cash flow model is applied to assess forward and swap FX contracts. Unrealised profits and losses from revaluation of forward and swap FX contracts are recognised in the balance sheet in 'Other securities and other financial assets' or in 'Other liabilities arising on financial instruments' gross, i.e. without netting.

Currency option contracts

FX option contracts comprise the sale or purchase by the Bank of the right to exchange at a specified date one currency to another at a fixed exchange rate. Exercise of an option may be done by physical exchange of currencies or by settlement of the difference between contract rate and market reference rate prevailing at the exercise date. There are two types of options: call options that give their owner the right to buy a contracted amount of foreign currency at the exercise price amount of domestic currency or other foreign currency, and put options that give their owner the right to sell a contracted amount of foreign currency at the exercise price amount of domestic currency or other foreign currency. The buyer of an option pays to its drawer a premium for the purchased right to buy or sell currency.

FX options are valued and recognised in the profit and loss account at their market value and are calculated using the Garman-Kohlhagen valuation model. Unrealised revaluation gains and losses are recognised in 'Other securities and other financial assets' or 'Other liabilities arising from financial instruments' in their gross value, i.e. without netting. Premiums received on written options are presented in 'Other liabilities arising from financial instruments' and premiums paid on purchased options are presented in 'Other securities and other financial assets'. Premiums are recognised in the profit and loss account at the close of the respective contract.

Interest rate contracts

The Bank's interest rate transactions include interest rate swaps (IRS), currency interest rate swaps (CIRS), and forward rate agreements (FRA).

Interest rate swaps are agreements to exchange periodic interest payment obligations. On the interest payment date the Bank and its counterparts are obliged to exchange periodic fixed and floating rate interest payments defined in a contract. The objective of cross-currency interest rate swaps, which are concluded in two different currencies, is the exchange of a counterparty's obligation expressed in one currency into its obligation in other currency. As a result, on interest payment date the Bank and its counterparts are obliged to exchange interest payments defined in a CIRS contract. Additionally, counterparties may also exchange notional amounts of contracts. The Bank concludes IRS and CIRS contracts on the interbank market and with its customers.

The objective of FRA contracts is to fix interest rate levels for counterparty receivables, which arise or will arise on set dates in future or to fix interest rate levels for counterparty payables, which arise or will arise on set dates in future. The Bank concludes FRA contracts on the interbank market and with its customers.

Interest rate contracts are accounted for and recognised at their market value in the profit and loss account. They are calculated using the discounted cash flow valuation model. Unrealised revaluation gains and losses are recognised in the balance sheet in 'Other securities and other financial assets' or in 'Other liabilities arising on financial instruments' in their gross value, i.e. without netting.

Interest rate option contracts

The objective of an interest rate option contract is the right to receive at specified dates in the future payments whose amount depends on the future interest rates levels. There are two types of interest rate options: cap option – where the seller agrees to pay the buyer a difference between the reference rate (usually 3M or 6M LIBOR) and agreed exercise rate – when the reference rate exceeds exercise rate, and floor option – where the seller agrees to pay the buyer a difference between the reference rate and the agreed exercise rate – when the exercise rate exceeds the reference rate. In both cases the seller receives a premium paid in advance.

Interest rate option contracts are accounted for and recognised at their market value in the profit and loss account. Unrealised revaluation gains and losses are recognised in the balance sheet in “Other securities and other financial assets” or in “Other liabilities arising from financial instruments” at their gross value, i.e. without netting. Premiums received on written options are included in ‘Other liabilities arising from financial instruments’ and premiums paid on purchased options are included in ‘Other securities and other financial assets’. Premiums are recognised in the profit and loss account at the close of the respective contract.

Securities term contracts

The Bank concludes purchase and sale contracts in debt securities at a fixed price where the settlement occurs later than two days following the spot date (forward contracts).

The contracts are accounted for at their market value and unrealised revaluation gains and losses are recognised in the balance sheet in “Other securities and other financial assets” or in “Other liabilities arising on financial instruments”.

Share options

Share options give the buyer the right to receive the difference between a share price or share index value defined in the option contract and the value of these instruments at an exercise date depending whether it is a call or put option, for increase or decrease of the base instrument price respectively. The buyer of an option pays a premium for the purchased rights.

The contracts are accounted for at their market value and unrealised revaluation gains and losses are recognised in the balance sheet in ‘Other securities and other financial assets’ or in ‘Other liabilities arising on financial instruments’ in their gross value, i.e. without netting. Premiums received on written options are included in ‘Other liabilities arising on financial instruments’ and premiums paid on purchased options are included in ‘Other securities and other financial assets’. Both categories are recognised in the profit and loss account at the close of the respective contract.

Futures contracts

A financial futures contract is a contract traded on an organised stock exchange, related to the purchase or sale of a standard amount of the specific financial instrument at a specified date in the future and at a pre-agreed price.

Financial futures contract may be based on financial instruments of defined types, prices of which depend on interest rates. Financial futures contract may also be based on changes in FX rates of certain basic foreign currencies. The Bank does not trade in FX futures contracts.

Characteristics of derivative instruments

Instrument	FX forward	FX swap	Currency option contracts	IRS	CIRS	FRA	Securities contracts	Futures contracts on interest rates	Share options	Interest rate options
Instrument description	Sale/purchase of a currency at a specified date at the exchange rate fixed for the date of transaction.	Concurrent and immediate purchase / sale of the currency and its forward repurchase/ resale at a forward rate fixed at the spot date.	Purchase by the option contract purchaser of a right (but not an obligation) to buy or sell the currency at a fixed rate at a specified date.	Exchange of interest payments in the same currency, based on different interest rates.	Exchange of interest payments in different currencies. This instrument can also encompass the spot and/or forward currency exchange.	Depositing / acceptance of a hypothetical deposit contract for a specific date in the future. Settled by the amount of the discounted difference between the interest accrued for the contract period on the basis of the contract rate and the interest accrued on the basis of so-called reference rate which is most often the interbank money market rate.	Forward sale or purchase of securities at the price fixed for the transaction date.	Consist in purchase or sale of a standard amount of a given financial instrument at a predetermined future date and at agreed price. They are subject to trading at the Exchange	Consist in purchase by the option contract Purchaser of the right (but not the obligation) to receive the difference between the share price determined in the contract and the instrument value on the day of option realization.	Consist in purchase by the option contract Purchaser of the right (but not the obligation) to exchange the amount of interest accrued on the transaction amount at the realization rate for the amount of interest calculated on the amount of transaction at reference rate.
Valuation methods applied	discounted cash flow model	discounted cash flow model	option valuation model (Garman - Kohlhagen)	discounted cash flow model	discounted cash flow model	discounted cash flow model	discounted cash flow model	inventory method	Black Scholes option pricing model	Black 76 option pricing model
Purpose of contract	for trade	for trade	for trade	for trade	for trade	for trade	for trade	for trading purposes	for trading purposes	for trading purposes
Number of transactions before maturity	1201	331	6067	2060	50	233	102	8	46	20
Future revenue/ payments	variable	variable	variable	variable	variable	variable	variable	variable	variable	variable
Maturity	2005-01-03 - - 2007-09-28	2005-01-03 - -2007-05-31	2005-01-03 – - 2006-10-31	2005-01-07 – - 2018- 09-04	2005-01-21 - - 2013-05-27	2005-01-03 – - 2005-09-26	2005-01-03 – - 2005-01-07	2005-03 - - 2005-12	2005-01-20 – - 2008-10-13	2005-02-28 – - 2013-10-24

Instrument	FX forward	FX swap	Currency option contracts	IRS	CIRS	FRA	Securities contracts	Futures contracts on interest rates	Share options	Interest rate options
Possibility to exchange to another asset / liability	none	none	none	none	none	none	none	none	none	none
Fixed rates / amounts of revenue and payment dates	variable	variable	variable	variable	variable	variable	variable	variable	variable	variable
Other conditions	none	none	none	none	none	none	none	none	none	none
Type of risk	currency, liquidity, contractor and interest rate	interest rate, currency, liquidity, contractor	currency, liquidity, interest rate, price variability (vega), contractor – for bought options, and the Bank does not accept non-linear risk resulting from the option, closing each time such item of risk in the market	interest rate, contractor, currency for fx transactions	currency, interest rate, liquidity, contractor	interest rate, contractor, currency for fx transactions	interest rate, liquidity, contractor	interest rate, currency, contractor	interest rate, issuer, market price, price variability (vega) , and the Bank does not accept non-linear risk resulting from the option, closing each time such item of risk in the market	interest rate, issuer, market price, price variability (vega) , and the Bank does not accept non-linear risk resulting from the option, closing each time such item of risk in the market

In the majority of cases it is possible to close the executed derivatives earlier, in accordance with their market value.

All derivative transactions executed with non-banking customers are executed on the basis of the assigned individual transaction limits. In certain cases, presentation of security is required for the purpose of assignment of the limit. The most often used types of security are guarantee deposit, promissory note, assignment, declaration of submittal to debt enforcement.

in PLN thousand

Times to maturity of derivative instruments as of 31 December 2004

Type of instrument	Nominal value											
	As at 31.12.2004									As at 31.12.2003		
	Time to maturity								Total	Banks	Other	Total
	3 months		3 months – 1 year		1 – 5 years		More than 5 years					
	Banks	Other	Banks	Other	Banks	Other	Banks	Other				
Interest rate instruments	**21,098,435**	**1,441,803**	**43,727,899**	**2,641,764**	**62,239,021**	**2,587,605**	**12,613,454**	**1,984,161**	**148,334,142**	**119,135,918**	**4,737,724**	**123,873,642**
- FRA - purchase	7,094,000	-	8,056,340	100,000	-	-	-	-	15,250,340	21,184,000	70,280	21,254,280
- FRA - sale	8,294,000	-	8,924,760	-	-	-	-	-	17,218,760	20,769,000	-	20,769,000
- interest rate swaps (IRS)	4,394,553	2,836	25,310,792	956,251	61,687,301	1,131,609	11 657 885	1,148,981	106,290,208	72,528,587	1,571,041	74,099,628
- currency interest rates swaps (CIRS)	449,882	-	1,126,007	462,131	400,220	1,304,496	205 569	85,180	4,033,485	3,630,459	2,092,531	5,722,990
- interest rate options purchased	436,000	430,000	300,000	-	-	151,500	-	750,000	2,067,500	690,000	323,872	1,013,872
- interest rate options sold	430,000	436,000	10,000	290,000	151,500	-	750 000	-	2,067,500	333,872	680,000	1,013,872
- futures contracts – purchase	-	553,701	-	833,382	-	-	-	-	1,387,083	-	-	-
- futures contracts – sale	-	19,266	-	-	-	-	-	-	19,266	-	-	-
Currency instruments	**17,255,990**	**2,653,965**	**15,201,058**	**3,467,136**	**3,112,675**	**967,681**	**-**	**-**	**42,658,506**	**35,310,908**	**6,719,596**	**42,030,504**
- FX forward	557,279	551,438	1,132,852	952,370	243,639	623,121	-	-	4,060,699	1,744,218	2,823,888	4,568,106
- FX swap	14,523,212	232,208	11,470,775	69,555	2,578,281	63,728	-	-	28,937,759	29,833,055	1,050,646	30,883,701
- currency options purchased	1,088,378	757,081	1,507,489	985,338	148,790	131,230	-	-	4,618,306	2,062,472	1,202,924	3,265,396
- currency options sold	968,282	994,399	1,089,942	1,459,873	141,965	149,602	-	-	4,804,063	1,668,729	1,639,704	3,308,433
- other (commodity swap)	118,839	118,839	-	-	-	-	-	-	237,679	2,434	2,434	4,868

