

# ANNUAL REPORT 2004



**citibank handlowy**  
Bank Handlowy w Warszawie SA

# Our Shared Responsibilities

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Citigroup's goal is to be the most respected global financial services company. As a great institution with a unique and proud history, we play an important role in the global economy. Each member of the Citigroup family has three Shared Responsibilities:

## **We have a responsibility to OUR CLIENTS**

We must put our clients first, provide superior advice, products and services, and always act with the highest level of integrity.

## **We have a responsibility to EACH OTHER**

We must provide outstanding people the best opportunity to realize their potential. We must treat our teammates with respect, champion our remarkable diversity, share the responsibility for our successes, and accept accountability for our failures.

## **We have a responsibility to OUR FRANCHISE**

We must put Citigroup's long-term interests ahead of each unit's short-term gains and provide superior results for our shareholders. We must respect the local culture and take an active role in the communities where we work and live. We must honor those who came before us and extend our legacy for those who will come after us.

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# Letter of the President of the Management Board of Bank Handlowy w Warszawie SA

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### **Ladies and Gentlemen,**

The year 2004 was a successful year for the bank. We achieved our best financial result since the merger of

Bank Handlowy with Citibank (Poland) SA, and managed to confirm our leading position in many areas of commercial, investment and retail banking.

The net profit of Bank Handlowy in 2004 amounted to 414 million zloty, which is an increase of 125 million zloty, or 43.6% over the same period in the previous year. We attained very good revenues from interest and commission. The increase in the net interest income of 150 million zloty was achieved as a result of effective management of the profit margin that took into account the rapidly developing retail banking lending activities, an increase in deposits from corporate customers and a larger debt instruments portfolio. The increase in the net fee and commission income of 68 million zloty was achieved through commissions on brokerage services, insurance products and fees for issuing and using credit cards.

Thanks to an overall improvement in the macroeconomic situation and stronger credit risk management, the quality of the loan portfolio improved.

After a period of weak economic growth in many sectors of the Polish economy the year 2004 should be considered as a turning point. In the period preceding Poland's accession to the EU, the rate of economic growth increased to a level unseen since the middle of the nineteen-nineties.

In 2004 the bank conducted its operations based on its new and more effective coverage model.

One of the consequences of introducing this new customer coverage model was an expansion of the products and services offered to large and medium-sized companies. The group of large corporations was covered by fully personalised customer service.

The bank further strengthened its position as leader in servicing international corporations and Poland's largest companies. We are pleased to note that customers appreciate the modern and extensive range of products and services offered by us in transactional banking. The economic growth, which facilitates the development of our customers' businesses, motivates us to introduce new solutions in almost every quarter of the year.

In 2004 the UniKasa Utility Bill Payment Network (Sieć Obsługi Płatności - SOP) underwent rapid growth. The high level of interest in the UniKasa platform among Citigroup entities gave rise to the first implementation of this system outside Poland. A few of the first UniKasa bill payment points were opened in Romania.

The bank strengthened its leading position among participants on the FX, money and interest rate markets in Poland. In 2004 the bank's FX market share increased to 23%. The bank also maintained its leading position on the corporate bonds market with an almost 20% market share. It is worth recalling that for many years the bank has remained at the very top of companies operating on the primary market for debt securities issued by companies and financial institutions.

The year 2004 was also a successful year for the Consumer Banking Sector: we retained our leading position on the credit card market, noting a 14% increase in card issues as compared to the end of 2003. The total number of credit cards issued by our bank in 2004 exceeded 520,000.

We are the leading bank serving the most demanding customers. Our CitiGold Wealth Management range of products and services, introduced 2 years ago, continues to hold the highest position on the market.

CitiFinancial, which offers cash loans to individual customers, is doing very well, too. New branch offices are systematically being opened throughout Poland. In 2004 the number of outlets increased by 23, reaching a total number of 39 at the end of 2004.

In 2004 the bank continued to promote its Citibank Online (CBOL) internet platform.

The number of customers accessing their accounts over the Internet amounted to 230,000, which constitutes a 56% increase as compared to the end of 2003. This means that over 65% of account holders at the bank access our banking services via the Internet.

- Letter of the President of the Management Board of Bank

In 2004 we worked intensively on our branch network restructuring, designed to optimise operating costs and facilitate access for our retail and corporate customers. From a total number of 140 branch offices, 54 are corporate branches and 86 are retail branches (11 of them are intended to serve CitiGold Wealth Management customers).

In 2004 we took a decision to increase the functionality of branches. Thanks to this a significant number of branches hitherto servicing either corporate or retail customers only, can now serve customers from both sectors.

Last year we completed the process of unifying the bank's visual image. Currently both the retail and corporate distribution networks operate under a common logo:



Our achievements were noted and appreciated by prestigious financial institutions and the media. In 2004 we were named the Best Employer among financial institutions in the Newsweek Polska and Business Centre Club ranking. The monthly magazine Global Finance considered us the Best Bank on the FX Market in Poland, and the Best Bank in Emerging Markets. Citibank Handlowy analysts were recognized by Gazeta Bankowa for issuing the most accurate macroeconomic forecasts. Our Brokerage House received an award from the President of the Stock Exchange for taking first place in the equity market turnover and for the largest number of companies introduced into the stock market.

A positive accent ending last year was the European Quality Award awarded to the bank. We are the first financial institution on the Polish market to have received this title.

There are now new challenges ahead of us. The macroeconomic environment helped us: Poland's economic growth after its accession to the European Union - the increase in GDP, stimulation of Polish exports, decreasing unemployment and stable inflation have already given results. Turnover on the Warsaw Stock Exchange, the second largest in Europe in 2004 in terms of IPOs after the London stock exchange, was a further signal that the chances for growth by our customers in all segments, both retail and corporate, are huge.

Our most important objective is to systematically increase value for shareholders by ensuring a suitable return on equity, and increasing the bank's share in key market segments.

We intend to retain the bank's leading position in corporate banking and in services for affluent individuals. Areas of activities with great growth potential will be rapidly developed, i.e. servicing large and mediumsized domestic enterprises, servicing small business (the CitiBusiness product offer) and cash loans for individual customers (CitiFinancial). We are also counting on further growth in the credit card segment.



One of the bank's priorities for the next few years is the development of its Regional Processing Centre in Olsztyn, which provides clearing services for the bank and foreign banks belonging to Citigroup in Central Europe.

Apart from concrete market shares, we are also interested in ensuring that our environment perceives us as a model corporation in Poland, with a high level of social responsibility - a corporation with the highest moral and ethical standards.

We will continue our mission to be a company that is responsible to society by supporting cultural, educational and charity work - both on a national scale, as well as at community level - in particular through the Leopold Kronenberg Foundation.

We are optimistically looking at our new challenges for 2005, and we are well prepared to face them.

In inviting you to read our Report, I would like to thank our customers and shareholders for the confidence placed in us, the supervisory board for supporting the activities of the bank's management board, and employees for their commitment and professionalism.

Sławomir Sikora



President  
of the Management  
Board

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# The Polish economy in 2004

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### Main macroeconomic trends

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

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

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

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

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

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

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

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

The State Budget remained under control throughout 2004. The budget deficit amounted to PLN 41.5 billion, representing 91.6% of the full year 2004 budget deficit plan. The execution of the budget was, therefore, significantly better than in prior years. The lower deficit in the budget resulted from the higher than planned income, in particular from indirect taxes and CIT. In addition, the increased rate of economic growth accelerated inflows in comparison with the previous year. At the same time budgeted expenditure was lower than planned, mainly due to lower costs of debt service.

- The Polish economy in 2004

## Money markets and FX markets

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

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

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

Despite positive economic trends, the Polish FX market was dominated by the downward trend of the Zloty exchange rate in the pre-accession period. The Zloty depreciated both in nominal and real terms and the trend sustained later on. For eight months in a row, the Zloty recorded the best performance among all the currencies quoted in the world (appreciating some 25% against the USD and 15% against Euro). This was due to a number of factors, among which the key ones included political stability, attractive interest rate differential, improving economic fundamentals, and Poland’s accession to the European Union.

## Capital market

In 2004, the situation on the Warsaw Stock Exchange (WSE) was very favorable. The main stock exchange index, WIG, climbed from 20,820 points at year end 2003 to 26,636 points at year end 2004 (by 27.9%). The WIG20, an index of the most liquid stock companies, grew 24.6%.

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

The successful initial public offering of PKO BP shares and the flotation of a number of smaller companies were important events in 2004. At year end 2003, the number of stock-listed companies stood at 203. By the end of 2004, it had increased to 230. New foreign companies debuted in the stock market. During 2004, their number grew from 1 to 5. Total market capitalization noticeably

improved owing to the IPOs of newly-listed companies. At the end of 2004, the market value of domestic companies reached PLN 214 billion (a 53.1% increase up from PLN 140 billion). Meanwhile, total capitalization (inclusive of foreign companies) increased from PLN 167.7 billion to PLN 291.7 billion.

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### Stock market indices as of 31 December

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

Source: WSE, Dom Maklerski Banku Handlowego SA

### Equity and bond turnover, and derivative transaction volumes on WSE as of December 31

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

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

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

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

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

In 2004, investors' activity in the futures market was 15% lower than in 2003, the record year for this market. The number of concluded futures transactions fell from 8.5 million down to 7.2 million.

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

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



## Banking sector

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

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

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

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

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

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# Selected balance sheet data and financial results of Bank

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## Summarized financial data of Bank Handlowy w Warszawie SA

in PLN million	1998	1999	2000	2001	2002	2003	2004
Balance sheet total	17,744.4	19,159.9	21,002.5	33,150.4	32,412.0	34,028.2	33,819.9
Equity*	2,557.8	2,758.4	3,034.8	5,742.1	5,267.6	5,658.4	5,738.6
Loans**	9,292.7	10,208.8	10,054.1	14,200.0	13,540.4	13,256.0	9,708.6
Deposits**	7,084.0	8,733.9	10,166.3	17,370.1	16,699.3	18,504.4	17,261.2
Profit on banking activity	1,191.8	1,330.9	1,555.3	2,074.5	2,089.3	1,949.3	1,918.4
Net profit	301.5	472.5	204.7	163.6	235.3	288.5	414.2
Earnings per share or convertible bond (in PLN)	3.24	5.08	1.57	1.25	1.80	2.21	3.17
Dividend per share or convertible bond (in PLN) ***	1.00	2.00	1.00	1.25	1.85	1.85	11.97
Dividend payout ratio ****	30.84%	39.37%	63.83%	99.81%	99.60%	99.67%	99.99%
Capital adequacy ratio	13.7%	14.5%	15.6%	21.2%	18.5%	16.0%	19.3%

\* Excluding net profit for the current period

\*\* Non-financial and public sectors

\*\*\* Dividend per share of 2004 regards the proposed payment of a dividend from appropriation of 2004 profits and previous years' profits

\*\*\*\* Calculation of dividend payout ratio of 2004 includes only dividend from appropriation of 2004 profits and net profit for the same period

## Financial results of the Bank in 2004

### Profit and loss account

The net profit of the Bank in 2004 was PLN 414.2 million and was by PLN 125.7 million, i.e. 43.6 % higher than in the corresponding period of the previous year. The following were among the main factors which contributed to the increase in the net profit of the Bank:

- Reduction in net write-downs for specific provisions and revaluation of financial assets, which amounted to a net charge of PLN 8.8 million in comparison with a net charge of PLN 187.7 million in the corresponding period of the previous year (reducing by 95.3%);

- Decrease in the charge for corporate income tax by PLN 66.6 million (35.0%) which amounted to PLN 123.7 million at the end of 2004;
- Increase in participation in net profits generated by subordinated entities accounted for using the equity method up to PLN 61.9 million, i.e. by PLN 33.5 million (118.3%).

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

- Decrease in profit on banking activity by PLN 30.9 million (1.6%),
- Increase in the Bank's general expenses of PLN 144.5 million (12.9%).