	Nominal value											
	As of 31.12.2004									As of 31.12.2003		
	Time to maturity											
	Up to 3 months		3 months - 1 year		1 - 5 years		Above 5 years					
	Banks	Other	Banks	Other	Banks	Other	Banks	Other		Banks	Other	
Securities contracts	**595,233**	**118,679**	**68,573**	**68,573**	**41,330**	**41,330**	**-**	**-**	**933,718**	**666,618**	**391,757**	**1,058,375**
- share options purchased	66,756	344	67,948	625	41,330	-	-	-	177,003	351,709	33,733	385,442
- share options sold	344	66,756	625	67,948	-	41,330	-	-	177,003	33,733	351,709	385,442
- securities purchased pending delivery	227,998	10,035	-	-	-	-	-	-	238,033	148,275	4,835	153,110
- securities sold pending delivery	300,135	41,544	-	-	-	-	-	-	341,679	132,901	1,480	134,381
Total derivative instruments	**38,949,658**	**4,214,447**	**58,997,530**	**6,177,473**	**65,393,026**	**3,596,616**	**12,613,454**	**1,984,161**	**191,926,366**	**155,113,444**	**11,849,077**	**166,962,521**

in PLN thousand

Market values of derivative instruments before maturity as of 31 December 2004 are as follows:

Type of instrument	Positive market value			Negative market value			Credit equivalents **		
	As at 31.12.2004		As at 31.12.2003	As at 31.12.2004		As at 31.12.2003	As at 31.12.2004		As at 31.12.2003
	Banks	Other		Banks	Other		Banks	Other	
Interest rate instruments	**2,185,115**	**248,143**	**2,708,464**	**2,174,556**	**158,623**	**2,509,489**	**540,734**	**189,312**	**1,176,392**
- FRA	27,770	-	38,636	24,754	813	35,120	24	250	27,527
- interest rate swaps (IRS)	2,026,413	120,244	2,451,121	1,976,539	84,026	2,184,826	501,988	71,706	940,035
- currency interest rates swaps (CIRS)	129,784	107,039	212,983	153,106	71,923	284,429	38,492	101,328	202,023
- interest rate options purchased*	1,148	20,048	5,317	613	-	297	230	16,028	6,807
- interest rate options sold*	-	723	407	19,544	1,148	4,817	-	-	-
- futures contracts	-	89	-	-	713	-	-	-	-
Currency instruments	**1,490,181**	**149,764**	**870,755**	**1,301,495**	**251,032**	**802,104**	**331,852**	**102,455**	**345,529**
- FX forward	57,377	91,823	103,003	65,524	161,126	117,185	14,783	58,579	88,282
- FX swap	1,354,876	2,413	654,828	1,176,349	25,757	581,130	296,054	2,594	198,348
- currency options purchased *	64,351	47,648	105,663	6,842	4,302	9,143	18,336	34,839	58,802

Type of instrument	Positive market value			Negative market value			Credit equivalents **		
	As at 31.12.2004		As at 31.12.2003	As at 31.12.2004		As at 31.12.2003	As at 31.12.2004		As at 31.12.2003
	Banks	Other		Banks	Other		Banks	Other	
- currency options sold *	12 152	6 088	7 084	50 988	58 423	94 469	-	-	-
- other (commodity swap)	1 425	1 792	177	1 792	1 424	177	2 679	6 443	97
Securities contracts	**3 060**	**4 243**	**12 947**	**4 982**	**2 361**	**12 330**	**6 868**	**29**	**15 372**
- purchased share options	2 347	-	1 512	3 921	-	10 729	6 868	29	15 372
- sold stocks options	-	3 921	10 729	-	2 347	1 512	-	-	-
Forward contracts	713	322	706	1 061	14	89	-	-	-
Total derivative instruments	**3 678 356**	**402 150**	**3 592 166**	**3 481 033**	**412 016**	**3 323 923**	**879 454**	**291 796**	**1 537 293**

** valuation does not include premiums received and paid on issued and purchased options.*

*** off-balance sheet equivalents column shows the value of the so called credit derivatives equivalents calculated according to rules specified in the Resolution No. 5/2001 of the Commission for Banking Supervision of 12 December 2001 on the scope and detailed rules of stating capital requirements with respect to specific types of risk, including the risk of liabilities concentration limits excess, the method and detailed principles of bank's capital adequacy ratio calculation, (...) (NBP Regulations Gazette No. 22, item 43 with subsequent amendments). Credit equivalents are used as a measure of contractor risk for derivatives in the capital adequacy and liability concentration accounting.*

4.1.2. Financial liabilities for trading purposes

Financial liabilities available for trading purposes by category:

in PLN thousand

	31 December 2004	31 December 2003
Liabilities arising on valuation of derivative transactions	3,926,173	3,362,332
Liabilities arising from short sale of securities	268,117	288,863
Total financial liabilities available for trading purposes	**4,194,290**	**3,651,195**

Change in financial liabilities available for trading purposes:

in PLN thousand

	2004	2003
Opening balance	**3,651,195**	**4,182,578**
increases	563,841	288,863
- sale	-	288,863
- revaluation	563,841	-
decreases	(20,746)	(820,246)
- purchases	(20,746)	-
- revaluation	-	(820,246)
Closing balance of financial liabilities available for trading purposes	**4,194,290**	**3,651,195**

The item “Liabilities arising on valuation of derivative transactions” represents negative valuation of derivative instruments.
The different types of derivative transactions concluded by the Bank and their valuation principles are described in par. 4.1.1.

4.1.3. Loans granted and own receivables

Loans granted and own receivables by category:

in PLN thousand

	31 December 2004	31 December 2003
Loans and advances	16,522,781	21,240,230
Deposits in other banks	2,402,464	1,339,290
Purchased receivables	176,699	267,456
Drawn guarantees	67,032	74,646
Receivables from securities purchased	292,849	288,386
Interest receivable	765,885	673,467
Total loans granted and own receivables (gross)	20,227,710	23,883,475
Provisions created	(1,732,448)	(1,620,986)
Total loans granted and own receivables (net)	**18,495,262**	**22,262,489**

Change in loans granted and own receivables:

in PLN thousand

	2004	2003
Opening balance	**23,883,475**	**20,398,604**
increases	24,903,348	28,731,824
- new contracts *	24,810,930	28,658,010
- interest receivable	92,418	73,814
decreases	(28,559,113)	(25,246,953)
- repayment *	(28,559,113)	(25,246,953)
Closing balance of loans granted and own receivables	**20,227,710**	**23,883,475**

* including short-term revolving credits

Change in provision for loans and own receivables:

in PLN thousand

	2004	2003
Opening balance	**1,620,986**	**1,516,853**
increases	905,242	824,084
- charges to provision	901,818	824,001
- FX differences	-	83
- other	3,424	-
decreases	(793,780)	(719,951)
- release of provision	(641,180)	(659,906)
- write-offs against provision	(152,600)	(54,755)
- reclassifications to other category of assets	-	(5,233)
- FX differences	-	(57)
Closing balance of provision for loans and own receivables	**1,732,448**	**1,620,986**

Consumer loans and loans related to credit cards issued to individuals are accounted for at amortised cost using effective interest rates net of specific provisions created.

Amounts due from financial institutions, non-financial sector and government sector are presented in the balance sheet as the difference between the sum of their nominal value and interest accrued, and the value of specific provisions created for credit risk.

4.1.4. Financial assets held until maturity

Financial assets held until maturity by category

	in PLN thousand	
	31 December 2004	**31 December 2003**
Debt securities	-	70,159
Total financial assets held until maturity	**-**	**70,159**

Change of financial assets held until maturity:

	in PLN thousand	
	2004	**2003**
Opening balance	**70,159**	**305,707**
increases	**-**	**10,364**
- purchases	-	-
- FX differences	-	10,364
decreases	**(70,159)**	**(245,912)**
- sale	-	(244,443)
- FX differences	(9,489)	-
- reclassification to another asset group	(60,670)	-
- settlement of discount, premium, interest	-	(1,469)
Closing balance of financial assets held until maturity	**-**	**70,159**

Debt securities held until maturity are accounted for at cost net of provision for permanent diminution in value. Interest and discount on these securities is accrued to profit and loss account on a straight line basis.

Pursuant to Resolution No. 1/9/OK/2003 of the Management Board of the National Bank of Poland of 4 March 2003 on early redemption of bonds issued by NBP for banks following a decrease in the obligatory reserve rate on 3 April 2003, the National Bank of Poland made an early redemption of bonds in the Bank's portfolio for the total amount of PLN 244,443 thousand.

4.1.5. Financial assets available for sale

Financial assets available for sale by category:

in PLN thousand

	31 December 2004	31 December 2003
Debt securities	6,091,194	2,723,471
Shares in non-subordinated undertakings	27,752	23,637
Total financial assets available for sale	**6,118,946**	**2,747,108**

Change in financial assets available for sale:

in PLN thousand

	2004	2003
Opening balance	**2,747,108**	**2,520,163**
- change in adopted accounting principles	-	60,097
Opening balance after restatement to conform with current year presentation	**2,747,108**	**2,580,260**
increases	33,859,105	19,778,277
- purchases	33,682,443	19,600,950
- FX differences	-	96,021
- revaluation	-	9,593
- settlement of discount, premium and interest	144,969	63,872
- reclassification of an entity	31,693	7,841
decreases	(30,487,267)	(19,611,429)
- sale	(30,001,451)	(19,477,019)
- revaluation	(3,291)	(47,467)
- FX differences	(430,154)	-
- settlement of discount, premium and interest	(25,393)	(86,652)
- transfer from another category	(26,978)	(291)
Closing balance of financial assets available for sale	**6,118,946**	**2,747,108**

Debt securities available for sale consist of debt securities not classified as ‘for trading purposes’ or ‘held until maturity’. Debt securities available for sale are accounted for at fair value. Changes in fair value of debt securities are recognised in the revaluation reserve..

4.1.6. Interest income from debt financial instruments, loans granted and own receivables

in PLN thousand

Category of assets / interest income	31 December 2004	31 December 2003
Loans granted and own receivables		
accrued realised interest	1,185,042	1,103,571
accrued unrealised interest, of which:	765,885	673,467
interest receivable	128,253	177,015
interest overdue	637,632	496,452
Financial assets for trading purposes*		
accrued realised interest	141,948	85,709
accrued unrealised interest	17,859	7,139
Financial assets held until maturity*		
accrued realised interest	-	2,724
accrued unrealised interest	-	-
Financial assets available for sale*		
accrued realised interest	224,515	164,682
accrued unrealised interest	194,742	67,985

* Debt securities

4.1.7. Risk management

Market risk management

Market risk management in the Bank is based on principles and procedures approved by the Assets and Liabilities Committee (ALCO) and the Management Board and which reflect requirements set by Polish supervisory bodies as well as meeting principles applied within Citigroup.

Market risk management encompasses two key risk areas: liquidity risk and pricing risk.

Liquidity risk is defined as the Bank's potential inability to repay its financial liabilities to customers and counterparties when due.

Pricing risk is defined as the risk that changes in market interest rates, FX rates, share prices or in parameters affecting the rates and prices may adversely affect the Bank's results.

Liquidity risk management

Measurement and setting limits for liquidity risk

The fundamental measure for liquidity risk of the Bank is the Market Access Report ('MAR') which shows the gap in cash flows in particular tenors that identifies potential exposure of the Bank to the necessity of finding additional sources of funding in the money market. The MAR report includes all cash flows related to balance sheet and off-balance sheet transactions. Liquidity management encompasses all liabilities and receivables of the Bank. The report is prepared daily and includes the total balance sheet of the Bank (universal currency) and balance sheets in PLN, USD, EURO and CHF. Gap limits proposed by the Head of Market Risk Department in consultation with the Regional Risk Manager and Citigroup Risk Manager and approved by the Assets and Liabilities Committee are set for the following tenors: O/N, 2-7 days, 8-15 days, 1 month, 2 months, 3 months, 6 months, and 1 year. The liquidity gap above one year is not limited but monitored. Statistical research related to inter alia the stability of the deposit base and the assumptions concerning the share of individual product groups in the Bank's balance sheet, are used for calculating the gap. The report is prepared every day. In addition stress tests are performed daily, taking into account potential risks resulting for example from a crisis in the banking system and the related limitation of market liquidity. Additionally, in order to assess liquidity risk, the Market Risk Department monitors the balance sheet structure of the Bank and analyses its changes over time.

Pricing risk management

Scope of risk

Pricing risk management refers to all portfolios, where their profitability is at risk of adverse impact of changing market conditions such as interest rates, FX rates, prices of goods and parameters affecting the rates and prices. In order to manage pricing risk the Bank separates trading and bank portfolios. Trading portfolios include transactions in financial instruments (balance sheet and off-balance sheet), with the objective of earning profits due to gains on changes in market parameters in a short period of time. Trading portfolios are marked-to-market. The Treasury Department manages trading portfolios encompassing interest rate risk and FX risk. Trading activity related to portfolios including shares and share derivative instruments is conducted by Dom Maklerski Banku Handlowego S.A. ("DM BH"). Bank portfolios include all other balance and off-balance sheet items not included in trading portfolios. The objective of such transactions is realisation of the result in the whole contractual life of the transaction. Treasury manages interest rate risk arising from bank portfolios of the Corporate and Investment Bank, Consumer Bank, leasing subsidiaries, and DM BH. The management of interest rate risk is based on the fund pricing system. The result of bank portfolios is calculated on accrual basis of interest accumulation.

Measurement of pricing risk of banking portfolios

The Bank utilises two methods of pricing risk measurement for banking portfolios:

- Interest Rate Exposure method
- Value at Close method

Risk limits are imposed with a potential change of interest income following movement of interest rate curves by 100 base points for the basic currencies (PLN, USD, EUR) used for denomination of assets and liabilities of the Bank within 1, 5, and 10 year spans. The use of limits is monitored daily. Changes in the costs of closing open interest positions are also monitored daily. The Bank sets thresholds for the changes which, if exceeded, result in notification to senior management and the need of development of a further action plan by the management.

Measurement of pricing risk measurement of trading portfolios

The main method for pricing risk measurement for trading portfolios at the organisational unit level and the Bank level, is the ratio of sensitivity of financial results to market risk factor changes (interest rates, exchange rates, share prices, credit risk margins of debt securities). With the application of sensitivity ratios and adoption of a risk factor change unit (change of the general level of interest rates and credit risk margin by 1 base point, change of exchange rates and share prices by 1 per cent), the Bank sets limits for risk positions broken down by currencies and organisational units. For interest rate risk, additional thresholds for risk limits on individual curve sections of interest rates and base risk, are applied. Risk limits are set for positions at the end of the day and monitored daily.

The Value-at-Risk method is applied at the Bank level, with the assumed time horizon of closing positions in 1 day and a confidence level of 99%. Value-at-Risk limits are set for exchange rate and interest rate risk separately, as well as for the combined risk.

The Bank analyses stress test scenarios daily with assumed changes of risk factors higher than for the Value-at-Risk measurement and without historical correlations between the factors. The Bank measures the risk in stress conditions for three basic scenarios:

- the most probable, based on the historical changeability of risk factors,
- financial crisis and
- very severe economic crisis.

The first two aforementioned methods of risk monitoring are complemented with limits on:

- the portfolio loss accumulated within one month,
- aggregate contracts limit,
- maximum tenor,
- concentration limits for debt and equity securities.

Credit risk management

The Credit Policy Committee of the Bank defined the main principles for credit risk management that are documented in the Credit Policy Manual.

Additional regulations are included in the Credit Manuals for Corporate Banking, Financial Institutions, the Public Sector and Restructuring Department, as well as in numerous Credit Programmes.

The key elements of credit risk management are presented below:

– while managers are responsible for risk management in their areas of responsibility, the Bank additionally has a system of controls that includes:
  – independent position of risk manager;
  – each credit decision has to be taken by at least two authorised persons. Larger loans, carrying higher risk, require approval from more senior persons of authority;
  – Independent Audit Department checking all activities related to risk management;
– each borrower is assigned an appropriate risk scale, with its own rating, based both on financial and quality criteria. Risk ratings help the Bank to ensure that the credit portfolio overall is at an acceptable risk level;
– each customer of the Bank is assigned to a control unit that manages the relationship with the customer. In case of customers being a part of a capital group the risk is managed on a group basis to avoid exceeding concentration limits;
– the Credit Policy Committee assigns individuals to approve loans based on their experience and skills;
– the Bank has to reduce concentration in order to maintain differentiated risk bearing assets as well as to meet capital requirements for the portfolio. Credit risk includes limitations for customers, sectors and regions;
– the Bank defined principles for periodic monitoring of customers’ results from their activities and identification of negative changes in their standing which require immediate communication to upper or middle-level management. This also includes opinions of specialised restructuring units.

Credit risk guidelines related to products offered to Consumer Banking customers are defined by the Bank for each of the product offered separately. Key risk management concepts are presented below:

Credit Risk evaluation is based on:
- Minimum acceptance criteria,
- Scoring models,
- Judgmental criteria,
- Use of the Credit Bureau information,

Advanced Management Information System is used to monitor portfolio performance.

Operational risk management

In recent years the Bank has managed operational risk with the use of various tools and techniques (e.g. policies, procedures, checklists, limits, self-assessment process, information security monitoring tools, contingency plans, insurance, audits).
After the recommendations of the Basel Committee were published, the Bank Management Board intensified qualitative and quantitative measurements of operational risk.

The roles and responsibilities at various levels of the Bank Management are regulated in the "Operational risk management policy including the self-assessment procedure". These requirements are communicated to organisational units within the framework of regular training sessions.
Strategic decisions concerning the Bank's policy and organisation, allocation of roles and responsibilities, reorganisation of processes, automation and centralisation are reserved for the Bank's Management Board.
The Head of Finance Division, in cooperation with the Business Risk, Control and Compliance Committee, is responsible for monitoring the operational risk of the Bank and for the Risk and Control Self Assessment process (RCSA) including: providing guidance (e.g. defining standards) in the setting and interpretation of the policy; overseeing implementation of the corporate and local Policy; approving exception requests and changes to the policy; and reviewing RCSA results information to identify areas of potential risk exposure (at least quarterly).
Operational risk has been defined as the risk of loss resulting from inadequate or failed internal processes, people, or systems, or from external events. Operational risk excludes strategic risks and potential losses related solely to judgments with regard to taking credit, market, interest rate (asset liability management or 'ALM'), liquidity, or insurance risk.
The RCSA process implemented in the Bank makes it possible to perform ongoing identification, control, assessment, monitoring, measurement and reporting of quality of the control environment and potential threats. Data on operational risk events' effects (losses) has been regularly collected since 2002. Issues, events and indicators pertaining to operational risk are being regularly reported to the Business Risk, Control and Compliance Committee.
The quality of the RCSA process is subject to rated internal audit.
Centralisation and automation introduced in recent years has made it possible to reduce the number and amounts of operational losses considerably. Further efforts will concentrate on processes covered by the Bank risk profile.

4.1.8. Hedge accounting

To date the Bank has not applied hedge accounting.

5. Data on subscription option contracts or ordinary shares sale contracts

As of 31 December 2004 and 31 December 2003, the Bank did not enter into any subscription option contracts or ordinary share sales contracts.

6. Assets being used as a pledge against the Group's own obligations or third party obligations

Assets being used as a pledge against the Bank's own obligations or third party obligations as of 31 December 2004 and 31 December 2003 are shown in explanatory Notes to balance sheet no.1B, 6C and 16A.

7. Information on repurchase transactions not included in the balance sheet

Repurchase transactions as of 31 December 2004 and 31 December 2003 have been disclosed in the balance sheet.

8. Financial commitments granted

Financial commitments granted include undrawn credit lines, open import letters of credit and commitments arising on concluded deposit contracts (placements given pending delivery), for which realisation date depends only on the time necessary for the technical preparation of the funds transfer, and other off-balance sheet financial commitments. Data related to financial commitments granted as of 31 December 2004 and 31 December 2003 is shown in Additional Explanatory Note no. 9.

As of 31 December 2004 the Bank's financial commitments granted are irrevocable, except for credit lines which constitute commitments amounting to PLN 2,580 thousand (31 December 2003: PLN 38,013 thousand).

9. Off-balance sheet commitments

9.1. Off-balance sheet commitments granted

Off-balance sheet commitments granted, by individual off-balance sheet category, were as follows:

in PLN thousand

	31 December 2004	31 December 2003
L/Cs	185,181	177,306
To subordinated undertakings, including:	545	4,620
- consolidated undertakings	-	-
- undertakings accounted for by the equity method	545	4,620
Guarantees granted, including:	2,351,306	3,020,936
To subordinated undertakings, including:	2,355	60,987
- consolidated undertakings	1,500	1,500
- undertakings accounted for by the equity method	347	347
Credit lines granted, including:	8,353,740	8,034,233
To subordinated undertakings, including:	131,727	130,217
- consolidated undertakings	550	550
- undertakings accounted for by the equity method	131,177	128,667
Deposits to be issued	121,359	3,179,425
Other financial liabilities	751,277	646,991
Total contingent commitments granted	**11,762,863**	**15,058,891**

Letters of credit by category were as follows:

in PLN thousand

	31 December 2004	31 December 2003

Import L/Cs issued, including to:	168,073	160,337
To subordinated undertakings, including to:	545	4,620
- consolidated undertakings	-	-
- subordinated undertakings accounted for by the equity method	545	545
Export L/Cs confirmed	17,108	16,969
Total L/Cs	**185,181**	**177,306**

Guarantees issued include credit principal repayment guarantees, other repayment guarantees, guarantees to advance repayment guarantees, performance guarantees, tender guarantees, and bills of exchange.

The Bank makes specific provisions for off-balance sheet commitments pursuant to the Regulation of the Minister of Finance dated 10 December 2003 on the principles of creating provisions for the risks related to the operations of banks. As of 31 December 2004, the specific provisions created for off-balance sheet commitments amounted to PLN 39,352 thousand, including provisions for off-balance sheet commitments granted to subordinated entities amounting to PLN 265 thousand (31 December 2003: PLN 145,019 thousand, including off-balance sheet commitments to related entities – PLN 8,496 thousand).

As of 31 December 2004, the amount of provisions created for contingent commitments to subordinated entities amounted to PLN 265 thousand in relation to entities not subject to the equity method of accounting.

As of 31 December 2003, out of the total amount of provisions created for contingent commitments to subordinated entities, the amount of PLN 7,677 thousand related to entities accounted for by the equity method and the remaining amount of PLN 819 thousand related to entities which were not accounted for the equity method.

9.2. Contingent liabilities received

As of 31 December 2004, total contingent liabilities received amounted to PLN 2,952,341 thousand, of which PLN 2,616,366 thousand related to guarantee contingencies (31 December 2003: PLN 3,297,354 thousand, including PLN 2,817,354 thousand of guarantee contingencies). As of 31 December 2004, the Bank did not have any guarantee contingent liabilities received from subsidiaries entities (31 December 2003: PLN 13,484 thousand).

9.3. Issues underwritten by the Bank

As of 31 December 2004, the Bank did not have any underwriting agreements or issues underwritten for the benefit of other issuers.