## Profit and loss account

in PLN thousand	2004	2003	Change	Change (%)
Interest income	1,653,161	1,386,301	266,860	19.3%
Interest expense	(753,892)	(637,474)	(116,418)	18.3%
Net interest income	899,269	748,827	150,442	20.1%
Net fee and commission income	590,464	522,151	68,313	13.1%
Income on shares, other securities and other financial instruments with variable income	16,526	64,750	(48,224)	(74.5%)
Gains on financial operations	51,765	132,175	(80,410)	(60.8%)
Foreign exchange profit	360,352	481,361	(121,009)	(25.1%)
<b>Profit on banking activity</b>	<b>1,918,376</b>	<b>1,949,264</b>	<b>(30,888)</b>	<b>(1.6%)</b>
Other operating income	90,101	77,865	12,236	15.7%
Other operating expenses	(44,764)	(41,314)	(3,450)	8.4%
General expenses	(1,264,318)	(1,119,779)	(144,539)	12.9%
Depreciation and amortization	(142,179)	(155,445)	13,266	(8.5%)
Goodwill amortization	(72,445)	(72,445)	–	–
Net charges to provisions and revaluation	(8,761)	(187,708)	178,947	95.3%
<b>Operating profit</b>	<b>476,010</b>	<b>450,438</b>	<b>25,572</b>	<b>5.7%</b>
Extraordinary items	–	–	–	–
<b>Profit before taxation</b>	<b>476,010</b>	<b>450,438</b>	<b>25,572</b>	<b>5.7%</b>
Corporate income tax	(123,668)	(190,284)	66,616	(35.0%)
Participation in net profit/(loss) of subordinated entities accounted for under the equity method	61,872	28,339	33,533	118.3%
<b>Net profit</b>	<b>414,214</b>	<b>288,493</b>	<b>125,721</b>	<b>43.6%</b>

- Selected balance sheet data and financial results of Bank

### Profit on banking activity

In 2004, the Bank reported a decrease in the profit on banking activity by PLN 30.9 million, i.e. 1.6%. The following factors contributed:

- increase in net interest income by PLN 150.4 million (i.e. 20.1%), mainly as a result of higher interest income on debt securities due to a marked increase in the portfolio of these securities;
- increase in net commission income by PLN 68.3 million (i.e. 13.1%), mainly due to commissions on insurance products, cash

### Expenses

#### Expenses

in PLN thousand	2004	2003	Change	Change (%)
Salaries	468,899	448,760	20,139	4.5%
Social security and other benefits	91,580	82,907	8,673	10.5%
<b>Total personnel expenses</b>	<b>560,479</b>	<b>531,667</b>	<b>28,812</b>	<b>5.4%</b>
Administrative expenses	654,585	568,963	85,622	15.0%
Taxes and fees	8,526	8,060	466	5.8%
Contributions and payments to the Bank Guarantee Fund	7,680	11,089	(3,409)	(30.7%)
Restructuring charge - personnel costs	33,048	–	33,048	–
<b>Total general expenses</b>	<b>1,264,318</b>	<b>1,119,779</b>	<b>144,539</b>	<b>12.9%</b>
Depreciation	142,179	155,445	(13,266)	(8.5%)
<b>Total expenses</b>	<b>1,406,497</b>	<b>1,275,224</b>	<b>131,273</b>	<b>10.3%</b>

In 2004, the Bank continued to pursue restructuring activities with the aim to improve efficiency and increase profitability by lowering the costs of operation. The most significant event during this period related to further employment reduction. The changes in the structure of employment followed the reorganization of individual areas and the introduction of new technological and organizational

management commissions, and payments for issuance and use of payment and credit cards;

- decrease in gains on financial operations by PLN 80.4 million, mainly due to lower gains on operations involving securities, primarily shares and minority interests;
- decrease in net profit on foreign exchange by PLN 121.0 million, mainly as a result of losses on foreign exchange differences (revaluation).

solutions. 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 redeployed to the fast growing Consumer Sector of the Bank. As a consequence of this decision, total severance cost amounted to PLN 33.0 million in 2004.

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

Other important factors affecting the level of expenses included:

- the opening of 23 new CitiFinancial branches (a fast growing sector of the Consumer Bank) in 2004,

### Provisions and revaluation of financial assets

#### Net charges to provisions and revaluation

in PLN thousand	2004	2003	Change	Change (%)
Specific provisions	(148,946)	(168,350)	19,404	11.5%
- financial institutions	(10,712)	28,024	(38,736)	(138.2%)
- non-financial sector	(318,628)	(123,158)	(195,470)	(158.7%)
- subordinated loans	68,703	(68,961)	137,664	199.6%
- other	6,024	(2,944)	8,968	304.6%
- off-balance sheet contingent liabilities	105,667	(1,311)	106,978	8,160.0%
Provision for general risk	136,000	-	136,000	-
Revaluation of financial assets	4,185	(19,358)	23,543	121.6%
<b>Total net charges to provisions and net revaluation</b>	<b>(8,761)</b>	<b>(187,708)</b>	<b>178,947</b>	<b>95.3%</b>

In 2004, net write-downs on provisions and revaluation of financial assets decreased by PLN 178.9 million (i.e. 95.2%) in comparison with 2003. As a result of the review of the Bank's loan portfolio conducted in 2004 and the increase in specific provisions, the Bank decided to reduce the general provision by PLN 136 million. The

- the signing, in April 2004, of agreements with Citibank N.A. for the provision of a number of administrative support services relating to current Bank activity, which include consultation and advice in the areas of management, finance, accounting, auditing etc., as well as the maintenance of IT systems to service operational activity. Information relating to the above mentioned agreements is presented in the Additional Explanatory Notes.

- Selected balance sheet data and financial results of Bank

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

In 2004, the Bank released specific provisions of PLN 68.7 million on receivables from subordinated loans funding the operations of special purpose investment vehicles Handlowy Investments S.A. and Handlowy Investments S.a.r.l. following the current assessment of the possibility of repayment of the above mentioned loans.

#### Accounting for subordinated entities

In 2004, the net profit of the Bank was increased by PLN 61.9 million from the valuation of significant shareholdings in subordinated undertakings valued using the equity method. This amount was disclosed in the profit and loss account in the item "Participation in net profits (losses) of subordinated entities accounted for using equity method" and comprised of valuations of the following entities: Handlowy Inwestycje Sp. z o.o., Handlowy Inwestycje II Sp. z o.o., Dom Maklerski Banku Handlowego SA, Handlowy-Leasing S.A., Citileasing Sp. z o.o., Handlowy Zarządzanie Aktywami S.A., Towarzystwo Funduszy Inwestycyjnych BH SA, Handlowy Investments S.A., Handlowy Investments II S.a.r.l., Bank Rozwoju Cukrownictwa S.A., Polskie Pracownicze Towarzystwo Emerytalne DIAMENT S.A., Handlowy-Heller S.A., KP Konsorcjum Sp. z o.o. The largest part of this amount was the effect of valuation of net assets of Citileasing Sp. z o.o. totaling PLN 25.8 million and that of Dom Maklerski Banku Handlowego SA totaling PLN 18.5 million.

#### Ratio analysis

In general, changes in ratios of return on equity (ROE) and return on assets reflected changes in net profit. The Bank currently has a significant amount of excess capital which contributes to a relatively high capital adequacy ratio and, at the same time, explains a relatively low ROE.

#### Profitability and cost efficiency ratios

In PLN thousand	2004	2003
Return on owners' equity (ROE)*	6.9%	4.8%
Return on assets (ROA)**	1.2%	0.9%
Net interest margin (NIM)***	2.6%	2.3%
Earnings per 1 share or convertible bond (EPS), in PLN	3.17	2.21
Cost/Income****	71.6%	64.2%

\* Net profit divided by average equity and retained earnings (including current period's net profit) calculated on a monthly basis; annualized ratio

\*\* Net profit divided by average assets calculated on a monthly basis; annualized ratio

\*\*\* Net interest income divided by average assets calculated on a monthly basis; annualized ratio

\*\*\*\* Relation of the sum of total operating expenses, depreciation and other operating expenses (excluding goodwill amortization) to the sum of the profit on banking activity and other operating income (excluding goodwill amortization)

#### Balance Sheet

As of 31 December 2004, the Bank's balance sheet total amounted to PLN 33,819.9 million and was lower by 0.6% than a year before.



## Balance Sheet

in PLN thousand	As of	31/12/2004	31/12/2003	Change	Change (%)
Cash, operations with the Central Bank		841,114	1,186,514	(345,400)	(29.1%)
Due from the financial sector*		8,418,278	8,714,784	(296,506)	(3.4%)
Due from the non-financial sector		9,707,041	13,252,870	(3,545,829)	(26.8%)
Due from the public sector		1,538	3,131	(1,593)	(50.9%)
Receivables subject to securities sale and repurchase agreements		293,209	288,601	4,608	1.6%
Debt securities*		7,303,033	3,842,268	3,460,765	90.1%
Equity investments*		513,987	459,721	54,266	11.8%
Other financial assets		4,105,123	3,624,895	480,228	13.2%
Intangible assets		1,237,133	1,295,012	(57,879)	(4.5%)
- including: goodwill		1,171,200	1,243,645	(72,445)	(5.8%)
Tangible fixed assets		711,710	764,145	(52,435)	(6.9%)
Other assets		687,766	596,275	91,491	15.3%
<b>TOTAL ASSETS</b>		<b>33,819,932</b>	<b>34,028,216</b>	<b>(208,284)</b>	<b>(0.6%)</b>

- Selected balance sheet data and financial results of Bank

in PLN thousand	As of	31/12/2004	31/12/2003	Change	Change (%)
Due to the Central Bank		718	41,145	(40,427)	(98.3%)
Due to the financial sector		4,304,594	3,826,082	478,512	12.5%
Due to the non-financial sector		16,729,658	18,039,262	(1,309,604)	(7.3%)
Due to the public sector		531,517	465,145	66,372	14.3%
Liabilities in respect of securities subject to sale and repurchase agreements		408,559	470,803	(62,244)	(13.2%)
Other liabilities arising from financial instruments		4,194,290	3,651,195	543,095	14.9%
Other liabilities		1,281,094	1,140,323	140,771	12.3%
Provisions		216,717	447,331	(230,614)	(51.6%)
Equity and retained earnings		5,738,571	5,658,437	80,134	1.4%
Net profit		414,214	288,493	125,721	43.6%
<b>TOTAL LIABILITIES</b>		<b>33,819,932</b>	<b>34,028,216</b>	<b>(208,284)</b>	<b>(0.6%)</b>

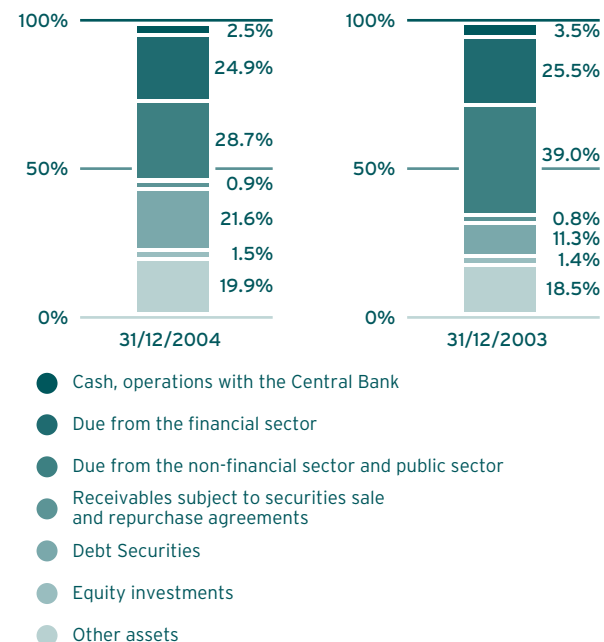
\* Subordinated loans funding investment vehicles and convertible bonds issued by Handlowy Investments - as of 31 December 2003 have been reclassified and are presented as equity investments.

## Assets

Despite a substantial decline in the loan portfolio as a result of the prudent lending policy pursued by the Bank, receivables due from the non-financial sector remain the largest component of the Bank's assets. As of 31 December 2004, net credit exposure to non-financial entities amounted to PLN 9,707.0 million, which represented a reduction of exposure by 26.8% in comparison with the corresponding period of the previous year.

In the twelve months of 2004, the Bank's structure of assets changed. Debt securities portfolio increased in the period by PLN 3,460.8 million (90.1%), mainly due to the growth in the portfolio of treasury bonds and bills. The significant growth of the bond portfolio was driven by the placement of liquid funds arising from the reduction in the loans portfolio.

## Share of main assets in the balance sheet total of the Bank



## Debt securities portfolio

in PLN thousand	As of	31/12/2004	31/12/2003	Change	Change (%)
Treasury bonds		6,263,335	2 640,357	3,622,978	137.2%
NBP bonds		384,287	384,884	(597)	(0.2%)
Treasury bills		303,770	146,106	157,664	107.9%
Certificates of deposit and bonds issued by banks		160,727	116,627	44,100	37.8%
Issued by other financial institutions		-	298	(298)	-
Issued by non-financial sector		190,914	553,996	(363,082)	(65.5%)
<b>TOTAL</b>		<b>7 303 033</b>	<b>3,842,268</b>	<b>3,460,765</b>	<b>90.1%</b>

The Bank pursues a strategy of reducing its equity investments. In 2004 the Bank sold its entire share in IPC JV Sp. z o.o. as well as part of its holding of shares in Pia Piasecki S.A. and Elektromontaż Poznań S.A.. As a result of the valuation of strategic subsidiaries, mainly Dom Maklerski Banku Handlowego SA, Citileasing Sp. z o.o., Towarzystwo Funduszy Inwestycyjnych Banku Handlowego SA, the value of equity investments portfolio increased by PLN 54.3 million (11.8%). Detailed information on the above mentioned transactions is presented in Additional Notes to Financial Statement.

### Liabilities and equity

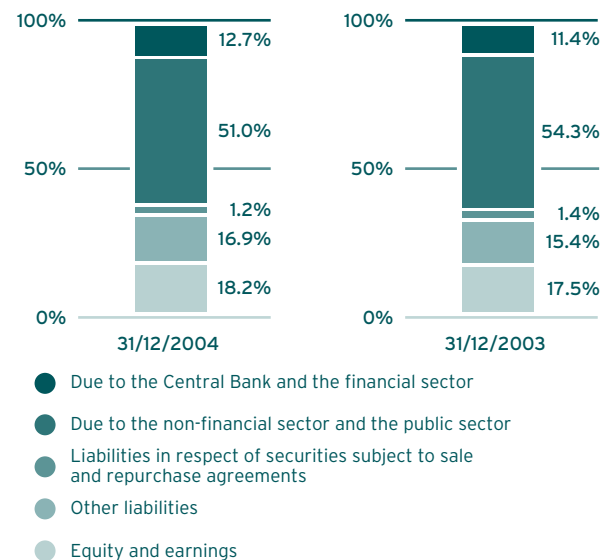
There were no significant changes in the structure of liabilities and equity of the Bank in 2004, which to a large extent resulted from the stability of the deposit base.

The main source of financing the Bank's assets continued to be from liabilities due to the non-financial sector. In comparison with the end of 2003, this item fell by PLN 1,309.6 million (i.e. 7.3%), inter alia due to the decrease in foreign currency liabilities resulting from Polish zloty appreciation.