The underwriting agreements entered into by the Bank, in force as of 31 December 2003, are shown in the table below:

Name of Issuer and location	**Type of agreement**	**Term of agreement**	**Bank's remuneration**	**Type of security**	**Negotiability of the security**	**Average original amount promised to be underwritten by the Bank (in PLN thousand)**	**Guarantee commitment by the Bank existing as of 30.06.2004 (in PLN thousand)**
Can Pack SA - Kraków	purchase of bonds	10.07.2002-10.10.2004	commission	bonds	on secondary market, private placement	30,000	30,000
Urtica Finanse SA - Wrocław	issue of bonds under the Securitisation Programme	23.01.2001-23.01.2004	commission	bonds	on secondary market, private placement	10,000	10,000
						Total	**40,000**

10. Dividend payment

On 16 March, 2005, the Management Board of the Bank adopted a resolution regarding the proposed distribution of 2004 profits and the payment of a dividend from previous years' profits. The Management Board recommended that the following amounts be designated for this purpose:

1. 414 190 932,00 PLN from 2004 profits;
2. 1 149 804 480,00 PLN from previous years' profits, transferred from the supplementary and reserve capital.

The total amount designated for the payment of the dividends will be 1 563 995 412,00 PLN.
The above proposal means that the 2004 dividend per share will be 3,17 PLN and the dividend per share from previous years' profits will be 8,80 PLN.
The aggregate dividend per share will be 11,97 PLN.
The Management Board proposed the record date for the purpose of the dividend payment to be 25 July 2005, and the dividend payment date to be 1 September 2005. The above proposal of the Bank's Management Board was submitted for review to the Supervisory Board.

The proposed payment of the dividend from previous years' profits requires an amendment to the Bank's Charter. The Management Board recommended amendments to the Charter at the Bank's Extraordinary General Shareholders' Meeting held on 28 April 2005 and the amendments were registered in the National Court Register on 18 May 2005.
Additionally, the proposed payment of the dividend in the amount specified above will require the consent of the Commission for Banking Supervision pursuant to Art. 129 Section 3 of the Banking Law of 29 August 1997.
After having obtained the aforementioned consent of the Commission for Banking Supervision, the Management Board will submit recommendations regarding the appropriation of the 2004 profit and the payment of the dividend from previous years' profits to the Bank's General Shareholders' Meeting.
The Bank did not issue preferred shares.

11. Liabilities arising on approved dividend payable

As of 31 December 2004, the Bank did not have any liabilities arising from the approved dividend payment from allocation of profit for previous years.

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12. Amounts due to the Budget or local authorities

As of 31 December 2004 and 31 December 2003, the Bank and entities of the Bank's Capital Group did not have any liabilities due to the State Budget or local authorities arising from ownership rights to buildings and structures.

13. Abandoned business

In 2004, the entities of the Bank's Capital Group did not discontinue any form of activity and do not envisage termination of any activities in the foreseeable future, except for subsidiaries in liquidation: Polskie Towarzystwo Emerytalne DIAMENT S.A. as of 23 June 2003 and PPH Spomasz Sp. z o.o. as of 3 November 2000.

14. Expenses related to projects in progress, fixed assets and development costs

In 2004 and 2003, the entities of the Bank's Capital Group did not incur expense relating to projects in progress and fixed assets developing costs.

15. Incurred and planned capital expenditure

Capital expenditure incurred on projects in progress and on intangible assets in the Bank's Capital Group as at 31 December 2004 amounted to PLN 6,757 thousand (32 December 2003: PLN 18,489 thousand). Capital expenditure planned for the next 12 months amounts to PLN 585,760 thousand, and it largely relates to expenditure on modernization and equipment of buildings as well as expenditure on information technologies.

16. Transactions with related parties

16.1. Transactions with shareholders of the Bank holding at least 10% of votes at the General Shareholders' Meeting

As of 31 December 2004, the shareholders of the Bank holding, directly or indirectly through subsidiaries, at least 10% of votes at the General Shareholders' Meeting were the following entities:

- Citibank Overseas Investment Corporation (COIC), a subsidiary of Citibank N.A., holder of 75% of votes at the Bank's General Shareholders Meeting. COIC held 97,994,700 shares, which corresponded to 75% of the Bank's authorised share capital. The number of votes resulting from shares held by COIC was 97,994,700, which corresponded to 75% of the total number of votes at the General Shareholders Meeting of the Bank,

- International Finance Associates B.V., based in Amsterdam, the Netherlands ("IFA"), a subsidiary of COIC, holder of 14.3% of votes at the Bank's General Shareholders Meeting. IFA held 18,722,874 shares, which corresponded to 14.3% of the Bank's authorised share capital. The number of votes resulting from shares held by IFA was 18,722,874, which corresponded to 14.3% of the total number of votes at the General Shareholders Meeting of the Bank.

In 2004, the ownership structure of significant shareholdings changed. This change resulted from the sale by COIC to IFA of 18,722,874 shares corresponding to 14.3% of the share capital of the Bank on 30 November 2004. As a result of this transaction, the percent share of COIC in the authorised share capital of the Bank fell from 89.3% to 75%.
The sales transaction of the Bank's shares by COIC for the benefit of IFA is connected with the execution of the requirement concerning the lowering of Citigroup's share in the Bank's capital to 75%. The shares were sold by COIC in connection with the issue by Citibank, N.A. of bonds convertible to the Bank's shares ("Bonds"). Each bond holder will have the right to issue instructions concerning the execution of the voting rights arising from such number of shares which would be obtained by the bond holder as a result of execution of the right to convert the Bonds held by such bond holder.

COIC and other entities of Citigroup Inc. enter into a number of transactions with the Bank.
The balances of accounts receivable and payable and off-balance sheet commitments towards Citigroup Inc. companies are as follows:

		in PLN thousand
	31 December 2004	**31 December 2003**

Receivables, including:	4,898,775	5,502,307
Placements	4,877,390	5,485,579
Liabilities, including:	674,489	491,818
Deposits	456,866	275,704
Loans received	217,623	216,114
Off-balance sheet guarantee liabilities granted	110,680	3,258,637
Off-balance sheet guarantee liabilities received	619,087	555,471
Derivative transactions	114,058,930	97,279,361
Interest and commission income*	62,975	48,487
Interest and commission expense*	26,191	24,672

* not including Derivative transactions

Furthermore the Bank incurs costs and receives income of an operational nature from agreements concluded between Citigroup Inc. entities and the Bank for the provision of mutual services.

The costs arising and accrued in 2004 from agreements concluded in 2004 and in prior periods amounted in total to PLN 149,894 thousand and related in particular to the costs arising from the provision of services related to the maintenance of the Bank's information systems and advisory support for the Bank; income in the amount of PLN 42,581 thousand arose from the provision of data processing services by the Bank.

In 2004, the Bank entered into new agreements with Citigroup Inc. entities, related to mutual services as well as agreements constituting a continuation of previously concluded contracts. The most important among new agreements is the agreement concluded on 27 April 2004 with Citibank N.A., London Branch, Citibank N.A., New York; Citibank International PLC, London Branch; Citigroup Global Markets Deutschland AG & CO, Germany; Citigroup Global Markets Limited, London; Citigroup Global Markets Asia Limited, Hong Kong; Citigroup Global Markets, INC. companies affiliated to Citibank N.A., the sole shareholder of Citibank Overseas Investment Corporation, which is a majority shareholder of the Bank. The subject matter of this agreement is the provision by the above entities (as the service providers) to provide for the benefit of the Bank (the service user) services related to advisory support of the day-to-day operations of the Bank, including consultation and advising in the areas of management, finance, accounting, auditing and compliance assessment, law and taxes, marketing and public affairs, human resources, administrative issues, and risk analysis and assessment.

16.2. Transactions with subordinated entities

16.2.1. Transactions with fully consolidated subordinated entity

As of 31 December 2004, the Bank did not hold any receivables due from its subsidiary undertaking Dom Maklerski Banku Handlowego SA (31 December 2003: the Bank had no amounts due from DM BH). The Bank had amounts due to DM BH of PLN 142,908 thousand (31 December 2003: PLN 100,258 thousand). The Bank received interest income from joint operations in 2004 of PLN 253 thousand (31 December 2003: PLN 26 thousand), in 2004 the interest expense with respect to DM BH amounted to PLN 5,843 thousand (31 December 2003: PLN 5,108 thousand). The above transactions were eliminated in the consolidated balance sheets, consolidated profit and loss accounts and consolidated cash flow statements.

16.2.2. Transactions with subordinated entities accounted for by the equity method

Amounts due to Bank and revenues received from subsidiaries, joint ventures and associated undertakings accounted for by the equity method as of 31 December 2004 are as follows:

in PLN thousand

	Subsidiaries	Joint ventures	Affiliates	Total
Amounts due from (net):				
financial entities – in respect of:				
-current accounts	488,405	100,323	-	**588,728**
-loans granted	41,809	-	-	**41,809**
-subordinated loans	117,957	-	-	**117,957**
-bonds convertible into shares	-	-	-	**-**
other undertakings – in respect of				
-current accounts	-	-	-	-
-loans granted	**648,171**	**100,323**	**-**	**748,494**
Total receivables	**20,616**	**4,372**	**1**	**24,989**

As of 31 December 2004, the amount of provisions created for receivables from subordinated undertakings accounted for by the equity method amounted to PLN 45,675 thousand, including PLN 34,158 thousand for provisions created for subordinated loans.

Amounts due by the Bank and expense paid to subordinated undertakings accounted for by the equity method as of 31 December 2004 are the following:

in PLN thousand

	Subsidiaries	Joint ventures	Affiliates	Total
Amounts due to:				
financial institutions – in respect of				
-current accounts	347,400	145	-	347,545
-deposits taken	50,211,	-	-	50,211
other undertakings – in respect of				
-current accounts	-	-	-	-
-deposits taken	-	-	-	-
Total payable	**397,611**	**145**	**-**	**397,756**
Interest and commission expense	**8,859**	**4**	**0**	**8,863**

Amounts due to the Bank and revenues received from subordinated undertakings accounted for by the equity method as of 31 December 2003 are the following:

in PLN thousand

	Subsidiaries	Joint ventures	Affiliates	Total
Amounts due from (net):				
financial entities – in respect of:				
-current accounts	637,777	21,274	-	659,051
-loans granted	95,980	-	-	95,980
-subordinated loans*	41,041	-	-	41,041
-bonds convertible into shares	70,159	-	-	70,159
other undertakings – in respect of:				
-loans granted	-	-	-	**-**
Total receivables	**844,957**	**21,274**	**-**	**866,231**
Interest and commission income	**24,613**	**700**	**1,715**	**27,028**

As of 31 December 2003, the amount of provisions created for receivables from subordinated undertakings accounted for using the equity method amounted to PLN 102,860 thousand for provisions created for subordinated loans.

Amounts due by the Bank and expenses paid to subordinated undertakings accounted for using the equity method as of 31 December 2003 are the following:

in PLN thousand

	Subsidiaries	Joint ventures	Affiliates	Total
Amounts due to:				
financial institutions – in respect of				
- current accounts	169,129	74	17	**169,220**
- deposits received	44,839	-	-	**44,839**
other undertakings – in respect of				
- current accounts	-	-	5,124	**5,124**
- deposits received	-	-	5,536	**5,536**
Total liabilities	**213,968**	**74**	**10,677**	**224,719**
Interest and commission expense	**8,111**	**15**	**95**	**8,221**

* The amount of subordinated loans relates to loans granted to subordinated undertakings Handlowy Investments S.A. and Handlowy Investments II S.a.r.l., intended for funding of fixed assets investments made by these entities. As of 31 December 2004, the nominal value of loans granted was PLN 112,860 thousand (31 December 2003: PLN 112,860 thousand), amount of provisions created for them – PLN 34,158 thousand (31 December 2003: PLN 112,860 thousand). Interest on subordinated loans are disclosed in the individual profit and loss account of the Bank at the moment of its payment. In 2004, the Bank did not have any income from such interest. In 2003, the respective interest income amounted to PLN 5,441 thousand. In the consolidated profit and loss account, the interest on such loans was subject to consolidation eliminations.

16.2.3. Transactions with subordinated undertakings not consolidated or accounted for by the equity method

Amounts due to the Bank at their balance sheet value and revenues received by the Bank from subordinated undertakings not consolidated or accounted for by the equity method as of 31 December 2004 are as follows:

in PLN thousand

	Subsidiaries	Joint ventures	Associated	Total
Amounts due from (net):				
other undertakings – in respect of:				
- current accounts	-	-	1,889	1,889
- loans granted	-	-	2,849	2,849
Total receivables	**-**	**-**	**4,738**	**4,738**
Interest and commission income	**-**	**-**	**37**	**37**

As of 31 December 2004, the total provisions for receivables from subordinated undertakings not consolidated and not accounted for by the equity method amounted to PLN 11,361 thousand.

As of 31 December 2004 the amounts due by the Bank and expense paid to subordinated undertakings not consolidated and not accounted for by the equity method were as follows:

in PLN thousand

	Subsidiaries	Joint ventures	Associated	Total
Amounts due to:				
other undertakings – in respect of				
- current accounts	-	-	169	169

- deposits received	-	-	-	-
Total liabilities	**-**	**-**	**169**	**169**
Interest rates and commissions costs incurred	**-**	**-**	**1**	**1-**

As of 31 December 2003, amounts due to the Bank and revenues received by the Bank from subordinated undertakings not consolidated and not accounted for by the equity method were as follows::

in PLN thousand

	Subsidiaries	Joint ventures	Associated	Total
Net receivables:				
other undertakings – in respect of				
- current accounts	-	-	4,481	4,481
- credits granted	-	-	11,431	11,431
- other forward receivables	-	-	161	161
Total receivables	**-**	**-**	**16,073**	**16,073**
Interest and commission income	**-**	**-**	**736**	**736**

As of 31 December 2003, the amount of provisions created for receivables from subordinated undertakings which are not subject to consolidation or valuation using the equity method of accounting amounted to PLN 38,593 thousand.

As of 31 December 2003, the amounts due by the Bank and expense paid to subordinated undertakings not consolidated and not accounted for by the equity method amounted to 31 December 2003 are as follows:

in PLN thousand

	Subsidiaries	Joint ventures	Associated	Total
Amounts due to:				
other undertakings – in respect of				
- current accounts	-	-	4,465	4,465
- deposits received	-	-	10,829	10,829
Total payable	**-**	**-**	**15,294**	**15,294**
Interest and commission expense	**-**	**-**	**1,508**	**1,508**

16.2.4. Events concerning transactions with subordinated undertakings

The following transactions with subordinated undertakings were executed in 2004:

- sale by the subsidiary Handlowy Investments S.A. of its whole shareholding in Polimex Cekop S.A. representing a 36.64% stake in capital and the same number of votes at the General Meeting of shareholders of this enterprise;
- redemption of some of the shares in the capital of the associated undertaking NIF Fund Holdings PCC Ltd. owned by the subsidiary Handlowy Investments S.A. The redeemed shares represented in total 10.19% of the entity's capital. The Bank's stake in the capital of the entity and the number of votes at the General Meeting of shareholders of this enterprise did not change and amounted to 23.86%;
- sale of some of the shares of the associated undertaking Pia Piasecki S.A. The shareholding sold represented a 17.40% stake in the capital of the entity. As a result of this transaction, the Bank holds a 19.12% stake in capital and the same number of votes at the General Meeting of shareholders of this enterprise;

- sale of some of the shares of the associated undertaking IPC JV Sp. z o.o. representing a 31.00% stake in the capital of the entity and the same number of votes at the general meeting of shareholders of this enterprise;
- sale of some of the shares of the associated undertaking Elektromontaż Poznań S.A. The shareholding sold represented a 5.42% stake in the capital of the entity. As a result of this transaction, the Bank holds a 19.88% stake in capital and the same number of votes at the General Meeting of shareholders of this enterprise;
- on 29 December 2004, an agreement on the sale of all shares of the associated undertaking Creditreform Polska Sp. z o.o. ("Creditreform") held by the Bank to Creditreform Frankfurt Emil Vogt KG based in Frankfurt am Main, Germany, was signed. The shareholding sold represented a 49.03% stake in the capital of Creditreform and the same number of votes at the General Meeting of shareholders of this enterprise. The Agreement envisages that the profit for the financial year 2004 generated by Creditreform and corresponding to the Shares held by the Bank on the Agreement signing date will be paid within two months of adopting the resolution on dividend payment by Creditreform shareholders at the latest. In accordance with the agreement terms and conditions, the transfer of ownership of the shares will take place in January 2005, upon payment of the total selling price by the purchasing party;

- on 31 December 2004, the Bank concluded with its subsidiary undertaking Handlowy Investments S.A. ("Handlowy Investments") the transaction ("Netting Agreement"), the object of which was netting of some mutual receivables of the Bank and of this undertaking. The Bank holds 99.99% of the authorised share capital of Handlowy Investments and 99.99 % of votes at the general meeting of shareholders.

  Before entering into the Netting Agreement, the Bank held convertible bonds ("Bonds") with the redemption date on 20 August 2004, issued by Handlowy Investments on 20 August 1999. For the Bonds, the Bank had a receivable from Handlowy Investments for payment of the purchase price at the total amount of EUR 14,873,611.49 ("Bank's Receivable"). For the purposes of the Netting Agreement, the parties translated the Bank's Receivable into PLN on the basis of the average EUR/PLN exchange rate announced in Table A of average FX rates of the NBP of 31 December 2004, i.e. 4.0794 zlotys. Therefore, the Bank's receivable amounted to PLN 60,675,410.71.

  On the other hand, under the provisions of the agreement on assignment of receivables signed between the Bank and Handlowy Investments on 4 June 2004 ("Assignment Agreement"), under which Handlowy Investments transferred to the Bank on the custody basis the receivables payable to Handlowy Investments in connection with the agreements on the sale of shares in Polimex-Cekop S.A. of 4 June 2004, including in particular the purchase price receivable, Handlowy Investments had against the bank the receivable amounting to USD 9,881,638 ("Receivable of Handlowy Investments"). For the purposes of the Netting Agreement, the parties translated the Receivable of Handlowy Investments into PLN on the basis of the average USD/PLN exchange rate announced in Table of average FX rates of the NBP as of the date of signing of the Assignment Agreement.

  In accordance with the provisions of the Netting Agreement, the Parties netted both receivables, as a result of which the Receivable of Handlowy Investments was redeemed in total, and the Bank's Receivable remained in the amount of PLN 23,033,287.08.

- the transaction executed on 31 December 2004 between the Bank and Handlowy Investments, the subject matter of which is Handlowy Investments assuming the liability towards the Bank related to the repayment of the loan of PLN 23,033,287.08, in order to redeem the liability of Handlowy Investments towards the Bank arising from the performance of the Netting Agreement is closely related to the above Netting Agreement.

  The Bank has a right to variable contractual interest on the loan amount, calculated as the sum of: a) WIBOR for 3-month deposits in Polish zlotys (PLN), fixed in individual quarters, and b) fixed element of 0.5% p.a. in force for the whole period for which the loan was granted. The loan is to be repaid together with the payable contractual interest to 30 September 2005.

The following transactions with subordinated undertakings were executed in 2003:

- the Bank, together with its subsidiary Handlowy Inwestycje II Sp. z o.o., sold its whole shareholding of its associated undertaking ZO Bytom S.A. having its registered office in Bytom. The shareholding sold represents in total a 27.64% stake (for the Bank -18.46% and for Handlowy Inwestycje II Sp. z o.o. – 9.18%, respectively) in authorised share capital and the same number of votes at the General Meeting of Shareholders of this entity;
- sale of the whole shareholding in the subsidiary "Bytom Collection" Sp. z o.o. having its registered office in Radzionków, representing a 100% stake in capital and the same number of votes at the General Meeting of Shareholders of this enterprise;
- sale of the whole shareholding in the subsidiary Handlowy Leasing S.A. having its registered office in Warsaw within the Bank's Capital Group, to the subsidiary undertaking Handlowy Inwestycje Sp. z o.o. The shareholding sold by the Bank represented a 0.01% stake in the capital of this undertaking. As a result of this transaction, Handlowy Inwestycje Sp. z o.o. held 100% stake in capital and the same number of votes at the General Meeting of Shareholders of Handlowy Leasing S.A;
- acquisition by Handlowy Inwestycje Sp. z o.o. shares in the increased authorised share capital of Citileasing Sp. z o.o. The acquisition of shares has been covered by a contribution in kind of shares in Handlowy Leasing S.A. As a result of this transaction, Handlowy Inwestycje Sp. z o.o. holds a 2.53% stake in the capital of Citileasing Sp. z o.o. and the same number of votes at the General Meeting of Shareholders of this enterprise, and Citileasing Sp. z o.o. holds a 100% stake in the capital of Handlowy Leasing S.A. and the same number of votes at the General Meeting of Shareholders of this enterprise;
- takeover by the Bank the assets of its subsidiary Budowa Centrum Plac Teatralny Sp. z o.o. in liquidation in which the Bank held a 61.25% stake in capital and the same number of votes at the General Meeting of Shareholders, due to the process of winding up of this subsidiary;
- reimbursement for the Bank of supplementary payment made by the Bank for the subsidiary Handlowy Inwestycje Sp. z o.o., at the total amount of PLN 27,000 thousand, pursuant to the resolution of the Extraordinary General Meeting of Shareholders of Handlowy Inwestycje Sp. z o.o. of 2 April 2003;
- reimbursement for the Bank of supplementary payment made by the Bank for the subsidiary Handlowy Inwestycje II Sp. z o.o., at the total amount of PLN 15,000 thousand, pursuant to the resolution of the Extraordinary General Meeting of Shareholders of Handlowy Inwestycje Sp. z o.o. of 2 April 2003.
- sale of the entire shareholding in the joint venture PKO/Handlowy Powszechne Towarzystwo Emerytalne S.A. having its registered office in Warsaw, in which the Bank held a 50% stake in capital and the same number of votes at the general meeting of shareholders.

16.3. Percentage share of transactions with related parties in individual categories of transactions conducted by the Bank

As of 31 December 2004, the percentage share of transactions with related parties was as follows:

in PLN thousand

Transaction categories	Transactions with Citigroup Inc. companies	Transactions with subordinated undertakings	Total transactions with related parties	Share in %
Receivables	4,898,775	753,232	5,652,007	30.55
Debt securities	-	-	-	-
Liabilities	674,489	540,833	1,215,322	5.53
Off-balance sheet liabilities granted	110,680	134,627	245,307	2.09

Off-balance sheet liabilities received	619,087	-	619,087	20.97
Derivative transactions	114,058,930	-	114,058,930	59.43

As of 31 December 2003, the percentage share of transactions with related parties was as follows:

			in PLN thousand	
Transaction categories	**Transactions with Citigroup Inc. companies**	**Transactions with subordinated undertakings**	**Total transactions with related parties**	**Share in %**
Receivables	5,502,307	812,145	6,314,452	28.35
Debt securities	-	70,159	70,159	1.79
Liabilities	491,818	340,271	832,089	3.65
Off-balance sheet liabilities granted	3,258,637	195,824	3,454,461	22.94
Off-balance sheet liabilities received	555,471	13,484	568,955	17.25
Derivatives transactions	97,279,361	-	97,279,361	58.25

The Bank's credit exposure to related parties consisted of loans and advances extended to entities of the Group.

Credit decision-making in respect of borrowers constituting the entities of the Group follows the rules applicable to external customers

17. Joint ventures excluded from the consolidation

In 2004 and in 2003, the Bank did not participate in joint ventures with related entities.

18. Brokerage activity income and costs

The Bank does not conduct brokerage activity within its structure. Brokerage activity is executed through the its wholly-owned subsidiary company Dom Maklerski Banku Handlowego S.A. The financial statements of the company Dom Maklerski Banku Handlowego S.A. as at 31 December 2004 and 31 December 2003 is included in the Bank's consolidated financial statements using the full method.