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

An important item on both sides of the Bank's balance sheet is the significant share of unrealized profits/losses on derivative operations which reflects the scale of off-balance sheet purchase/sale operations carried out by the Bank. The balance

### Share of main liabilities items in the balance sheet total of the Bank



- Selected balance sheet data and financial results of Bank

sheet valuation of these instruments is presented in "Other financial assets" on the asset side and "Other liabilities arising from financial instruments" on the liabilities side of the balance sheet.

### Equity and capital adequacy

Compared to 2003, the equity of the Bank increased by PLN 80.1 million (i.e. by 1.4%) as a result of:

- change in principles of recording repo/reverse repo transactions of the sell-buy-back and buy-sell-back type on securities. The positive effect of the introduced changes in accounting principles, of PLN 46.0 million, was disclosed in equity as the correction of the net profit/loss from previous years in the item of profit (loss) from previous years.
- increase in the revaluation fund by PLN 32.8 million, caused by a net increase in the value of debt securities available for sale.

- increase in reserve capital by PLN 1.3 million, as a result of distribution of net profit for 2003. The remaining part of the profit, of PLN 241.7 million, was allocated for payment of dividend to shareholders.

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

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

### Equity

in PLN thousand	As of	31/12/2004	31/12/2003	Change	Change (%)
Authorized capital		522,638	522,638	–	–
Capital surplus		3,044,585	3,044,585	–	–
Reserve capital		1,726,561	1,725,273	1,288	0.1%
Revaluation capital		19,651	(13,212)	32,863	248.7%
General risk fund		390,000	390,000	–	–
Profit (loss) from previous years		35,136	(10,847)	45,983	423.9%
<b>Total equity</b>		<b>5,738,571</b>	<b>5,658,437</b>	<b>80,134</b>	<b>1.4%</b>
Core capital		5,683,784	5,682,496	1,288	0.0%
Supplementary capital		19,651	(13,212)	32,863	248.7%
Profit (loss) from previous years		35,136	(10,847)	45,983	423.9%

In terms of total equity, the Bank ranked among the top players in the sector. The level of capital was sufficient to guarantee financial security to the institution and the deposits it accepts.

From 31 December 2003 to 31 December 2004 the ownership structure of significant shareholders changed. This change was attributable to the sale on 30 November 2004 by Citibank Overseas Investment Corporation (COIC), a subsidiary of Citibank N.A., to International Finance Associates B.V., based in Amsterdam, a subsidiary of COIC, of 18,722,874 shares in the Bank, representing a 14.3% interest in the Bank's authorized capital. As a result of this transaction, the percentage share of COIC holdings in the Bank's authorized capital declined from 89.3% to 75%.

As of 31 December 2004, the capital adequacy ratio was 19.29% and was higher than at the end of 2003 by 3.25%. The increase in the ratio was mainly due to a reduction in the capital requirement for credit risk by PLN 428.9 million which resulted from a reduction in risk weighted assets and off-balance sheet commitments by PLN 5,361.6 million, to which the drop in the loan portfolio contributed to a significant extent. The surplus of cash was primarily invested in securities with a low risk weighting.

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

### Capital adequacy ratio

in PLN thousand	As of	31/12/2004	31/12/2003
<b>Balance sheet value of capital funds</b>		<b>5,738,571</b>	<b>5,704,457</b>
Deductions, of which:		1,708,617	1,113,992
- goodwill		1,171,200	746,187
- other intangible fixed assets		65,933	30,820
- investments in subordinated financial institutions		480,854	344,544
- financial assets revaluation reserve fund		(9,370)	(7,559)
<b>Eligible capital</b>		<b>4,029,954</b>	<b>4,590,465</b>
<b>Risk-weighted off-balance sheet assets and contingent liabilities (bank portfolio)</b>		<b>14,737,211</b>	<b>20,098,770</b>
<b>Total capital requirement, of which:</b>		<b>1,670,944</b>	<b>2,289,828</b>
- capital requirement for credit risk		1,178,977	1,607,902
- capital requirement due to the excess of credit concentration limit		198,444	317,650
- total capital requirement for market risks		191,315	229,581
- other capital requirements		102,208	134,695
<b>Capital Adequacy Ratio</b>		<b>19.29%</b>	<b>16.04%</b>

- Selected balance sheet data and financial results of Bank



# Activities of Bank in 2004

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## Lending and other risk exposures

### Lending

In 2004, the Bank reorganized its Corporate Banking Division, in order to better position it in the various market segments. The process of reorganization was completed in July.

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

As of 31 December 2004, gross credit exposure to the non-financial sector amounted to PLN 11,658 million, representing a decrease in exposure by 23,4% compared to the same period of the previous year. The decrease resulted from a combination of the Bank's prudent lending policy and the increased liquidity of numerous segments of the economy, as well as the decrease in total value of loans denominated in foreign currencies. High competition in the banking sector and alternative ways of financing also impacted on the size of the credit portfolio.

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

### Lending to non-bank customers (gross)

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

Loans excluding interest receivable.



During 2004, the currency structure of the loan portfolio slightly changed as the result of strengthening of PLN against world currencies. The share of foreign currency loans decreased significantly to 19% in 2004 compared to 26% over the first half of 2004 and 30% in 2003. The Bank grants foreign currency loans to customers who can provide a natural hedge against FX risk in the form of foreign currency cash flows from exports, or to customers, who in the Bank's opinion, are able to absorb the risk of depreciation of Polish currency.

The Bank monitors the concentration of its exposure on a regular basis, seeking to avoid a portfolio concentrated in a limited group of customers. As of 31 December 2004, the Bank's portfolio of

exposure to non-bank entities did not include any exposure exceeding the exposure concentration limits laid down by the law. The largest exposure related to financing of a leasing company owned by the Bank (Customer 1).

### Quality of loan portfolio

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

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

• Activities of Bank in 2004

### Exposure concentration - non-bank customers

in PLN thousand	Total exposure	Balance sheet exposure*	Off-balance sheet exposure
Customer 1	560,076	502,258	57,818
Customer 2	492,762	29	492,733
Customer 3	483,731	75,742	407,989
Customer 4	324,840	122,769	202,071
Customer 5	279,327	198,425	80,902
Customer 6	276,384	127,672	148,712
Customer 7	254,341	0	254,341
Customer 8	221,032	1,294	219,738
Customer 9	212,787	158,028	54,759
Customer 10	142,658	6,020	136,638
<b>Total 10</b>	<b>3,247,938</b>	<b>1,192,237</b>	<b>2,055,701</b>

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

Despite an improvement in the structure of classified exposures, the Bank continued its policy of creating specific provisions, increasing their level by almost 12% to PLN 1,688 million during 2004. At the same time, the Bank released PLN 136 million of general risk provision, which at the end of 2003 amounted to PLN 164 million.

As a result of the changes in specific provisions and general risk provision, the provisions to classified loans ratio increased from 40% as of 31 December 2003 to 59% as of 31 December 2004.

## Indices of loan portfolio quality

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

## Provisions for non-bank loan portfolio

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

## Off-balance sheet exposures

As of 31 December 2004, off-balance sheet exposure amounted to PLN 11,762 million, which represented a decrease of 21,9% in comparison with the same period of the previous year. Undrawn credit lines represented 71% of total off-balance sheet exposure. The amount of guarantees issued by the Bank decreased from PLN 3,020 million to PLN 2,351 million. Changes in letters of credit were

insignificant. The decrease in "Forward placements" mainly reflected the significant value of above mentioned placement as of 31 December 2003. This was due to the Bank's exposure to Citibank Bahrain, a subsidiary of Citigroup. The exposure included two forward placements of 350 and 500 million US dollar. These placements were short term financial instruments at market price, for the management of the Bank's liquidity.

## Off-balance sheet exposures

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

• Activities of Bank in 2004

## External funding

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

Taking into account all sectors, the largest decrease in external funding, as of the end of 2004, was in the group of individual customers by PLN 487 million (8.2%), mainly in term deposits both in PLN and foreign currency. This results from strong competition

from alternative offers of capital market investments. Despite the decrease as of the end of 2004, the Bank still maintains its stable position in the market for individual customers' deposits.

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

By the end of the year, given the increased value of PLN and the reduced liquidity of exporters, a decrease in deposits was observed.

## External funding

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

Excluding interest payable.

## Liabilities to non-bank customers

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

Excluding interest payable.

## Corporate funds management

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

## Transaction servicing

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

Escrow Account is one of the new products implemented in 2004, which has been included in the catalogue of bank accounts in the Banking Law amended on 1 April 2004. Escrow Account provides an additional level of security of transactions in the form of the

• Activities of Bank in 2004

guaranteed manner of effecting payment instructions, precisely defined in the Escrow Account Agreement and protecting the funds in the account against third party claims.

Based on „SpeedCollect” - the mass payment processing platform, which facilitates processing of the incoming payments, the product team developed another solution called „SpeedCollect Plus”, which supplements the missing data, that has not been recognized automatically. Other Citigroup entities found the modernized product very interesting, which resulted in the product implementation for some of the global customers. The process of implementation in other countries is continuing.

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

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

In 2004, the Bank continued its efforts to limit the number of hard copy instructions delivered by the customers directly to the Bank's branches and replace them with electronic communication. The

number of transactions ordered electronically increased from 95% to 98% of the total volume of the transaction orders received by the Bank. As a result, the number of hard copy instructions decreased by several thousand a month.

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

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

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

In 2004, the UniKasa Payment Servicing Network grew rapidly. The number of UniKasa terminals increased by 1,200 compared to December last year. In addition to the major national invoice issuers, the creditors taking advantage of the network services also

include local companies, which has made the network even more attractive. In December, the number of transactions concluded by means of UniKasa Payment Servicing Network exceeded 300,000.

As Citigroup entities showed growing interest in UniKasa, for the first time the network has been established abroad. In November 2004, a number of Payment Servicing Network terminals were launched at gas stations in Romania. The service development team entered into negotiations with other countries to arrange the 2005 UniKasa network implementation plan.

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

In 2004, the Bank played an active role on the market of servicing payments by Direct Debit. Throughout 2004, the Bank processed more than 4,76 million customer transactions, which in December reached over 50% share of the Direct Debit market. The Bank was able to retain this leading position thanks to participating in various initiatives aimed at promoting direct debit among the Bank's customers. The customers also highly appreciated the Bank's active participation in the Coalition for Direct Debit, which organized and carried out Direct Debit promotional campaign in the newspapers, on the Internet and TV. As a result of the activities undertaken by the Coalition, the Bank was awarded a prestigious prize of „Twój Styl” - Alicja 2003. In addition, the Corporate Bank in cooperation

with the Consumer Bank introduced the possibility to activate Direct Debit by individual customers via CitiPhone and CitibankOnline.

### Trade Finance products

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

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

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

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

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

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

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

- Framework agreement on issuing bank guarantees with a construction company, for the amount of PLN 80 million;
- Payment guarantee issued within the syndicate of banks, upon the request of the petroleum industry customer, for the total amount of USD 96 million (the Bank's share was USD 48 million), which secured proper performance of contractual obligations towards suppliers;
- Letter of credit, constituting security for the amount of EUR 37.5 million, issued upon the request of the petroleum industry customer and securing proper performance of contractual obligations during the investment project;
- Launch of the export pre-financing programs for the shipyard industry customer for the amount of USD 34.2 million for a foreign shipowner in cooperation with KUKI and the State Treasury;
- Short-term financing of the tire industry customer distribution network (over 80 distributors) based on Paylink Card (a tool giving access to trade receivables next day after the invoice issue date or its maturity, with the possibility to credit the debtor automatically) for the total amount of PLN 34 million;
- Availment of the first tranche of a special purpose loan (short-term financing of seasonal purchase) to the sugar industry for the amount of PLN 30 million, the target amount is PLN 60 million;
- Availment of export prefinancing loan, for the total amount of USD 87 million (the Bank's share was USD 29 million), granted by the syndicate of banks to the shipyard industry for the construction of 10 container ships in 3 years;
- Availment of export prefinancing loan for the amount of PLN 12 million to the machine-building industry;
- Supplier finance program for the construction industry for the amount of PLN 10 million to cover 10 new suppliers.

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

### **Custody services**

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



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

The Bank has also been actively participating in improving the quality of legal regulations concerning the securities market, by taking part, through its delegated representatives, in the Council of Depositary Banks at the Association of Polish Banks. This enables the Bank to propose changes in legal regulations and to create practices that are more in line with international standards. The Bank introduces new system solutions in cooperation with the Securities and Exchange Commission, Krajowy Depozyt Papierów Wartościowych S.A. (National Depository of Securities), the Warsaw Stock Exchange and the Insurance and Pension Funds Supervisory Commission.

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

### Money market and FX market

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

In 2004, the Bank acquired over 100 new customers trading with options and introduced several new option structures to the offering. This achievement contributed to the reinforcement of the Bank's leading position on the derivatives market. 2004 also saw growing demand for Euro FX options, which in 2004 represented 63% of the volume, reflecting increasing settlements made by Polish enterprises with the countries of the European Monetary Union.

In 2004, the Treasury Division introduced many new products both for corporate customers and private individuals. In March 2004, the Bank introduced the "Market Linked Deposits" (MLD) program. The product is complementary to a standard customer deposit and attracts customers who seek higher rates of return, depending on the selected market ratio dynamics, without compromising the safety of the deposited funds. In the second half of 2004, the Bank, meeting the customers' requirements, enriched the scope of currencies in which MLD contracts may be executed. In 2004, 64% of the MLD volume was based on USD and 31% on Euro.