19. Write-offs of bad debts

As of 31 December 2004, bad debts written off against provisions created amounted to PLN 152,620 thousand (31 December 2003: PLN 55,032 thousand).
In 2004, the amount of bad debts written off against other operating expenses was PLN 4,819 thousand. (in 2003: PLN 7 thousand).

20. Provisions for employee payments

As of 31 December 2004, provision for future payments to employees amounted to PLN 130,112 thousand (31 December 2003: PLN 101,577 thousand), including:

- provision for remuneration and related costs amounting to PLN 96,849 thousand (31 December 2003: PLN 76,577 thousand),
- provision for personnel restructuring expense amounting to PLN 6,307 thousand (31 December 2003: did not exist),

- provision for employees' retirement and jubilee payments amounting to PLN 26,956 thousand (31 December 2003: PLN 25,000 thousand).

21. Financing Employee Pension Plans

The Bank has created an Employee Pension Plan (the Plan) for its employees, with the objective to save and accumulate through investments funds from premiums paid within the Plan into an individual account of the participant in order to ensure benefit payments after the participant attains the age of 60 years or undergoes early retirement or if the participant obtains the rights to disability benefits due to incapacity for work.

The current Plan, which is a continuation of PPE Polskie Towarzystwo Emerytalne "Diament", was implemented on 19 March 2004 under an agreement with CitiSenior SFIO ("PPE CitiSenior") managed by Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A. ("TFI BH").

The basic premium for Plan participants is paid from the Bank's funds based on 6% of the individual salary of the employee.

Each employee who participates in the Plan can also make additional premium contributions to the Plan.

The total of premiums paid to PPE CitiSenior is invested in units of Specjalistyczny Otwarty Fundusz Inwestycyjny Kapitał Handlowy Senior managed by Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A. TFI BH.

22. Custody services

As part of the statutory activities and pursuant to the permit granted by the Polish Securities and Exchange Commission, the Custody Department operates securities accounts, clears securities transactions, handles dividends and interest payments, asset portfolio valuation, develops individual reports, and arranges representation of clients at general meetings of shareholders of public companies. Additionally, the Securities Custody Department maintains a foreign securities register, which includes settlement of transactions concluded by domestic customers depositing securities on foreign markets and international securities management.

On 31 December 2004, the Bank kept 7,477 securities accounts. It also served as the depository for 7 Open Pension Plans (Commercial Union OFE, BPH CU WBK, AIG OFE, SAMPO OFE, OFE Pocztylion, Pekao OFE, Generali OFE, ING Nationale Nederlanden Polska OFE), as well as for the Employee Pension Plan of Telekomunikacja Polska S.A. Moreover, the Bank served as the depository for twelve investment funds managed by the following Investment Fund Societies: BZ WBK AIB TFI S.A., SEB TFI S.A., PIONEER PEKAO TFI S.A., DWS Polska TFI S.A..

23. Assets securitization

As of 31 December 2004 and 31 December 2003, the entities of the Bank's Capital Group had no securitised receivables.

24. Employment

In 2004, the average number of employees in the Bank's Capital Group amounted to 5,260 permanent positions, including 40 technical staff (in 2003: 4,964 permanent positions, including 44 technical staff).

25. Salaries and awards (in cash and in kind), including bonuses from retained profit, paid or payable to persons managing and supervising the Bank

Total amount of salaries, awards and benefits paid or payable to the current and former members of the Bank Management Board in 2004:

in PLN thousand

Full name	Salaries, awards and benefits received in the Bank				Remuneration received for
	Base salaries and awards	Other benefits	Value of shares awarded in 2004	Managerial options granted in 2004 (in units)	positions held in governing bodies of subordinated undertakings
Management Board members performing their functions at the end of 2004					
Sławomir Sikora	2,291	46	118		
Sunil Sreenivasan	3,926	1,556	404	16,000	
Philip King	2,475	216	168	8,000	
David Smith	174	3			
Lidia Jabłonowska-Luba	1,057	3	48	1,500	30
Michał Mrożek (until 25 May 2004 the Managing Director)	1,249	14	48	1,500	8
Management Board members who ceased performing their functions in 2004:					
Wiesław Kalinowski (until 30 March 2004)	428	2,765			
Total	11,600	4,603	786	27,000	38

The total amount of "Base salaries and awards" includes the gross amount of base salaries paid in 2004 and the award for 2004.

According to the decision of the Supervisory Board the remaining amount of awards granted to the members of the Bank Management Board for 2003, paid in 2004 in total amounted to PLN 3,294 thousand.

The total amount of "Other benefits" includes the gross amount of paid remuneration arising from indemnification for employment contract termination, managerial options granted, benefits in kind, lump-sum payment for the use of company car, insurance policy premium, holiday leave equivalent, dividend, supplementary benefits consistent with the employment contract of foreign employees.

Total amount of salaries, awards and benefits paid or payable to the current and former members of the Bank Supervisory Board in 2004 in PLN thousand

Full name	Total value of paid and payable salaries and awards
Supervisory Board members performing their functions at the end of 2004	
Stanisław Sołtysiński	107
Göran Collert	71
Mirosław Gryszka	71
Edward Kuczera	71
Jarosław Myjak (from 24 June 2004)	30
Andrzej Olechowski	71
Supervisory Board members who ceased performing their functions in 2004	
Andrzej Gdula (until 24 June 2004)	41
Total	462

In 2004, persons having supervisory functions in the Bank did not receive any remuneration for their positions held in the governing bodies of subordinated undertakings of the Bank.

Remuneration paid to persons managing subordinated undertakings amounted in 2004 amounted to PLN 9,348 thousand (in 2003: PLN 9,143 thousand).

Remuneration paid to members of supervisory boards of subordinated undertakings in 2004 amounted to PLN 609 thousand (in 2003: PLN 834 thousand).

26. Advances, loans and guarantees granted to employees, members of the Management Board and supervisory bodies of the Bank

The Bank's exposures arising from advances, loans and guarantees granted to employees, members of the Management Board and supervisory bodies of the Bank as of 31 December 2004 were as follows*:*

in PLN thousand

	Advances	**Guarantees**	**Bank loans ***	**Loans granted from the Company Social Fund**
Employees	104	1,133	69,928	39,581
Members of the Management Board	-	318	843	-
Members of the Supervisory Board	-	-	67	-
Relatives of the persons managing or supervising the entity	-	-	-	-
Total:	**104**	**1,451**	**70,838**	**39,581**

** The interest rates and repayment schedules for bank loans are at normal market conditions.*

The Bank's exposures arising from advances, loans and guarantees granted to employees, members of the Management Board and supervisory bodies of the Bank as of 31 December 2003 were as follows:

in PLN thousand

	Advances	**Guarantees**	**Bank loans ***	**Loans granted from the Company Social Fund**
Employees	138	1,327	69,126	45,135
Members of the Management Board	-	331	650	-
Members of the Supervisory Board	-	-	-	-
Relatives of the persons managing or supervising the entity	-	-	-	-
Total:	**138**	**1,658**	**69,776**	**45,135**

* *The interest rates and repayment schedules for bank loans are at normal market conditions.*

As of 31 December 2004 and 31 December 2003, none of the employees, the Management Board and the Supervisory Board members of the Bank or relatives of the persons managing or supervising the Bank benefited from advances, loans and guarantees granted by subsidiaries, joint ventures or associated undertakings of the Bank.

As of 31 December 2004, the amount of loans granted by subordinated entities to their employees amounted to PLN 50 thousand and related to loans from the Company Social Benefit Fund. Subordinated undertakings did not grant any advances, loans and guarantees to members of their managing and supervising bodies.

As of 31 December 2003, subordinated undertakings did not grant any advances, loans and guarantees to their employees or management board and supervisory board members.

27. Significant events relating to previous years presented in the consolidated financial statements for 2004

In 2004, within the Bank's Capital Group, no significant events occurred, resulting from previous years, which would have a material impact on the financial statements of the Bank for 2004.

28. Significant post balance sheet events excluded from the financial statements for 2004

On 20 January 2005, the Bank entered with its wholly owned subsidiary Handlowy Inwestycje II Sp. z o.o. ("Inwestycje II"), an agreement concerning the take-over of shares in increased share capital of this company. The take-over of shares was covered by the contribution in kind in the form of shares in Mostostal-Zabrze Holding S.A. („MZH") representing 24.60% of the authorised share capital of this company. The value of the contribution in kind to Inwestycje II was determined at PLN 467,400.00. Following the registration of the increase in the authorised share capital on 4 February 2005, the authorised share capital of Inwestycje II is PLN 471,400.00 and is divided into 4,714 shares with the nominal value of PLN 100 each, while each share corresponds to one vote at the Meeting of Shareholders. Before the sale of shares, the shareholding held by the Bank represented 34.44% of the authorised share capital of MZH and gave right to 34.44% of the total number of votes at the general meeting. As a result of this transaction, the Bank holds

9.84% share in the authorised share capital of MZH and the same number of votes at the General Meeting of Shareholders of the company.

On 15 February 2005, the District Court in Warsaw, First Civil Division, dismissed the action of Marek Gil against Bank Handlowy w Warszawie SA for the payment of PLN 276,508,282.
The action in question was brought by Marek Gil on 20 October 2003. Marek Gil, the majority shareholder of Spółka Biuro Inwestycyjne CODE S.A. (CODE), stated as the basis for his claims the Bank's violation of the agreement of 20 June 1999 under which the Bank was an agent of issuance of bonds of the CODE company. The award is not legally valid yet. The fact that the action was brought against the Bank in 2003 was not disclosed to the public pursuant to the decision of the Polish Securities and Exchange Commission dated 27 October 2003 No. DSPN/451/186/03.

On 28 February 2005, having obtained the consent of the Polish Securities and Exchange Commission, the Bank signed a transfer agreement under which the Bank will purchase part of a banking enterprise, including the conduct of operations related to the operation of securities accounts, cash/bank accounts, and performing the function of a depository for investment funds from ABN AMRO Bank (Polska) S.A. based in Warsaw. On 1 March 2005, the agreement came into force.

On 14 March 2005 the Bank concluded the agreement based on which 2,357 shares in subsidiary Investment II Sp. z o o (previously "Handlowy-Inwestycje II" Sp. z o. o.) (Inwestycje II) with the nominal value of PLN 100 each and the total nominal value of PLN 235,700 being 50% of the share capital of Inwestycje II and giving rights to 50% of votes on the Shareholders Meeting, were sold to Mr Zbigniew Opach. The sale agreement was concluded based on the conditional agreement of the above mentioned shares for the amount of PLN 1,200,000 with the possibility of the adjustment according to the relevant terms of the agreement. The book value of the shares sold in the Bank's books was PLN 2,264,192.13. The acquirer is not a related party neither to the Bank nor people managing and supervising the Bank.

Independently from the above mentioned transaction, the Bank concluded on 14 March 2005 the agreement based on which the remaining 2,357 shares in subsidiary Investment II Sp. z o. o. (previously "Handlowy-Inwestycje II" Sp. z o o) (Inwestycje II) with the nominal value of PLN 100 each and the total nominal value of 235,700 being 50% of the share capital of Inwestycje II and giving rights to 50% of votes on the Shareholders Meeting, were sold to Mrs Malgorzata Waniowska. The sale agreement was concluded based on the conditional agreement of the above mentioned shares for the amount of PLN 1,200,000 with the possibility of the adjustment according to the relevant terms of the agreement. The book value of the shares sold in the Bank's books was PLN 2,264,192.13. The acquirer is not a related party neither to the Bank nor people managing and supervising the Bank.

Prior to the sale of the shares as described above, the Bank had 4,714 of shares in Inwestycje II being 100% of the share capital of this company and giving rights to 4,714 of votes on shareholders meeting. Currently the Bank does not hold any shares in Inwestycje II.