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

## Corporate Banking

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

### Financial and advisory for enterprises

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

- During the first half of 2004 the Bank acted as financial advisor for a petroleum industry customer during the purchase of a foreign petroleum company. The scope of the Bank's advice related to the analysis of the indebtedness encumbering the companies of the group and to determining the methods of restructuring that debt, as well as the analysis of the impact of the acquisition on the Customer's financing conditions;
- In March 2004, the Bank participated in the arrangement of a syndicated loan of PLN 88 million for a power industry company;
- In April 2004, the Bank acted as financial advisor for an international insurance group during the sale of its shares in a Polish company. The Bank also prepared the information memorandum and carried out the process of searching for a strategic investor for the company;
- Also, in 3Q of 2004, the Bank concluded a 5-year loan agreement with a telecom company for the amount of EUR 550 million. There are 14 banks participating in this transaction and the Bank acts as a syndication arranger and syndication agent;
- In 4Q of 2004, the Bank concluded a 2.5-year loan agreement with an aircraft company for the amount of PLN 400 million. There are 5 banks participating in this transaction and the Bank acts as a syndication arranger and syndication agent;
- In 4Q of 2004, the Bank concluded a commission contract with a transport company to syndicate a 10-year syndicated loan for the total amount of EUR 130 million. In this transaction the Bank acts as a syndication arranger and syndication agent.

### Issuance of corporate debt securities

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

- In January 2004, the Bank participated in the short-term debt securities issuance program of a leasing company with the indebtedness limit of PLN 600 million. The Bank acted as co-arranger and dealer of the program.
- In June 2004, the Bank participated in the short- and medium-term bonds issue program of an entity managing the network of hypermarkets with the indebtedness limit of PLN 300 million. The Bank acts as a dealer of the program.
- In July 2004, the Bank concluded a commission contract with a power industry company to arrange long-term bonds issue program for the total amount of PLN 600 million to finance the construction of a power unit. The Bank acts as a bank structuring the transaction and as one of 3 arrangers.
- In September 2004, the Bank signed annexes to the contracts on debt securities issue program for the group of entities in automotive industry, increasing the indebtedness limit within the program up to PLN 2 billion. The Bank acts as a lead manager, paying agent, depository and dealer of the program.

- In 4Q of 2004, the Bank concluded a contract on debt securities issue program for an automotive company with the indebtedness limit of PLN 500 million. The Bank acts as arranger, issuing agent, paying agent, depository and dealer of the program.

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

## Commercial Banking

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

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

The service model provided to local enterprises serviced by the new division has not changed. The product offering of the Bank (funds management, treasury services and basic corporate finance and investment banking products) has been made available to an extended customer base through the intensification of cross-selling of products.

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

## Consumer Banking

### CitiBusiness

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

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

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

• Activities of Bank in 2004

The introduction of CitiBusiness extended the product range, as compared to services offered under Interbiznes brand. Customers were provided with account access through Consumer Banking distribution channels, such as CitiPhone 24 hour, Citibank Online electronic banking and the network of Consumer Banking branch offices and Citibank Online ATMs.

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

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

In Q4 of 2004 the CitiBusiness range was extended with trade products and services: Letters of Credit, Documentary Collection, Letters of Credit Discount and Bank Guarantee. In December 2004 a web page [www.citibusiness.pl](http://www.citibusiness.pl) was also launched, providing detailed information on the range, application forms and contact data.

## Retail Banking

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

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

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

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

Other credit products provided by the Bank enjoying significant popularity included the Citibank Credit Line and the Citibank Secured Credit Line. Despite higher interest rates, they enabled completion of an intended purchase without liquidation of deposit savings. Another advantage of the credit product is a zero interest rate during the first 7 days. The volume of Credit Lines granted throughout 2004 grew by 9%.

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

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

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

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

In October 2004, the Bank launched agency services in connection with sale of the product provided by the Towarzystwo Funduszy

Investycyjnych Banku Handlowego S.A. - the Individual Pension Account (IKE) with CitiFunds, enabling investments in chosen funds. Within an IKE, investments can be made in safe and more risky funds, which may generate much higher profits on a long-term basis.

2004 saw further growth of CitiGold Wealth Management - a retail-banking service based on an integrated package of savings, investment and insurance products, supported by Plan Majątkowy (Wealth Plan) and Analitik Portfela (Portfolio Analyst) software applications. The package is provided under a sub-brand addressed to customers who hold investment resources of not less than PLN 100,000 and who expect customized financial advice.

CitiGold Wealth Management ensures a comprehensive assessment of the customer's investment profile and makes it possible to create a customized model meeting its financial needs with use of a wide range of products. CitiGold Wealth Management is available at 11 CitiGold branches and 18 corporate branches of the Bank.

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

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

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

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

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

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

### **CitiFinancial**

The strategic goal of CitiFinancial is to become the fastest-growing and the most profitable enterprise on the Polish market of consumer loans; the goal is pursued by establishing and maintaining strong customer relations, where the top priority is given to customers' needs, with a simultaneous focus on profitability of products and customers. The main principle is a personalized approach to every customer, with a view to building a long-standing relationship, beneficial for both parties.

The target market of CitiFinancial are 15.5 million private individuals, in more than 7 million households. This is a significant market where the access is guaranteed through the Bank's credit

offering. First and foremost, CitiFinancial focuses on customers who have not found a product range adjusted to their needs at traditional banks. Most of them are customers with medium or lower monthly incomes who appreciate the accessibility of the Bank's outlets. The Bank has rapidly developed its network of branch offices located at shopping centers and in the vicinity of housing estates. At the end of 2004 the Bank operated 39 branch offices, compared with 16 at the end of 2003.

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

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

### **Branch network**

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

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

One of the highlights in 2004 was an extension of branches' functionality with both global and corporate customer services;

as a result, 28 out of 54 Corporate Banking branches and 10 out of 86 Consumer Banking branches may service customers of both divisions. Moreover, the networks of both divisions' - 129 branches in total - may service CitiBusiness customers.

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

## Changes in IT

The objective of IT development is to provide optimal processes while ensuring data security and continuity, and implementation of new solutions reflecting technological progress, product needs and the Bank regulatory environment. The implementation and upgrade of systems, which amounted to nearly PLN 50 million in 2004, provides evidence of the sophistication of the Bank's technological infrastructure.

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

- Introduction of a data feed from the Skarbiec system to the Portfolio Tracker system, which increased the range of Wealth Management products for CitiGold customers;
- The implementation of new payment means for Social Security (ZUS) and Tax Office, processed through CitiGateway, CitiDirect, Goniec and Elixir-OK;
- Implementation of a piloting multi-station version of the NBP Skarbnec system, which enables dealers to enter online into transactions on money bills, treasury bonds and debentures;
- Implementation of the CRM application for servicing of the Bank's biggest customer segment, enhancing relationship management;

- Integration of the acquisition and sales elements in the CRM application in the Commercial Bank Division, implementation of mechanisms synchronizing customer and prospect data with the marketing base in order to enhance customer service;
- Automation of payments delivered under an agreement between the Bank and Poczta Polska. The implementation enabled processing of 'paper' transactions initiated at the post office through the CitiGateway system (the Poczta Polska project), and substantial savings due to elimination of manual processing;
- Implementation of an automated interface between FlexCube, the Bank's main accounting system, and the Sorbnet system. The interface reduces the waiting time for processing of Sorbnet messages to 1 minute;
- Conversion of customers' securities records from the Skarbiec system to the Securities module in the Bank's main accounting system, which made it possible to withdraw the Skarbiec system, and in consequence to reduce the cost of service;
- Implementation of Straight Through Processing (STP) for MT202 messages, which enabled an improvement of the customer service and reduced use of paper.

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

• Activities of Bank in 2004



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

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

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

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

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

Moreover, in 2004 the Bank launched an additional server center, which increased the efficiency of the CitiDirect system; the Bank

implemented changes adapting the system to the new IBAN account format.

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

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

## Brokerage

### Secondary Market

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

The bullish trend of the securities market in 2004 was a consequence of, among other factors, Poland's accession to the European Union and a number of new listings, including Poland's largest bank PKO BP. There has also been a growing interest of foreign investors in the Polish capital market, with particular focus on participation in trade on the Warsaw Stock Exchange. DMBH largely benefited from the bullish trend, and - having a very strong



sales and transaction management team, specialized in servicing of large institutional customers whose assets are kept at trustee banks - DMBH was a leader on the stock market, with a share of 18.5% in the total turnover generated by all brokerage houses on this market.

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

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

### Primary Market

In 2004, DMBH arranged 5 issues, including a pioneering transaction where the first American company, IVAX Corporation, listed simultaneously at the AMEX and London Stock Exchange, entered the Warsaw Stock Exchange. The shares entered the market under a call for exchange of stocks, the first-ever in Poland. The company taken over under this call was Polfa Kutno, and its stocks were paid for with stocks of IVAX Corporation. DMBH intermediated in the call.

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

### DMBH as Market Maker

The Capital Operations Center of Bank Handlowy (COK BH) commenced its independent operations on the Warsaw Stock Exchange (WGPW) in 1994, firstly as a Stock Exchange Member - Specialist, and subsequently as a Market Maker. Since the beginning of the futures market on the WGPW, DMBH has acted as a Market Maker in the area of futures contracts for the WIG 20 index. Eight years ago, and before COK BH merged with Citibrokerage, COK BH started its function as a Market Organizer on the Central Table of Offers (CeTO), whose operating principles are similar to those of a Market Maker. This function is continued by DMBH.

Both Market Makers and Organizers are responsible for placing and maintaining put and call offers of fixed value on the order cards of individual companies. This provides investors with a guarantee of order execution. It is especially important for companies with low liquidity. At the end of 2004 DMBH acted as Market Maker for 44 company shares, i.e. 19.1% of all shares listed on the WGPW, one convertible bond and futures contracts for the WIG20 index. It is noteworthy that among companies managed by Market Makers, there were three foreign companies quoted in parallel on parent markets.

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

## Leasing

Leasing services are provided by two subsidiary companies of the Bank: Handlowy-Leasing S.A. and Citileasing Sp. z o.o. The offering of Handlowy-Leasing S.A. and Citileasing Sp. z o.o. is primarily aimed at corporate customers serviced by Bank Handlowy w Warszawie SA.

The range of products includes operating leases, financial leases and sale and lease back of fixed assets in the following groups:

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

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

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

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

## Asset management

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

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

## Investment funds management

The investment funds management business is performed by the Bank's subsidiary Towarzystwo Funduszy Inwencyjnych Banku Handlowego SA. The value of assets managed by Towarzystwo Funduszy Inwencyjnych Banku Handlowego SA at the end of December 2004 exceeded PLN 1 billion. In comparison with the volume of assets at the level of PLN 917 million on December 31, 2003, in 2004 the value of assets grew by ca. 10%. The fund with the highest volume of assets on December 31, 2004 was CitiSenior Specialized Open - Ended Investment Fund (SFIO) - the value of assets was over PLN 252 million.

2004 was another successful year for equity and mixed funds, which doubled their volume of assets in comparison with 2003. Apart from a growth in assets, these funds also had very good

investment results. The highest rate of return in this period was generated by a fund investing 100% in stocks - CitiEquity Open-Ended Investment Fund (FIO), an increase by 20.42%. The CitiBalanced Eastern European FIO generated 16.17% for holders of participation units, and the CitiSenior SFIO 9.08%. The value of CitiBonds FIO participation units grew by 5.43%, and CitiMoney FIO by 4.58%. Very good results were also generated by the CitiLiquidity SFIO - a growth by 5.64%.

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

There has been a growing interest in CitiFunds Targeted Savings Plans (CPO) - a savings product addressed to individual customers. CPO assumes systematic investments of savings in participation units of one of the CitiFunds for a period of 3, 5, 10 or 15 years. Over 5,600 CPO registers were opened during the year. By the end of December, the customers accumulated over PLN 118 million in registers opened under CPOs.

The network of entities distributing participation units of CitiFunds is being constantly developed. Since 1Q 2004, as many as 5 CitiFunds - CitiEquity FIO, CitiBalanced Eastern European FIO, CitiBonds FIO, CitiMoney FIO and CitiSenior SFIO - are available at outlets of Deutsche Bank PBC S.A.

## Special purpose investment companies

Apart from strategic commitments - including Dom Maklerski Banku Handlowego SA, Towarzystwo Funduszy Inwestycyjnych Banku Handlowego SA, Handlowy Zarządanie Aktywami S.A., Handlowy Leasing S.A., Citileasing Sp. z o. o., Handlowy Heller S.A. - in 2004 the Bank performed capital operations through four special purpose investment companies. Their activity was financed by the Bank with returnable contributions to their equity capital, subordinated loans, and also from financial profits of the companies.

Apart from strategic companies, the remaining exposures were allocated to restructuring portfolio, with an exit strategy.

## Other Information about the Bank

### Rating

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

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

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

Quotations of BHW Stocks, PLN



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

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

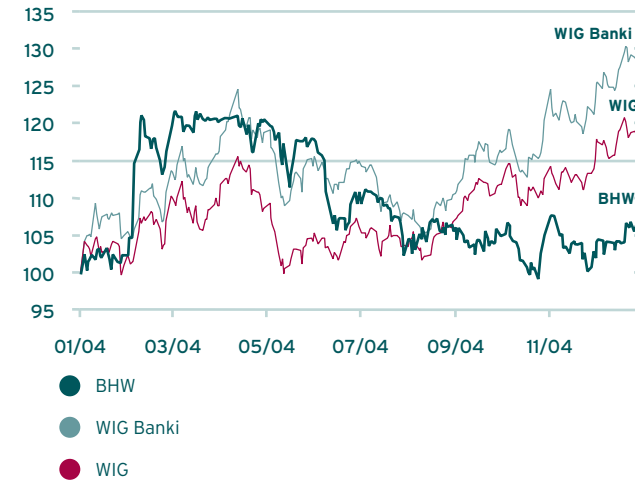
### Awards and honors

Awards and honors granted to Bank Handlowy w Warszawie SA in 2004:

1. The prestigious financial monthly, Global Finance, recognized the Bank as the best bank in Poland in the foreign exchange market ("Best Foreign Exchange Bank 2004").

Quotations of BHW Stocks &amp; Chosen Indices

Stock Price & Indices on 2 Jan. 04 = 100



2. For the first time in the history of Dom Maklerski Banku Handlowego SA, the President of the Warsaw Stock Exchange honored it with an award for the largest share of stock exchange turnover and for the largest share of market maker activity.
3. The Editing Board of the Polish edition of "Newsweek" awarded the Bank the title of the best employer of 2003 in the financial institutions category.
4. The Bank was recognized as the best bank in Poland in the ranking list of "Best Emerging Market Banks 2004" published by the Global Finance magazine.
5. "Twój Styl" magazine granted to the Bank the special award "Alicja 2003" as a member of the Coalition for Direct Debit.

6. Analysts of the Bank were ranked number one for their forecasts of macroeconomic indices published in *Gazeta Bankowa* in 2003.
7. MasterCard International awarded Bank Handlowy w Warszawie SA the silver "Rock Award 2003" in the category of highest achievements in credit card development.
8. Corporate branches of Citibank Handlowy in Bydgoszcz and Słupsk were awarded in the category of customer-friendly banks in the Kujawsko-Pomorski Region in a 'Golden 100' ranking published by "Gazeta Pomorska", Poland's largest local daily.
9. Corporate Customer-Friendly Bank 2004 - a promotional emblem, Golden Branch - Corporate Customer-Friendly Bank, received by all branches signed up by the Bank: in Bydgoszcz, Gorzów Wielkopolski and Poznań.
10. The Bank received, as the first financial institution in Poland, an award of the European Foundation for Quality Management "Recognized for excellence".

### Sponsoring activity and cultural patronage

- 2004 started with the concert entitled „VIVA KARNAWAŁ” (Long Live the Carnival), performed in Witold Lutosławski Concert Studio in Warsaw.
- The Bank, as the National Philharmonics Patron of the Year 2004, was the main sponsor of the King's Singers concert on 27 April 2004 in the National Philharmonics Concert Hall in Warsaw.
- The Bank sponsored the Extraordinary Symphonic Concert to commemorate the 10th Anniversary of Witold Lutosławski's death on 17 May 2004 in the National Philharmonics Concert Hall in Warsaw.
- The artistic season at the National Philharmonics ended in a gala concert on 28 May 2004 together with the Patron of the Year awards, one of which was bestowed upon the Bank. The program of the concert included one of the most eminent opera masterpieces: "Cavalleria Rusticana" by Pietro Macagni.
- In December 2004 the Bank sponsored a concert of Diana Krall, a renowned jazz singer, which took place in the Congress Hall of the Warsaw Palace of Culture and Science.

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

• Activities of Bank in 2004



# Major risk factors relating to the environment and operations of Bank

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## Major risk factors related to Bank's environment

### Economy

The Polish economy is expected to slow down in 2005 and the GDP growth rate should drop to 3.9% from 5.4% in 2004. In the face of a dwindling role of exports as the main driver of net GDP the main economic stimulus should be provided by growing investments. During the second half of 2005, the Bank expects the investment growth rate to go into double digits primarily as a result of EU structural funds and direct foreign investment. Consumer spending should remain low but stable under the influence of two major factors. On the one hand, a decrease of real income, high unemployment rate and a postponement of pension revaluation will restrain consumer demand and on the other hand direct aid to farmers and lower prices will push up consumer spending. In our opinion the role of consumer demand in the GDP structure will increase in 2006, thus boosting GDP growth, which should reach 4.7% year on year.

During 2005, the expected increasing appetite for investments will be reflected by higher imports, which should indirectly enlarge the current account deficit. We predict that the ratio of the current account deficit to GDP will grow to 3.0-4.0% during 2005-2006, but from the macroeconomic-balance point of view it should remain safe.

In the medium term, the main risk to sustainable economic growth will be the outcome of a reform of the public finance as a pre-condition for meeting the Maastricht criteria and, in consequence, for Poland's adoption of the Euro currency. As a member of the European Union with a prospect of joining the Economic and Monetary Union Poland will attract foreign investors mainly with the size of its market, skilled workforce and relatively low labor costs combined with a similar level of business risk and technological development. Foreign Direct Investments will also be stimulated by

a high, relative to other countries in the region, economic growth and the expected acceleration of the privatization process.

The fading of the EU effect, which contributed to a rapid growth of the inflation rate in 2004, will help the inflation rate drop down to the Monetary Policy Council's target midway through 2005 and remain low and stable until the end of the year. Factors contributing to the lower inflation rate will include the strength of the local currency and the low pressure on consumer demand. As a consequence, the monetary policy should go from restrictive to expansive and moderate interest rate increases at a time of a fast-shrinking inflation rate may, paradoxically, lead to a temporary increase in real interest rates.

The overall economic condition will strongly depend on the utilization of the EU funds and the country's capacity to absorb them fully and efficiently. It is also worth noting that the yet undecided European Union's budget for 2007-2013 may still, contrary to earlier assurances, restrict funds allocation to Poland.

The banking services sector, and consequently the Bank's financial condition remains closely linked to the country's overall economic situation and to the local and regional market conditions.

The greater investments will affect the customer demand for the Bank's credit. Other factors expected to influence our performance include the main macroeconomic indicators, such as the inflation rate, salaries, interest rates and their trends, foreign trade and current account situation, budgetary deficit and exchange rates. Any adverse changes of each of the macroeconomic indicators, especially a temporary increase of real interest rates and exchange rate fluctuations may affect the Bank's performance and its general economic condition.



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

### Regulatory risk

Any changes in economic policies or in the legal system could have a considerable effect on the Bank's financial condition. In terms of banking sector regulation, a particularly important role is played by statute law, and by the secondary provisions issued by the Minister of Finance, resolutions of the Management Board of the NBP, ordinances issued by the President of the NBP, and also resolutions of the Commission for Banking Supervision ("KNB").

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

- permissible concentration of credit exposure limits (Banking Act);
- ceiling on equity investments, measured in relation to the capital base (Banking Act);
- liquidity and credit risk standards (resolutions of the KNB);
- calculation and maintenance of mandatory reserves (NBP, Banking Act, and resolutions of the KNB and of the NBP Management Board);
- obligation to create specific provisions against irregular assets (Regulation of the Ministry of Finance dated 10 December 2003 on the principles of creating provisions for the risks related to the operations of banks, Banking Act);
- taxation and similar charges;
- draft of the Act implementing the rules defining the limit of interest rates and fees for consumer loans.

### Competition within the banking sector

Competition between banks in different segments of the Polish banking sector seems to be strong. We expect that companies will increasingly utilize financial alternatives to bank loans, such as issuance of short-term debt securities, bonds and equity or lease finance. It is very likely that due to growth in foreign investment in the banking sector, as well as creation of the single European market of financial services, an increase in competition will be observed particularly in such segments as foreign exchange operations, foreign trade settlement and investment banking. Poland is in sharp focus of international financial institutions planning to include the country in their cross-border businesses. Despite the large number of entities which have announced their intention to start doing business in Poland, no significant changes in the banking sector structure are to be expected. Indeed, institutions for which Poland is an interesting and attractive market have been active here for a number of years. As a result, the offering of banks operating in Poland is often similar to that of Western banks. It may, therefore, be expected that any changes in the sector resulting from Poland's EU accession will not alter the banking activity significantly. The competition will take place mainly in the area of service quality, especially the speed and efficiency of customer service. Further consolidation processes could possibly relax the competition. The significance of electronic access channels to customer accounts will grow.

The Bank is well prepared to compete in the post accession environment. Nevertheless, the growing level of competition within the banking sector may have an adverse effect on the Bank's financial performance.

- Major risk factors relating to the environment and operations of Bank

## Major risk factors connected with Bank and its operations

### Liquidity risk

As a typical feature of the banking activity, maturity mismatches between loans and the funding deposits are also experienced at the Bank. They may give rise to potential problems for current liquidity, were there to be a build-up of large payments to customers. The management of the Bank's assets and liabilities, including the regulation and control of liquidity risk, is the responsibility of the Assets and Liabilities Committee, which defines the strategy that is implemented by the Treasury Department. There is no certainty, however, that the persistence of maturity mismatches will not have an adverse effect on the Bank's financial condition in the future. The Bank's deposit base is stable, diversified and trending upwards. In addition, the Bank has good access to interbank funding and adequate capital. The level of liquidity risk is thus low.

### Foreign exchange risk

The Bank performs foreign exchange operations both on behalf of its customers and for its own account, and holds open foreign exchange positions within established limits. As a result, the Bank is exposed to exchange rate risk, and there is no certainty that future movements in exchange rates will not have an adverse effect on the Bank's financial standing. The control of foreign exchange risk is the responsibility of the Market Risk Department, which cooperates with the Treasury Department, which manages the foreign exchange position. The market risk is moderate, and the limit of value at risk (VaR) arising from open foreign exchange position is established at a level below 1% of the Bank's equity.

### Interest rate risk

As is the case with other Polish banks, the Bank is exposed to a mismatch risk regarding the interest rate changes on its assets and the underlying liabilities. The interest rate risk can arise where it proves impossible to offset the fall in income caused by lower rates of interest on loans through a corresponding reduction in the rates of interest paid to depositors. This risk also applies to situations where a rise in deposit rates cannot be offset by a corresponding rise in lending rates. The management of interest rate risk is one of the functions of the Bank's Assets and Liabilities Committee, which determines principles for provisioning against various financial risks being incurred and develops the Bank's pricing policies in terms of interest rate risk. There is no certainty that future interest rate movements will not have an adverse effect on the Bank's financial condition. The present level of interest rate risk is low.

### Credit risk

Lending and guarantee business is inherently linked with the risk of payment delinquency (in terms of both loan principal and interest), and also with the risk that the asset represented by an outstanding loan or granted guarantee will prove impossible to recover. The Bank monitors its risk assets on an ongoing basis, classifies them in accordance with the relevant regulations laid down by the National Bank of Poland, and establishes all the requisite specific provisions against loans classified as irregular. In connection with the possibility of changes in the external environment that could have a negative impact on the financial situation of the Bank's customers, there is no certainty that in the future the need to provision adequately against the existing asset portfolio will not have an adverse effect on the Bank's financial condition, or that the provisions and collateral in place will prove sufficient to absorb the losses possibly arising on lending activity.

### Equity investment risk

Equity investments can be divided into two categories: strategic and restructuring. The strategic portfolio includes the Bank's shares in financial institutions of a strategic significance to the Bank due to its operations. The restructuring investment exposure arises from debt to equity conversion. The investments are executed directly by the Bank or indirectly via the Bank's wholly-owned special purpose investment vehicles. At the end of 2004, the value of net equity investments including subordinated loans and convertible bonds for the Bank's investment companies amounted to PLN 433.6 million compared to PLN 379.8 million as of 31 December 2003. For some equity investments, their pricing is based on the assumption of finding a strategic investor for the company, in which the Bank holds shares. Therefore, a continuous high level of foreign investment may be crucial to the valuation of such investments. Moreover, due to a number of macroeconomic effects, the situation on equity markets and other factors having an impact on activities of the companies in which the Bank is a shareholder, may mean that the selling price of owned shares may turn out to be lower than expected, or even lower than their value in the Bank's books, which may have a negative impact on market valuation of the Bank's investments. The Bank has already created substantial provisions related to its equity investments and hence the risk level connected with a further drop in the value of the Bank's investment portfolio is low.

### Operating risk

The Bank defines its operating risk as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events.

In recent years, the Bank has managed its operating risk using a variety of tools and techniques, such as policies, procedures, checklists, ceilings, self assessment process, information security monitoring tools, contingency planning, insurance and audits. Following the publication of the Basel Committee's recommendations the Management Board enhanced qualitative and quantitative measurements of operating risk. Centralization and automation implemented in recent years has contributed to a considerable reduction of the occurrence and amounts of operating losses.

The overall level of operating risk is moderate.

### Contributions to the Bank Guarantee Fund

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

Due to a general deterioration within the banking sector, or a bankruptcy or financial distress of one of the participating institutions, the Bank and other participants in the Bank Guarantee Fund may be required to make large payments to the Fund, in proportion to the sums held within the individual deposit protection funds established for given institutions. This could adversely affect the Bank's earnings.

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## General objectives of the Bank's development

The Bank's objective is to systematically increase shareholder value by ensuring an appropriate return on equity and increasing the Bank's share in key market segments.

The Bank has a high level of capital, PLN 5,738.6 bn as of 31 December 2004, which ranks the Bank in third place in the Polish banking sector. The Bank may not fully utilize its capacity for dynamic asset growth, measured by Capital Adequacy Ratio (CAR) amounting to 19.3% as of 31 December 2004, which is significantly above the obligatory level of 8%. Excess capital affects the return on equity ratio, which is one of the key performance measures. The Bank is considering various ways to optimize the amount of capital to a level more consistent with its business requirements, while maintaining a safe level of Capital Adequacy Ratio not lower than 10-12%.

Payment of future dividends, including a special dividend for reducing excess capital, depends on several factors: Bank's earnings, financial condition including liquidity requirements, the Bank's expectations regarding future financial performance, as well as tax, regulatory and legal issues.

As long as the CAR exceeds 10-12%, the Bank will continue its policy to allocate most of the profits to dividend payments.

In the past year, the Bank increased its customer base thanks to, among other factors, the expansion of services for small enterprises and consumer banking. In the coming years, the Bank's intention will be to continue active acquisition of new customers from all market segments, with a particular emphasis on consumer banking and enterprises generating sales revenues below 8 million zloty (the so-called CitiBusiness segment).