On 16 March 2005, the Management Board of the Bank adopted a resolution regarding the proposed appropriation of 2004 profits and the payment of a dividend from previous years' profits. Detailed information on the payment of the dividend is presented in Additional Note to Financial Statement No.10.

On 6 April 2005, the Bank's Management Board approved the report of the Leopold Kronenberg Banking Foundation operations for 2004, approved the income and costs estimates for 2005, and undertook the decision to grant, on behalf of the Founder - namely of Bank Handlowy w Warszawie SA, the amount of PLN 2,400,000. for statutory activity purposes of the Foundation. The Leopold Kronenberg Banking Foundation was created by the Bank in 1995. The purpose of the Foundation is to contribute to the public welfare with respect to education, culture and arts, healthcare and social welfare.

29. Significant events related to the current period that have a significant impact on the structure of balance sheet and profit and loss account

In 2004 the Management Board of the Bank continued restructuring activities, taking the decision to further reduce employment. The changes in structure of employment follow the reorganisation of individual areas and introduction of new technological and organisational solutions. The Bank expects that this will lead to an improvement in quality and effectiveness of customer service. On 23 March 2004, the Bank entered with trade unions an agreement defining the procedures for dealing with employees laid off in the above period, and in particular defining the level of severance benefits payable to them. However as a result of activities undertaken to adjust the status and structure of employment to changes in strategies and methods of operation of the Bank a significant number of employees designated for reduction were employed in the dynamically developing Consumer Sector of the Bank.

On 24 June 2004, the Ordinary General Meeting of Shareholders of the Bank was held, which passed resolutions including a resolution on distribution of profit for 2003 and on determination of the dividend date and dividend payment date.

The Ordinary General Meeting of Shareholders resolved to:

1) distribute the 2003 profit of PLN 242,510,335.70 as follows:

a) dividend for shareholders: PLN 241,720,260, the amount of dividend per share being PLN 1.85,

b) write-off for reserve capital: PLN 790,075.70;

2) set the dividend date at 26 July 2004;

3) set the dividend payment date at 1 September 2004

On 21 October 2004, the Moody's rating agency notified the Bank on an increase in the rating perspective of the financial strength of the Bank from stable to positive. The Bank’s ratings, i.e. evaluation of short- and long-term liabilities and financial strength remained unchanged (A2/P-1/D+).

In the opinion of Moody’s, the financial strength rating at the level of D+ together with its positive perspective arise from the benefits from integration with Citigroup, the leading market position in credit cards, corporate and investment banking and competencies in the capital and transaction banking services market. The Bank will use the “know-how” provided by the parent company in particular at expansion in the mass market of consumer banking, where it intends to become a leading institution through its CitiFinancial brand.

On 23 November 2004, Citigroup Inc. disclosed to the public that Citibank, N.A. had announced and successfully conducted the offer of convertible bonds worth USD 436.5 million (“Bonds”) with three-year term, convertible to about 14.3% of issued and traded shares of Bank Handlowy w Warszawie SA ("Bank”). The Bonds will give to the Bond holders the right to convert them into shares in the Bank. Each Bond holder will have the right to issue instructions concerning the execution of the voting rights arising from such number of shares in the Bank which corresponds to the number of the shares in the Bank which is subject to conversion for the Bonds held by the specific Bond Holder.

As stated in the information provided by Citigroup Inc., the offer contains the following terms and conditions of issue: (i) issue price: 100%; (ii) interest coupon paid in six-month periods: 2.875%; (iii) conversion price, i.e. the price at which the Bond holders will be able to convert their Bonds into shares in the Bank: USD 23.3209 or PLN 75.00 (at the PLN/USD exchange rate: 3.2160)); (iv) difference between the conversion price and the current price of shares in Bank Handlowy: 25%; (v) redemption price: 100%; (vi) redemption date: 8 December 2007. The issuer - Citibank, N.A – has an option of redemption of the Bonds which can be executed starting from December 2005, on condition that the price of shares in the Bank will be at the level above 115% of the conversion price.

The Bonds were offered to institutional investors consistent with the respective laws and regulations in force in each country where the offer was conducted. The offer was not conducted in the territory of the United States, it was not addressed to US persons, and was not conducted in the territory of Canada and Japan.

The Bonds have been traded on the Luxembourg Stock Exchange since 8 December 2004. On 3 March 2005 the Bonds were listed on the Warsaw Stock Exchange with the use of the so-called European passport procedure.

The objective of the above-described transaction is to reduce the share of Citigroup in the authorised share capital of the Bank to approximately 75% of the total number of shares of the Bank to 75% of the total number of votes at the General Meeting of the Bank. The proceeds from the offer will be used to meet the general financial needs of Citibank, N.A.

The transaction presented above should not be understood as an offer of sale of the securities in question in the United States. These securities cannot be sold in the United States without prior registration or without obtaining exclusion from registration under the U.S. Securities Act of 1933, as amended.

In connection with issuing by Citibank, N.A. the Bonds convertible to shares in the Bank, on 30 November 2004 Citibank Overseas Investment Corporation (COIC), a subsidiary of Citibank N.A. sold to International Finance Associates B.V. based in Amsterdam, the Netherlands ("IFA"), a subsidiary of COIC, 18,722,874 shares constituting 14.3% of the authorised share capital of the Bank. As a result of this transaction, the percent share of COIC in the authorised share capital of the Bank was reduced from 89.3% to 75%.

The remaining significant events which occurred in 2004 concerned agreements and transactions entered into with related parties, which are presented in Note 16.

30. Information on relations between the Bank and its legal predecessor

The Bank does not have a legal predecessor.

31. Basic balance sheet and profit and loss account items adjusted for inflation

The financial data reported in these financial statements has not been adjusted for inflation. Over the twelve months ended 31 December of 2004, 2003 and 2002, the inflation rate as measured using the index of increase in goods and services consumer prices (December to December) did not exceed 100%, running at 4.4%, 1.7% and 0.8%. The above inflation rates have been taken from the Statistical Bulletin published by the Central Statistical Office.

32. Listing of differences between the information disclosed in these financial statements and the comparable information in the previously prepared and published financial statements

In order to maintain comparability of financial data with the disclosures for the current period, the data presented concerning the year 2003 were subject to modifications with respect to the previously published data in the annual report SAB-R 2003.

Those changes are presented below:

in PLN thousand

CONSOLIDATED BALANCE SHEET

	as at 31.12.2003 presented previously	Change	Change description item	as at 31.12.2003 after change
Assets				
I. Cash and due from NBP	1,186,514			1,186,514
II. Treasury bills and other bills eligible for refinancing with NBP	-			-

III. Due from financial sector	8,017,822	(8,117)		8,009,705
1. Short-term	6,244,484			6,244,484
a) current	6,163,517			6,163,517
b) other	80,967			80,967
2. Long-term	1,773,338	(8,117)	1)	1,765,221
IV. Due from non-financial sector	13,254,962			13,254,962
1. Short-term	3,530,576			3,530,576
a) current	3,529,638			3,529,638
b) other	938			938
2. Long-term	9,724,386			9,724,386
V. Due from public sector	3,239			3,239
1. Short-term	195			195
a) current	87			87
b) other	108			108
2. Long-term	3,044			3,044
VI. Receivables subject to securities sale and repurchase agreements	-	288,601	2)	288,601
VII. Debt securities	3,441,902	470,562	2)	3,912,464
VIII. Receivables from subordinated undertakings accounted for by the equity method	796,069			796,069
1. Subsidiaries undertakings	774,795			774,795
2. Joint ventures	21,274			21,274
3. Associated undertakings	-			-
IX. Shares in subsidiary accounted for by the equity method	247,958			247,958
X. Shares in joint ventures accounted for by the equity method	5,323			5,323
XI. Shares in associated undertakings accounted for by the equity method	6,059			6,059
XII. Minority investments	40,729			40,729
XIII. Other securities and other financial assets	3,624,452	458	2)	3,624,910
XIV. Intangible fixed assets	1,295,051			1,295,051
- goodwill	1,243,645			1,243,645
XV. Subordinated entities goodwill	-			-
XVI. Tangible fixed assets	764,609			764,609
XVII. Other assets	307,600	8,117		315,717
1. Repossessed assets – for sale	21,025			21,025
2. Stock	-			
3. Other	286,575	8,117	1)	294,692
XVIII. Interperiod settlements	283,059	8		283,067
1. Deferred tax	220,982	8	2)	220,990
2. Other interperiod settlements	62,077			62,077
TOTAL ASSETS	33,275,348	759,629		34,034,977

Liabilities				
I. Due to NBP	41,145			41,145
II. Due to financial sector	3,582,256			3,582,256
1. Short-term	2,320,325			2,320,325
a) current	2,252,627			2,252,627
b) other	67,698			67,698
2. Long-term	1,261,931			1,261,931
III. Due to non-financial sector	18,060,427			18,060,427

1. Short-term	8,903,980			8,903,980
a) current, including:	8,902,743			8,902,743
- savings	-			-
b) other, including:	1,237			1,237
- savings	-			-
2. Long-term, including:	9,156,447			9,156,447
- savings	-			-
IV. Due to public sector	466,056			466,056
1. Short-term l	305,018			305,018
a) current	304,415			304,415
b) short-term	603			603
2. Long-term	161,038			161,038
V. Liabilities in respect of securities subject to sale and repurchase agreements	-	470,803	2)	470,803
VI. Securities issued	-			-
1. Short-term	-			-
2. Long-term	-			-
VII. Other liabilities arising on financial instruments	3,362,332	288,863	2)	3,651,195
VIII. Due to subordinated undertakings accounted for by the equity method	224,719			224,719
1. Subsidiary undertakings	213,968			213,968
2. Joint ventures	74			74
3. Associated undertakings	10,677			10,677
IX. Special funds and other liabilities	222,120			222,120
X. Accruals and deferred income	921,402			921,402
1. Interperiod settlements	124,667			124,667
2. Negative goodwill	-			-
3. Other deferred income and income in suspense	796,735			796,735
XI. Subordinated debt	-			-
XII. Provisions	447,331			447,331
1. Provision for deferred corporate income tax	-			-
2. Other provisions	447,331			447,331
a) short-term	96,558			96,558
b) long-term	350,773			350,773
XIII. Subordinated debt	-			-
XIV. Minority capitals	-			-
XV. Share capital	522,638			522,638
XVI. Unpaid contributions to share capital(negative value)	-			-
XVII. Own shares (negative value)	-			-
XVIII. Equity reserves	3,068,974			3,068,974
XIX. Revaluation reserve	21,961	(35,173)	2)	(13,212)
XX. Other reserve	2,082,580			2,082,580
XXI. FX differences from conversion of subordinated undertakings	-			-
1. Positive FX differences	-			-
2. Negative FX differences	-			-
XXII. Undistributed profit or (not covered loss) of prior year	831	(10,847)	2)	(10,016)
XXIII. Net profit (loss)	250,576	45,983	2)	296,559
TOTAL LIABILITIES	33,275,348	759,629		34,034,977

OFF-BALANCE SHEET ITEMS

	as at 31.12.2003 presented previously	Change	Change description position	as at 31.12.2003 after change
I. Contingent liabilities granted and received	18,356,245			18,356,245
1. Contingent liabilities granted:	15,058,891			15,058,891
a) lending	12,020,986			12,020,986
b) guarantees	3,037,905			3,037,905
2. Commitments received:	3,297,354			3,297,354
a) lending	480,000			480,000
b) guarantees	2,817,354			2,817,354
II. Commitments resulting from sale/purchase transactions	167,738,766	(736,244)	2)	167,002,522
III. Other, including:	6,264,593			6,264,593
- Collateral received	6,264,593			6,264,593
TOTAL OFF-BALANCE SHEET POSITIONS	192,359,604	(736,244)		191,623,360