Over the next few years, the Bank aims for a double-digit market share, as measured by its share in the net income from banking

activity generated by the banking sector. During 2004, this share amounted to 6.6%. The market share increase is to be attained by maintaining the Bank's leading position in corporate banking and services for high net worth individuals. Business areas with a high growth potential, mainly Global Consumer Bank and loans to private individuals (CitiFinancial) will be significantly developed.

The Bank will also place a special emphasis on its cost management policy. During 2004, the Bank's share of general expenses of the banking sector was 7.7% in comparison with 7.0% as at the end of 2003. In the coming years, the Bank will focus on a strict cost discipline, so as to ensure a sustainable income/cost ratio above 2.0. The Bank's share in the net financial result of the banking sector during 2004 amounted to 5.3%, as compared to 10.4% in 2003.

One of the Bank's priorities for the coming years is further development of the Regional Processing Center in Olsztyn, which provides settlement services for the Bank and for foreign banks within Citigroup.

## Corporate banking

The Bank is a corporate banking leader in Poland. At the end of 2004, its share of the corporate lending\* market stood at 6.6%, as compared to 9.1% at the end of 2003, whereas the share in the corporate deposits market amounted to 11.8%, as compared to 15.3% in 2003. The Bank's share of the corporate debt origination market, measured by indebtedness size, was 20.3% at the end of 2004 compared to 23.5% at the end of 2003.

In 2004, the Bank operated on the basis of a newly implemented, model for servicing corporate customers. As a consequence of introducing the new Customer Coverage Model, the product offering for large and medium-size domestic enterprises was expanded. The largest customers of the Bank were provided with a fully customized service.

\* Private and state-owned companies and cooperatives.

The Bank's potential corporate banking customer base includes all companies operating in Poland, except for those belonging to sectors permanently excluded from the Bank's target market due to the general Bank policy or included on restricted lists as a result of sanctions imposed either by international organizations or the US government.

The Bank's position is particularly strong in servicing international corporations and the largest Polish companies. Moreover, it is the foremost institution in handling money market and foreign exchange transactions. The Bank's goal is to retain its present market share in these areas. In developing relationships with the largest customers, the Bank has the significant advantage of being part of Citigroup. The Bank is in a position to offer to these customers unique services that blend its own knowledge of the domestic business environment with the international experience and global reach of Citigroup.

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

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

### Retail banking

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

At the end of 2004, the Bank's share in total lending to private individuals totaled 2.3%, compared to 2.0% at the end of 2003, whereas at the end of 2004 market share of deposits totaled 2.8% in comparison with 3.0% at the end of 2003.

The Retail Banking is interested in cooperation with all segments of customers. It is reflected in special tailored product offers taken into consideration variety of customer needs from different market segments.

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

The Bank has a very strong position in the high net worth customer segment. What sets us apart from the field is that these customers are offered worldwide services.

In 2004 the Bank gradually strengthened its position in this market segment thanks to the CitiGold Wealth Management service. The key highlight of the wealth management service is the savings and investment plan comprising investment, insurance and banking products. The products available in the Wealth Management package include current accounts, term deposits, investment deposits and dual-currency deposits, investment funds, treasury

- Prospects for the business development of Bank


bills, domestic and international bonds, brokerage services, credit facilities, credit cards and insurance products. Customer funds are managed in personalized investment portfolios based on the customers' individual needs and preferences. Poland is the first European country where Citigroup introduced its CitiGold Wealth Management service.

The Bank is expanding its offering to medium-income customers holding CitiOne or CitiKonto accounts. In addition to developing traditional deposit services and increasing transactional functionality of the accounts, special emphasis will be placed on extending investment and insurance offering. Along with the increasing customers' demand for new methods of placing their savings, the Bank will expand its investment fund offering (CitiFundusze) and will make available the offering of other financial institutions to the Bank's customers.

The Bank also continues granting cash loans to low-income customers. This activity is treated as a separate business and is conducted under the brand of CitiFinancial, a Citigroup division specialized in lending to private individuals. The Bank expects a dynamic growth in this area.

The bank actively seeks new customers in the small enterprises' segment with annual sales revenues up to 2 million zloty, which operates within the consumer banking structure under the CitiBusiness logo. The CitiBusiness concept is to offer solutions supporting customers at every step they take from the moment they establish their own companies. In this respect the Bank prepared a special, comprehensive product offer for SMEs, based on product packages meeting entrepreneur's expectations. An important distinguishing feature of CitiBusiness service is the combination of private and company accounts, which provides an unprecedented access to retail products for entrepreneurs.

## Distribution network

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

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

The Bank has a network of outlets distributed throughout the country. Currently, corporate banking customers have at their disposal 54 branch offices. Customers of the consumer sector have at their disposal 86 branches (75 multifunctional branches, 11 CitiGold Wealth Management branches). Private individuals are also serviced in selected corporate banking branches (24 CitiGold customer service points and 4 CitiBlue customer service points). CitiFinancial provides services to its customers in 39 branches.

The planned streamlining of the branch network covers optimization of available space, closure of less profitable outlets, and merger of corporate and consumer sector branch offices. Small businesses and self-employed individuals conducting business activity (CitiBusiness customers) will be served at consumer and corporate banking branches. In case of corporate and CitiGold customers, the mainstay of the distribution network will be bank consultants. The network of CitiFinancial branches will be significantly enlarged.

The use of the Bank's distribution network takes into account plans of increasing the scope of activities in consumer banking and achieving synergies with the corporate bank. In the coming years, the Bank will aim to minimize operational activities in branches and



completely transform them into service centers. The priority is to increase functionality and availability of remote distribution channels and to further enhance the qualifications of banking consultants, in particular those handling large entities that demand more sophisticated financial products. In the case of consumer banking substantial emphasis will be placed on further growth of Internet usage (Citibank Online). Currently more than half of transactions are carried out using this transaction channel. As a target, the Internet is to become the basic source of conducting transactions for private individuals.

High functionality and high quality of access to call centers will be maintained. By the end of 2004, those services will have been integrated for private individuals and small businesses at one call center. The project of centralizing CitiService/Customer Service Department telephone service for large and medium-sized companies has been successfully completed.

### Synergies

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

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

The Bank will also continue to sell corporate products to its consumer customers from the CitiGold sector. Specialized treasury products, brokerage services and asset management facilities in particular will be offered. All groups of consumer customers will further be offered investment products, in particular participation units in CitiFundusze. The product range of CitiFundusze will be expanded to meet the new demands of customers. Handlowy Zarządzanie Aktywami, supported by the Treasury Department in Poland and overseas, will provide expertise in this area.

### The community

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

- Prospects for the business development of Bank



# Management and Supervisory Boards

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As of 31 December 2004, the Management Board of the Bank consisted of the following:



**Sławomir Sikora**  
President of the Bank's  
Management Board



**David J. Smith**  
Vice-President of the Bank's  
Management Board



**Sunil Sreenivasan**  
Vice-President of the Bank's  
Management Board



**Lidia Jabłonowska-Luba**  
Member of the Bank's  
Management Board



**Philip Vincent King**  
Vice-President of the Bank's  
Management Board



**Michał H. Mrożek**  
Member of the Bank's  
Management Board

The following changes of the Bank's Management Board occurred in 2004:

- resigned on:  
30 March 2004                      Wiesław Kalinowski,
- appointed on:  
25 May 2004                         Michał H. Mrożek.

On 7 December 2004, the Supervisory Board of the Bank appointed Mr. Reza Ghaffari to the position of Vice-President of the Bank's Management Board. The resolution became effective on 3 February 2005, after Mr. Reza Ghaffari fulfilled the condition of obtaining the required work permit.

On 3 February 2004, Mr. David J. Smith resigned as Vice-President and Member of the Management Board expired.

### As of 31 December 2004, the Supervisory Board of the Bank consisted of the following members:

<b>Stanisław Sołtysiński</b>	President	<b>Edward Kuczera</b>	Member
<b>Shirish Apte</b>	Vice-President	<b>Stephen H. Long</b>	Member
<b>Göran Collert</b>	Member	<b>Jarosław Myjak</b>	Member
<b>Susan Helena Dean</b>	Member	<b>Andrzej Olechowski</b>	Member
<b>Mirosław Gryszka</b>	Member	<b>Aneta M. Popławska</b>	Member
<b>Rupert Hubbard</b>	Member	<b>Frederick F. Seegers</b>	Member

The following changes of the Bank's Supervisory Board took place in 2004:

- the following were not appointed for the subsequent term of office:

24 June 2004	Andrzej Gdula,
24 June 2004	Allan J. Hirst,
24 June 2004	Edward T. Walsh.

In the letter dated 3 May 2004 Mr. Krzysztof Opawski offered to the President of the Supervisory Board of the Bank his resignation from the function of the Member of the Bank's Supervisory Board.

The Bank was informed about the resignation of Mr. Krzysztof Opawski on 25 May 2004.

- in addition the following resigned on:

4 August 2004	Jean Paul Votron,
25 November 2004	Atif Aslam Bajwa,
25 November 2004	Carlos Urrutia.

- the following were appointed on:

24 June 2004	Atif Aslam Bajwa,
24 June 2004	Susan Helena Dean,
24 June 2004	Jarosław Myjak,
24 June 2004	Aneta M. Popławska,
7 December 2004	Rupert Hubbard,
7 December 2004	Stephen H. Long,
7 December 2004	Frederick F. Seegers.

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## INTRODUCTION

### Bank's operations

Bank Handlowy w Warszawie SA ("the Bank") has its registered seat in Warsaw, at ul. Senatorska 16, 00-923 Warszawa. The Bank was founded on the strength of a Notarial Deed of 13 April 1870. The Bank is registered in the Register of Entrepreneurs in the National Court Register maintained by the District Court for Warsaw, XIX Commercial Department in Warsaw, under KRS number 0000001538.

Under the Polish Classification of Economic Activity (PKD), the principal business of the Bank is "other banking activity". According to the classification followed by the regulated market Warsaw Stock Exchange, the business of the Bank is "finance - banks".

The Bank operates on the basis of applicable regulations and its Articles of Association.

The business of the Bank is the performance of domestic and foreign banking operations and all other activity related to banking operations as permitted by law.

Pursuant to the Bank's Articles of Association, the Bank performs the following banking operations:

- accepting deposits payable on request or on a given date and account operation for such deposits,
- operation of other bank accounts,
- performing cash settlements in all forms accepted in domestic and international banking operations,
- extending credits and cash loans,
- conducting operations which involve checks, bills of exchange and warrants,

- issuing and confirming sureties,
- issuing and confirming bank guarantees and open letters of credit,
- performing FX operations,
- provision of agency services in money transfers abroad by residents and settlements with non-residents in Poland,
- issuing of banking securities,
- commissioned operations related to issue of securities,
- safe-keeping of valuable objects and securities and safe-box services,
- issuing of payment cards and processing of operations executed with use of such cards,
- purchase and sale of receivables,
- processing of forward transactions.

The Bank may also:

- take up or purchase shares and rights attached to shares, shares of other legal entities and investment fund units,
- organize and service financial lease projects,
- render factoring services,
- trade in securities on its own account and act as an agency in securities trading,
- operate securities accounts,
- render financial consulting and advisory services,
- undertake commitments related to issue of securities,
- perform the function of a representative bank within the meaning of the Bonds Act,
- purchase and sell real estate, and perpetual usufruct rights,
- perform settlements for trading in securities, property rights and derivative financial instruments,



- exchange debt for assets belonging to the debtor, on terms agreed on with such a debtor,
- purchase and sell derivative financial instruments at the Bank's own account and act as an agency in trading therein,
- render financial services, including soliciting customers within the meaning of the Act on the organization and operations of pension funds,
- accept orders to purchase, sell or subscribe for participation units and investment certificates of investment funds,
- render insurance agency services,
- act as depository for pension funds,
- act as depository for investment funds.

For the purpose of conducting its business, the Bank has the right to hold foreign currencies and trade therein.

### Time limits for the operation of the Bank

The operation of the Bank is not limited in time.

### Financial data presentation periods

The annual financial statements of the Bank cover the period from 1 January 2004 to 31 December 2004. The comparable Financial statements cover the period from 1 January 2003 to 31 December 2003.

### Internal organization units of the Bank

The Bank's annual financial statements for 2004 and comparable financial data for 2003 contain the financial data of all of its organizational units, through which operations are performed. As of 31 December 2004, these included the Head Office in Warsaw, 52 branches and 115 other establishments servicing clients in Poland.

None of these units prepare separate financial statements.

### Related parties

The Bank is a parent entity and material investor. The list of subsidiaries, joint venture and associated undertakings held by the Bank is presented in note 10 to the balance sheet. The Bank is preparing a consolidated financial report for 2004.

### Business combinations

In 2004 and 2003 no business combinations occurred.

### Going concern

The financial statements for 2004 have been prepared under the assumption of the Bank's continued operation in the foreseeable future, with no circumstances directly indicating any threat to such continued operation.

### Reclassification and presentation of financial data for 2003

In order to maintain comparability of financial data with the disclosures for the current period, the data covering 2003 was subject to adjustment with respect to the data published previously in the 2003 annual report. These adjustments arise from the introduction of a change in accounting principle of recording repo and reverse repo transactions of the sell-buy-back ("SBB") and buy-sell-back ("BSB") type. The changes are presented in explanatory Notes to balance sheet no 2A, 16A and 20A.

Differences arising from the reclassification and financial effects of the changes have been presented in Additional Explanatory Notes 32 and 33.

## Opinion issued by auditors on the previous period financial statements of the Bank

The Bank's financial statements as of 31 December 2003 were reviewed by the chartered auditor KPMG Audyt Sp. z o.o. (until 9 May 2004 named KPMG Polska Audyt Sp. z o.o.). The auditor issued an unqualified opinion.

## Accounting principles

### General information

The Bank's annual financial statements for 2004 were prepared in accordance with the following:

- Regulation of the Council of Ministers dated 16 October 2001 concerning current and periodical information reported by issuers of securities (Journal of Laws no. 139, item 1569, as amended),
- Regulation of the Council of Ministers dated 11 August 2004, concerning specific conditions that should be met by the issue prospectus and the abbreviated prospectus (Journal of Laws no. 186, item 1921),

and with the provisions of:

- the Accounting Act of 29 September 1994 (Journal of Laws of 2002, no. 76, item 694, as amended),
- Regulation of the Ministry of Finance dated 10 December 2001 on specific accounting principles for banks (Journal of Laws no. 149, item 1673, as amended),
- Regulation of the Ministry of Finance dated 12 December 2001 on specific principles for recognition, valuation and presentation of financial instruments (Journal of Laws no. 149, item 1674, as amended),

- Regulation of the Ministry of Finance dated 10 December 2003 on the principles of creating provisions for the risks related to the operations of banks (Journal of Laws no. 218, item 2147).

### Tangible and intangible fixed assets

Tangible and intangible fixed assets are recognized at their purchase price less accumulated depreciation, and after charges for permanent diminution in value at the end of the period. Depreciation is calculated using the straight-line method at rates defined in the approved depreciation schedule for 2004.

Annual depreciation rates employed by the Bank are as follows:

Buildings and structures	1.5%	–	4.5%
Motor vehicles	14.0%	–	20.0%
Computers			34.0%
Office equipment			20.0%
Other tangible fixed assets	7.0%	–	20.0%
Computer software and licenses (except the main operating system, which is depreciated at the rate of 20%)			34.0%
Goodwill			5.0%
Other intangible fixed assets			20.0%

Assets with original cost less than PLN 3,500 are expensed as they are brought into use.

Fixed assets also include rights of perpetual usufruct of land received free of charge in previous years following applicable regulations being in power at that time.

Historically, fixed assets were periodically subjected to value adjustments with the indices published by the President of the Central Statistical Office. The results of revaluation were reflected in the revaluation reserve in the Bank's equity. It should be noted that no revaluation based on the indices published by the Central Statistical Office has taken place since 31 December 1995.

Fixed assets under construction are represented by direct expenses incurred in connection with unfinished construction, assembly or improvement of fixed asset, including write-downs for permanent diminution in value.

### Foreign currencies

Balance sheet and off-balance sheet items denominated in foreign currencies are translated at the average exchange rate at the balance sheet date as published by the President of the National Bank of Poland ("NBP").

Foreign exchange differences arising on the revaluation of balance sheet foreign currency positions are recognized in the profit and loss account as foreign exchange gains/losses.

Exchange rates for the major foreign currencies used for the translation of foreign currency balances are as follows:

in PLN	31.12.2004	31.12.2003
1 USD	2.9904	3.7405
1 CHF	2.6421	3.0281
1 EUR	4.0790	4.7170

### Equity investments - interests in subordinated undertakings

Investments in subordinated entities, comprising subsidiaries, joint venture and associated entities, are classified as "financial assets available for sale".

Material interests in subordinated entities are accounted for under the equity method. Changes in their value are recognized in the profit and loss account as a participation in net profits/(losses) of subordinated entities accounted for under the equity method.

Investments in subordinated entities are recognized in the balance sheet at their purchase price including write-downs for permanent diminution in value.

### Equity investments - interests in other entities

Interests in entities other than subordinated undertakings are classified as "financial assets available for sale". They are recognized in the balance sheet at cost net of provisions for any permanent diminution in value.

### Outstanding loans and other receivables

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.

Purchased receivables are presented in the balance sheet as the difference between the sum of their nominal value and, unsettled discount, and the value of specific provisions created for credit risk.

The Bank makes specific provisions, prescribed by the Regulation of the Ministry of Finance dated 10 December 2003 on the principles of creating provisions for the risks related to the operations of banks (Journal of Laws no. 218, item 2147). The specific provisions for possible credit losses have been calculated in accordance with the risk classification of particular balance sheet and off-balance sheet exposures. The following minimum provision percentages have been applied to provisions for particular risk categories:

Normal (only consumer loans) and watch loans	1.5%
Substandard loans	20%
Doubtful loans	50%
Lost loans	100%

Certain collateral, specified in the Regulation of the Ministry of Finance dated 10 December 2003 on the principles of creating provisions for the risks related to the operations of banks, is taken into account in the calculation of provisions necessary for problem loans. Moreover, pursuant to the provisions of the Regulation, the required level of provisions for normal loans (cash lending and consumer loans) and watch loans is reduced by an amount equivalent to 25% of the general risk provision.

Impaired loans where there is no possibility of collection are written-off against the specific provisions.

### Debt securities

Debt securities are classified in the trading portfolio as available for sale or held until maturity.

Debt securities classified in the trading portfolio or available for sale are recorded in the balance sheet at their fair value. Changes in the fair value of debt securities held in the trading portfolio are

recognized as income or expense on financial operations. Changes in the fair value of debt securities available for sale are recognized in a revaluation reserve. They are recognized in the profit and loss account only when realized.

Debt securities held until maturity are recorded at cost net of provisions against any permanent diminution in value.

Interest, discount and premium on all types of debt securities are accrued/amortized to profit and loss account on a straight line basis. Adjustments to fair value or for permanent diminution in value are made in relation to the value of the securities as described above.

### Repo/reverse repo transactions

The Bank enters into repo/reverse repo transactions of the sell-buy-back ("SBB") and buy-sell-back ("BSB") type on securities. Securities sold with the promise to buyback (SBB) are presented in balance sheet assets and concurrently are disclosed as liabilities arising from granted promise of repurchase. In the case of BSB type transactions the securities acquired are presented as a receivable arising from repurchase clause.

### Reposessed assets in lieu of bad debts

Assets reposessed in lieu of debts are recognized at fair value. A specific provision is established for the difference between the outstanding debt and the reposessed assets or a revaluation write down for the assets is made.

### Provisions, write-downs for permanent diminution in value

Specific provisions and write-downs for permanent diminution in value are established according to the principles set out in the Accounting Act, the Regulation of the Minister of Finance of 10 December 2001 on the particular accounting principles of banks,

and the Regulation of the Minister of Finance of 10 December 2003 on the principles of creating provisions for the risks related to the operations of banks.

Specific provisions are made based on the assessed risk arising on any particular asset or off-balance sheet commitment.

Specific provisions held against amounts due from the financial sector, non-financial sector and the State Budget sector and specific provisions against any permanent diminution in the value of securities and other assets are deducted from the carrying value of the related assets in the balance sheet. Provisions held against off-balance items are disclosed in "Other provisions" in liabilities.

According to the law dated 29 August 1997, - the Banking Law (Journal of Laws of 2002, no. 72, item 665, as amended), in the past years the Bank has established a general risk provision, to cover the potential risk tied to banking activity. The general risk provision is created by a charge against earnings, and included in "Other provisions" in liabilities.

### Prepayments and accruals

In order to allocate the expenses to reporting periods to which they apply, the Bank recognizes and accounts for expenses on an accrual basis. This applies, in particular, to the general expenses of the Bank.

### Equity

Capital and own equity are stated at nominal value, except for the revaluation fund which, to the extent it includes the results of valuation of financial assets available for sale, is disclosed at the net amount.

### Derivative instruments

Derivative instruments are recognized as financial assets and liabilities held for trading purposes. Derivatives are valued at their market value. The effects of changes in market value are included in the profit and loss account as income or expense on financial operations.

To date, the Bank has not adopted hedge accounting.

### Calculating the net result

The net result is calculated in compliance with the concept of prudence, accrual accounting and the matching concept. The net result reflects all income and relevant expenses set off against income within a particular reporting period, irrespective of the day on which these are received or paid.

### Interest income and expenses

Interest income includes received or accrued interest on interbank placement, loans and securities. Interest income and discount accrued on receivables classified as normal and watch are recognized in the profit and loss account on an accrual basis. Any prepayments are recognized in the profit and loss account in the respective reporting period. Interest expense on liabilities for the given reporting period is also recognized on an accrual basis.

### Fee and commission income and expenses

Fees and commissions are mainly comprised of amounts other than interest income on loans, guarantees and letters of credit, as well as the fees for maintenance of current accounts, banking operations and servicing of credit cards.

Bank fees and commissions not related to single closed transactions are amortized on a straight-line basis to the profit and loss

account for the period of the transaction they are related to, excluding Consumer Banking loans, which are paid in equal instalments. Bank fees and commissions related to these loans are amortized according to a method similar to the effective interest rate method - the so called the sum of digits method or 78 method.

### **Bonuses, retirement benefits and Jubilee Awards**

Depending on their professional grade, Bank employees may be awarded bonuses from the incentive fund, bonuses under the bonus scheme applicable in a given area, or an annual discretionary incentive award as approved within internal regulations of employees' salaries.

Bonuses are awarded after the end of the period in which performance is assessed.

Bank employees may also be awarded bonuses in the form of management options. A provision is established for future payments, which is reviewed and revalued until the options are exercised. The provision is included under liabilities in "Accruals and deferred income".

Within its salary scheme, the Bank guarantees its employees retirement benefits which are dependent on the years of service with the Bank and with Citigroup entities directly prior to eligibility date. Moreover, the Bank's employees who were hired under the provisions set in the Company's Labor Contract have the right to jubilee payments. In case of employees hired in the Bank prior to 1 March 2001 the retirement and jubilee payments are calculated based on numbers of years of employment defined according to the provisions of the Company's Labor Contract that was in force from 1 January 1997. The provision for future payments is included in "Accruals and deferred income".

### **Other operating income/expenses**

Other operating income/expenses are comprised of income and expenses that are not directly related to banking activity. These include income and expenses due to sale or liquidation of fixed assets and repossessed assets, compensation, penalties and fines.

### **Corporate income tax**

Corporate income tax includes the Bank's current tax liability arising from income earned and deferred tax.

Deferred tax is calculated using the balance-sheet method, taking into account both assets and liabilities expected to be subject to corporate income tax in future tax periods and the deferred corporate income tax assets, and is shown in the profit and loss account or the revaluation reserve (fund). The provision and the deferred corporate income tax assets are presented in the balance sheet together.

In relation to the Act on the European Union Guarantee Fund which came into effect on 16 April 2004 (Journal of Laws no. 121, item 1262), introducing Article 38a to the Act on Corporate Income Tax, the Bank recognized in the Balance Sheet and in the Profit and Loss Account the receivable from the State Budget arising from the right to reduce the tax liability in the years 2007 to 2009.

## EUR/Zloty rates

The following rates of exchange of PLN against EUR, as set by the NBP, were used in periods covered by the financial statements and the comparable financial data:

in PLN	31.12.2004	31.12.2003
Exchange rate as at the reporting date:	4.0790	4.7170
Average rate, computed as the arithmetical mean of the rates in force on the last day of each month in the reporting period	4.5182	4.4474
The highest rate for the last day in the month in the period	4.8746	4.7170
The lowest rate for the last day in the month in the period	4.0790	4.1286

## Major items of the balance sheet, profit and loss statement and cash flow statement converted into EUR terms

The major items of the balance sheet and the cash flow statement are converted into EUR at average rates of exchange announced by the National Bank of Poland, in force on the last day of the periods presented.

The major items of the profit and loss account were converted into EUR at rates being the arithmetical mean of the average PLN/EUR rates of exchange announced by the National Bank of Poland, in force on the last day of the periods presented.

Net profit per ordinary share and diluted profit per ordinary share were converted into EUR at rates being the arithmetical mean of the average PLN/EUR rates of exchange announced by the National Bank of Poland, in force on the last day of each month of the reported periods.

## Balance sheet

in EUR thousand	31.12.2004	31.12.2003
Cash and due from Central Bank	206,206	251,540
Due from financial sector	2,083,104	1,849,647
Due from non-financial sector	2,379,760	2,809,597
Due from budget sector	377	664
Receivables subject to securities sale and repurchase agreements	71,883	61,183
Debt securities	1,790,398	829,431
Equity investments, other securities and financial assets	1,113,118	848,941
Tangible and intangible fixed assets	477,775	436,540
Other assets	168,610	126,410
<b>Total assets</b>	<b>8,291,231</b>	<b>7,213,953</b>
Due to the Central Bank	176	8,723
Due to financial sector	1,055,306	811,126
Due to non-financial sector	4,101,412	3,824,308
Due to budget sector	130,306	98,610
Liabilities in respect of securities subject to sale and repurchase agreements	100,162	99,810
Liabilities arising on financial instruments	1,028,264	774,050
Other liabilities	314,070	241,748
Provisions	53,130	94,834
Equity	1,508,405	1,260,744
<b>Total liabilities</b>	<b>8,291,231</b>	<b>7,213,953</b>

• Financial statements

## Income statement

in EUR thousand	12 months to 31 December	
	2004	2003
Net interest income	199,033	168,374
Net fees and commissions income	130,686	117,406
Income from shares, other securities and floating-rate financial instruments	3,658	14,559
Net gains (losses) on financial operations	11,457	29,720
FX gains	79,756	108,234
Profit on banking activity	424,589	438,293
Operating profit (loss)	105,354	101,281
Gross profit (loss)	105,354	101,281
<b>Net profit (loss)</b>	<b>91,677</b>	<b>64,868</b>

## Major cash flow statement items

in EUR thousand	12 months to 31 December	
	2004	2003
Net cash flow from operating activities - indirect method	42,745	29,543
Net cash flow from investing activities	(24,361)	66,167
Net cash flow from financing activities	(77,184)	(52,611)
<b>Net cash flow, total</b>	<b>(58,800)</b>	<b>43,099</b>
<b>Change in net cash</b>	<b>(58,800)</b>	<b>43,099</b>
Cash at beginning of period	297,097	213,815
Cash at end of period	238,297	256,913

## Main differences between Polish and International Accounting Standards

On 7 December 2004, the General Meeting of Shareholders of Bank Handlowy w Warszawie SA adopted a resolution to prepare the Bank's financial statements in accordance with International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and the related interpretation, published in the form of Regulations of the European Commission, referred to as "IFRS", which are described in art. 2, section 3 of the Accounting Act of 29 September 1994.