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	For the period of 01.01 - 31.12. 2003 previously published	Change	Change description position	For the period of 01.01. – 31.12. 2003 after the change
I. Interest income	1,368,199	12,658	2)	1,380,857
II. Interest expenses	(626,361)	(9,030)	2)	(635,391)
III. Interest income (I-II)	741,838	3,628		745,466
IV. Fee and commissions income	605,428			605,428
V. Fee and commissions costs	(58,072)			(58,072)
VI. Net fee and commissions (IV-V)	547,356			547,356
VII. Net income from sales of products, goods and materials	-			-
VIII. Costs of products, goods and materials sold	-			-
IX. Cost of sales	-			-
X. Result on sales (VII-VIII-IX)	-			-
XI. Income from variable income equity investments, other securities and other financial instruments	64,750			64,750
1. Subsidiaries undertakings	500			500
2. Joint ventures	59,530			59,530
3. Associated undertakings	23			23
4. Other entities	4,697			4,697
XII. Net profit on financial operations	78,432	54,609	2)	133,041
XIII. Net profit on foreign exchange	481,361			481,361
XIV. Profit/ loss on banking activity	1,913,737	58,237		1,971,974
XV. Other operating income	77,872			77,872
XVI. Other operating expences	(114,997)			(114,997)
XVII. General administrative expenses	(1,138,799)			(1,138,799)
XVIII. Depreciation expense	(155,948)			(155,948)
XIX. Charges to provisions and revaluation	(1,149,337)			(1,149,337)
1. Charges to specific provisions and general risk fund	(1,125,428)			(1,125,428)
2. Revaluation of financial assets	(23,909)			(23,909)

XX. Release of provisions and revaluation	968,346			968,346
1. Release of specific provisions and provision for general risk fund	956,736			956,736
2. Revaluation of financial assets	11,610			11,610
XXI. Net (charges to)/ release of provisions and decrease in respect of revaluation (XIX-XX)	(180,991)			(180,991)
XXII. Operating profit	400,874	58,237		459,111
XXIII. Extraordinary losses/gains	-			-
1. Extraordinary gains	-			-
2. Extraordinary losses	-			-
XXIV. Depreciation of goodwill of subordinated undertakings	-			-
XXV. Depreciation of negative goodwill of subordinated undertakings	-			-
XXVI. Profit (loss) before taxation	400,874	58,237		459,111
XXVII. Corporate income tax	(179,628)	(12,254)		(191,882)
1. Current	(62,247)			(62,247)
2. Deferred	(117,381)	(12,254)	2)	(129,635)
XXVIII. Other charges to profit/loss	-			-
XXIX. Participation in net profits (losses) of subordinated accounted for by the equity method	29,330			29,330
XXX. Minority (profit) losses	-			-
XXXI. Net profit (loss)	250,576	45,983		296,559

Change descriptions:

1) cash used as collateral for transactions on derivative instruments included in term due from financial sector were disclosed in the balance sheet as “Other assets”,

2) change in the principles recording repo/reverse repo transactions of the sell-buy-back (“SBB”) and buy-sell-back (“BSB”) type on securities. Securities sold on the basis of the sell-buy-back (“SBB”) transaction are presented in the assets of the balance sheet and at the same time are recognised on the side of liabilities as liabilities arising from the granted repurchase commitment. In the case of the BSB-type transactions, the purchased securities are presented as a receivable arising from the repurchase clause. Before the recording rules were changed, these transactions were disclosed as independent purchase or sale transactions

In the annual consolidated financial statements for 2004 there were changes introduced as compared to previously published consolidated quarterly report for 4th quarter of 2004 with respect to data included in the balance sheet, the profit and loss account and the cash flow statement, resulting from financial data verification. Due to those changes, the total assets as at 31 December 2004 were increased by PLN 11,206 thousand, consolidated equity was reduced by PLN 4,027 thousand and the consolidated net profit was reduced by the same amount of PLN 4,027 thousand.

33. Changes in accounting policy in 2004

In 2004, the following changes in the accounting principles (policy) applied by the Bank were introduced:

- principles of creating specific provisions for credit risk, introduced on 1 January 2004 under the provisions of the new Regulation of the Minister of Finance concerning the rules of creating provisions for risk associated with banking business. These changes include new principles of classification of credit exposures, in particular in the area of time limits for reclassification into individual risk categories, which implies prolongation of periods after which loans are included in the group of non-performing loans, use of collateral at the classification stage, and widening of the list of allowable collateral;

- principles of recognising the interest on receivables classified as watch receivables, payable to the Bank, introduced on 1 January 2004 under the amendment to the provisions of the Regulation of the Minister of Finance concerning the particular principles of accounting of banks. In accordance with the amendment to this Regulation, the income from interest and discount on receivables classified as watch receivables are disclosed in the profit and loss account on the accrual basis. Before 1 January 2004, such interest was classified as income in suspense until received;

- principles of recording repo/reverse repo transactions of the sell-buy-back (“SBB”) and buy-sell-back (“BSB”) type on securities. In accordance with the amendment to the provisions of the Regulation of the Minister of Finance concerning the particular principles of recognition, valuation methods, scope of disclosure, and method of presentation of financial instruments and the provisions of IAS 39, the Bank’s liabilities or receivables arising from SBB and BSB transactions are disclosed in the financial statements as a deposit or placement, respectively. Before the change in recording principles was introduced, such transactions were recorded as independent purchase or sale transactions. The change in the principles of recording SBB and BSB transactions was applied retrospectively, with maintenance of comparability with the presented data for previous reporting periods. The accumulated effects of the change introduced were disclosed in the financial statements of the Bank as a correction of the opening balance of capital as of 1 January 2003, reducing such balance by PLN 76 thousand. The effect of these changes on financial data for 2004 was an increase in the balance sheet total by PLN 676,552 thousand and reduction in shareholders’ equity by PLN 31 thousand. The change in shareholders’ equity was an effect of a reduction of revaluation capital by PLN 43,571 thousand, an increase in net profit by PLN 8,466 thousand, and disclosure of a positive result on these transactions from previous years amounting to PLN 35,136 thousand.

34. Adjustments of fundamental errors

There were no fundamental errors in the consolidated financial statements for 2004.

35. Going concern assumption for entities of the Group

There is no doubt as to the Bank’s ability to continue operations by entities of the Group, except for subsidiary undertakings PPH Spomasz Sp. z o.o. and Polskie Towarzystwo Emerytalne DIAMENT S.A., which are under liquidation (see Introduction item 7).

36. Business combination

In 2004 and 2003, no business combinations took place in which entities of the Bank’s Capital Group would constitute one of the parties.

37. Balance sheet date of the financial statements of the fully consolidated subsidiary undertaking included in the consolidated financial statements

The balance sheet date of the fully consolidated subsidiary undertaking is the same as the balance sheet date of the consolidated financial statement of the Bank.

38. Modifications in the financial statements of the entity included in the consolidated financial statements

The financial statements of the undertaking included in the consolidated financial statements does not require any modifications resulting from the method and rules of valuation of assets and liabilities applied by that entity. The accounting principles applied by the fully consolidated entity comply in all material respects with the principles applied by the Bank.

39. Exclusions from the obligation of consolidation or accounting for by the equity method

Information related to exclusions from consolidation or equity method accounting with the data describing the activities of subordinated undertakings is presented in the Introduction to these financial statements (item 9).

40. Currency structure of assets and liabilities

The Bank's currency position was calculated in accordance with the principles specified in Resolution No. 5/2001 of the Commission for Banking Supervision dated 12 December 2001 regarding specific rules for calculating capital requirements for banking risk categories, including capital requirement for exposure exceeding concentration limits, method and detailed rules for calculation of the bank solvency ratio, (…) (NBP Official Journal No. 22, item 43, as amended).

The currency position of base currencies as at 31 December 2004 was the following:

in PLN thousand

Country	Currency	Assets	Liabilities	Off-balance sheet assets	Off-balance sheet liabilities	Indexed assets/ liabilities	Long (short) position
USA	**USD**	6,045,339	2,644,959	11,505,278	14,825,706	-	**79,952**
European Union	**EUR**	3,034,775	2,647,169	4,324,820	4,805,218	-	**(92,792)**
Great Britain	**GBP**	139,102	141,865	6,924	306	-	**3,855**
Switzerland	**CHF**	419,996	139,505	380,009	631,322	-	**29,178**
Sweden	**SEK**	36,680	26,629	16,801	25,833	-	**1,019**
Denmark	**DKK**	1,198	3,238	-	393	-	**(2,433)**
Australia	**AUD**	1,039	152	-	1,166	-	**(279)**
Norway	**NOK**	8,497	7,018	163	2,277	-	**(635)**
Canada	**CAD**	3,493	3,281	-	-	-	**212**
Japan	**JPY**	4,592	1,861	-	4,375	-	**(1,644)**
Czech Republic	**CZK**	142,216	4,472	32,190	168,392	-	**1,542**
Hungary	**HUF**	101	1,608	-	216	-	**(1,723)**
Slovakia	**SKK**	1,200	1,053	-	-	-	**147**
Estonia	**EEK**	79	-	-	261	-	**(182)**
Lithuania	**LTL**	414	-	-	1,890	-	**(1,476)**
Latvia	**LVL**	2,590	-	-	2,919	-	**(329)**
Russia	**RUB**	11	11	-	-	-	**-**
South Africa	**ZAR**	454	-	-	-	-	**454**
Total inconvertible currencies		89,761	89,807	-	-	-	**(46)**
Total		**9,931,537**	**5,712,628**	**16,266,185**	**20,470,274**	-	
Total currency position							**116,359**

As of 31 December 2004, the total capital requirement for foreign exchange risk was set at PLN 2,861thousand.

The currency position for core currencies as of 31 December 2003 was as follows:

in PLN thousand

Country	Currency	Assets	Equity and liabilities	Off-balance sheet assets	Off-balance sheet equity and liabilities	Indexed assets/ equity and liabilities	Long (short) position
USA	**USD**	7,225,183	3,288,618	13,371,422	17,261,664	-	**46,323**
European Union	**EUR**	4,444,012	2,668,552	4,508,454	6,284,990	-	**(1,076)**
Great Britain	**GBP**	137,535	184,545	133,858	85,498	-	**1,350**
Switzerland	**CHF**	960,562	72,605	1,109,431	2,030,298	-	**(32,910)**
Sweden	**SEK**	26,070	15,587	-	11,920	-	**(1,437)**
Denmark	**DKK**	9,962	12,493	4,465	2,269	-	**(335)**
Australia	**AUD**	46	195	1,404	1,404	-	**(149)**
Norway	**NOK**	5,492	3,556	1,646	4,203	-	**(621)**
Canada	**CAD**	9,788	7,859	-	-	-	**1 929**
Japan	**JPY**	30,048	8,794	-	31,244	-	**(9,990)**
Czech Republic	**CZK**	150,167	10,910	47,958	188,082	-	**(867)**
Hungary	**HUF**	163	271	1,178	989	-	**81**
Slovakia	**SKK**	409	-	-	-	-	**409**
South Africa	**ZAR**	463	-	-	-	-	**463**
Total inconvertible currencies		189,211	189,268	-	-	-	**(57)**
Total		**13,189,111**	**6,463,253**	**19,179,816**	**25,902,561**	-	
Total currency position							**50,555**

As of 31 December 2003, the capital requirement for foreign exchange risk was set at zero.

In calculating its capital requirement against foreign exchange risk as of 31 December 2004 and 31 December 2003, the Bank applies the standardised method as specified in Resolution No. 5/2001 of the Commission for Bank Supervision dated 12 December 2001

41. The annual report for 2004 will be made available at the website of Bank Handlowy w Warszawie S.A., at www.citibankhandlowy.pl.

Signatures of all Members of the Management Board

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