From 1 January 2005 the Bank is obliged to prepare stand alone and consolidated financial statements in accordance with IFRS. Currently the Bank is engaged in a significant effort to implement system solutions, regarding, inter alia, the valuation of financial instruments with the use of the effective interest rate and measurement of loan impairment in accordance with IFRS 39.

Due to the fact that currently this process is not yet complete, the respective quantitative data at the disposal of the Bank may change. Thus, in the light of the provisions of the Regulation of the Council of Ministers of 11 August 2004 concerning the detailed conditions for the issue prospectus and the abbreviated issue prospectus, only the main differences between Polish and International Standards are stated below, without their quantification:

- in accordance with IFRS, interest, selected commissions, and the direct acquisition costs of financial instruments should be measured with the use of the effective interest rate. In 2002, the Bank implemented this procedure in one of the IT systems used in the Consumer Banking Sector, which keeps records of consumer loans and credit cards. In the remaining areas, the Bank currently accounts for commissions and direct costs of instrument acquisition by the straight-line method. The Bank is in the process of implementing a system, which will enable compliance with IFRS.



The change in the method of valuing receivables - replacement of the straight-line method with the effective interest rate method - will not have a significant impact on the Bank's financial statements;

- under IFRS, the Bank's financial statements should reflect all investments in subordinated entities, controlled entities and affiliated entities at their purchase price, or valued at their fair market value. In the financial statements prepared according to Polish Accounting Standards (PSR), such investments are valued according to the equity method;
- in the financial statements prepared in accordance with PSR, the level of write-down of credit exposure arises from the classification of the receivable to the specific risk category specified in the Regulation of the Minister of Finance of 10 December 2003, on the principles of creating provisions for the risks related to the operations of banks. In accordance with IFRS, specific provisions are recorded based on the difference between the balance sheet value of credit exposure and the present value of expected future cash flows, discounted with the use of the effective interest rate of the specific instrument. The level of the write-down created in accordance with IFRS reflects the probability of recovering both the principal as well as the interest, eliminating the recording of deferred interest in suspense as a separate component of liabilities of the Bank. After revaluation of the financial asset, interest income is recognized on the basis of the effective interest rate applied for the purposes of valuation of the present value of the instrument;
- in accordance with PSR, in previous years the Bank created a provision for general risk intended for coverage of the unidentified risk related to the conduct of banking activity. IFRS does not allow the possibility to create provisions in the situation where no objective evidence for impairment in value or non-recoverability of a financial asset exists;

- in accordance with PSR, the Bank presents purchased goodwill as the difference between cost and the value of net assets acquired and amortizes it by the straight-line method. On the other hand, IFRS requires the Bank to perform an annual impairment review instead of amortization write-downs;
- the Bank, as an entity constituting part of Citigroup, offers its employees discretionary rewards in the form of stock and options for Citigroup shares, further referred to as equity benefit programs. Events tied to the allocation of equity benefits are reflected in the Bank's books according to the provisions of IFRS 2. Based on its best knowledge, the Bank classifies equity benefits programs as payment transactions in the form of shares, settled in cash. As a result, the Bank values the contracted liabilities at fair value at each reporting date, and shows the cost of the allocated benefits in the profit and loss account, in proportion to the period of time for which the employee is obliged to render services in order to be granted the right to collect the reward. Currently the International Financial Reporting Interpretations Committee (IFRIC) analyzes the rules for reflecting the payments settled with the shares of the parent entity, from the standpoint of classifying them under one of the following categories of IFRS 2:

- equity - settled share-based payment transactions;
- cash - settled share-based payment transactions.

In the event that IFRIC issues an interpretation that would include equity benefits program in the second of the above named categories, the current approach would be replaced with the approach via the Bank's equity, in line with rules provided for under IFRS 2 for transactions settled in equity instruments.

## BALANCE SHEET

### Assets

in PLN thousand	note	as of	
		31.12.2004	31.12.2003
<b>I. Cash and due from NBP</b>	1	<b>841,114</b>	<b>1,186,514</b>
<b>II. Treasury bills and other bills eligible for refinancing with NBP</b>		–	–
<b>III. Due from financial sector</b>	2	<b>8,496,980</b>	<b>8,724,786</b>
1. Current		5,468,012	6,822,543
2. Term		3,028,968	1,902,243
<b>IV. Due from non-financial sector</b>	3	<b>9,707,041</b>	<b>13,252,870</b>
1. Current		2,423,075	3,529,638
2. Term		7,283,966	9,723,232
<b>V. Due from public sector</b>	4	<b>1,538</b>	<b>3,131</b>
1. Current		91	87
2. Term		1,447	3,044
<b>VI. Receivables subject to securities sale and repurchase agreements</b>	5	<b>293,209</b>	<b>288,601</b>
<b>VII. Debt securities</b>	6	<b>7,303,033</b>	<b>3 912,427</b>
<b>VIII. Investments in subsidiary undertakings</b>	7, 10	<b>389,036</b>	<b>338,218</b>
<b>IX. Investments in joint ventures</b>	8, 10	<b>6,671</b>	<b>5,323</b>
<b>X. Investments in associated undertakings</b>	9, 10	<b>11,829</b>	<b>12,388</b>
<b>XI. Minority investments</b>	11	<b>27,749</b>	<b>23,633</b>
<b>XII. Other securities and other financial assets</b>	12	<b>4,105,123</b>	<b>3,624,895</b>
<b>XIII. Intangible assets</b>	14	<b>1,237,133</b>	<b>1,295,012</b>
- goodwill		1,171,200	1,243,645
<b>XIV. Tangible fixed assets</b>	15	<b>711,710</b>	<b>764,145</b>

in PLN thousand	note	as of	
		31.12.2004	31.12.2003
<b>XV. Other assets</b>	16	<b>388,347</b>	<b>315,717</b>
1. Repossessed assets		23,780	21,025
2. Other		364,567	294,692
<b>XVI. Prepayments</b>	17	<b>299,419</b>	<b>280,556</b>
1. Deferred tax		217,678	218,563
2. Other prepayments		81,741	61,993
<b>TOTAL ASSETS</b>		<b>33,819,932</b>	<b>34,028,216</b>

## Liabilities

in PLN thousand	note	as of	
		31.12.2004	31.12.2003
<b>I. Due to NBP</b>		<b>718</b>	<b>41,145</b>
<b>II. Due to financial sector</b>	20	<b>4,304,594</b>	<b>3,826,082</b>
1. Current		3,039,901	2,343,320
2. Term		1,264,693	1,482,762
<b>III. Due to non-financial sector</b>	21	<b>16,729,658</b>	<b>18,039,260</b>
1. Savings deposits		-	-
a) Current			
b) Term			
2. Other		16,729,658	18,039,260
a) Current		8,422,514	8,877,277
b) Term		8,307,144	9,161,983
<b>IV. Due to public sector</b>	22	<b>531,517</b>	<b>465,145</b>
1. Current		338,869	304,107
2. Term		192,648	161,038

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## Liabilities - cont.

in PLN thousand	note	as of	
		31.12.2004	31.12.2003
<b>V. Liabilities in respect of securities subject to sale and repurchase agreements</b>	23	<b>408,559</b>	<b>470,803</b>
<b>VI. Debt securities issued</b>	20,21,22,24	-	-
1. Short term			
2. Long term			
<b>VII. Other liabilities arising from financial instruments</b>		<b>4,194,290</b>	<b>3,651,195</b>
<b>VIII. Special funds and other payables</b>	25	<b>277,585</b>	<b>222,120</b>
<b>IX. Accruals and deferred income</b>	26	<b>1,003,509</b>	<b>918,205</b>
1. Accruals		158 749	121,470
2. Negative goodwill		-	-
3. Other deferred income and income in suspense		844,760	796,735
<b>X. Provisions</b>	27	<b>216,717</b>	<b>447,331</b>
1. Provision for corporate income tax		-	-
2. Other provisions		216,717	447,331
a) short term		29,353	96,558
b) long term		187,364	350,773
<b>XI. Subordinated debt</b>	28	-	-
<b>XII. Share capital</b>	29	<b>522,638</b>	<b>522,638</b>
<b>XIII. Unpaid contributions to share capital (negative value)</b>		-	-
<b>XIV. Own shares (treasury stock - negative value)</b>	30	-	-
<b>XV. Equity reserves</b>	31	<b>3,044,585</b>	<b>3,044,585</b>
<b>XVI. Revaluation reserve</b>	32	<b>19,651</b>	<b>(13,212)</b>
<b>XVII. Other reserves</b>	33	<b>2,116,561</b>	<b>2,115,273</b>
<b>XVIII. Retained earnings (loss brought forward)</b>		<b>35,136</b>	<b>(10,847)</b>
<b>XIX. Net profit (loss)</b>		<b>414,214</b>	<b>288,493</b>
<b>TOTAL LIABILITIES</b>		<b>33,819,932</b>	<b>34,028,216</b>

in PLN thousands	note	as of	
		31.12.2004	31.12.2003
Capital adequacy ratio (in %)	34	19.29	16.04
Book value		6,152,785	5,946,930
Number of shares		130,659,600	130,659,600
Book value per share ( in PLN)	35	47.09	45.51
Diluted number of shares		-	-
Diluted book value per share (in PLN)	35	-	-

## Off-balance sheet items

in PLN thousands	note	as of	
		31.12.2004	31.12.2003
<b>I. Contingent liabilities granted and received</b>		<b>14,715,204</b>	<b>18,356,245</b>
1. Contingent liabilities granted:	36	11,762,863	15,058,891
a) lending		9,394,449	12,020,986
b) guarantees		2,368,414	3,037,905
2. Commitments received:	37	2,952,341	3,297,354
a) lending		335,975	480,000
b) guarantees		2,616,366	2,817,354
<b>II. Commitments resulting from sale/purchase transactions</b>		<b>191,926,365</b>	<b>167,002,522</b>
<b>III. Other including:</b>		<b>5,267,673</b>	<b>6,264,593</b>
- Collateral received		5,267,673	6,264,593
<b>Total off-balance sheet items</b>		<b>211,909,242</b>	<b>191,623,360</b>

## PROFIT AND LOSS ACCOUNT

in PLN thousand	for the period	note	1.01 - 31.12 2004	1.01 - 31.12 2003
I. Interest income		38	1,653,161	1,386,301
II. Interest expense		39	(753,892)	(637,474)
<b>III. Net interest income (I-II)</b>			<b>899,269</b>	<b>748,827</b>
IV. Fee and commission income		40	655,854	570,945
V. Fee and commission expense			(65,390)	(48,794)
<b>VI. Net fee and commission income (IV-V)</b>			<b>590,464</b>	<b>522,151</b>
<b>VII. Income from shares and other securities</b>		41	<b>16,526</b>	<b>64,750</b>
1. Subsidiary undertakings			15,185	500
2. Joint ventures			-	59,530
3. Associated undertakings			341	23
4. Other entities			1,000	4,697
<b>VIII. Net profit on financial operations</b>		42	<b>51,765</b>	<b>132,175</b>
<b>IX. Net profit on foreign exchange</b>			<b>360,352</b>	<b>481,361</b>
<b>X. Profit / (loss) on banking activity</b>			<b>1,918,376</b>	<b>1,949,264</b>
<b>XI. Other operating income</b>		43	<b>90,101</b>	<b>77,865</b>
<b>XII. Other operating expenses</b>		44	<b>(117,209)</b>	<b>(113,759)</b>
<b>XIII. General administrative expenses</b>		45	<b>(1,264,318)</b>	<b>(1,119,779)</b>
<b>XIV. Depreciation and amortisation</b>			<b>(142,179)</b>	<b>(155,445)</b>
XV. Charges to provisions and revaluation		46	(1,090,609)	(1,148,878)
1. Charges to specific provisions and general risk fund			(1,090,609)	(1,124,969)
2. Revaluation of financial assets			-	(23,909)

**Profit and loss account - cont.**

in PLN thousand	for the period	note	1.01 - 31.12 2004	1.01 - 31.12 2003
XVI. Release of provisions and revaluation		47	1,081,848	961,170
1. Release of specific provisions and provision for general risk fund			1,077,663	956,619
2. Revaluation of financial assets			4,185	4,551
<b>XVII. Net (charges to)/release of provisions and decrease in respect of revaluation</b>			<b>(8,761)</b>	<b>(187,708)</b>
<b>XVIII. Operating profit</b>			<b>476,010</b>	<b>450,438</b>
<b>XIX. Extraordinary (losses)/gains</b>			-	-
1. Extraordinary gains		49		
2. Extraordinary losses		50		
<b>XX. Profit (loss) before tax</b>			<b>476,010</b>	<b>450,438</b>
<b>XXI. Corporate income tax</b>		51	<b>(123,668)</b>	<b>(190,284)</b>
1. Current			(139,597)	(59,808)
2. Deferred			15,929	(130,476)
<b>XXII. Other obligatory charges to profit/(loss)</b>		52	-	-
<b>XXIII. Participation in net profits (losses) of subordinated entities accounted for under equity method</b>		53	<b>61,872</b>	<b>28,339</b>
<b>XXIV. Net profit (loss)</b>		54	<b>414,214</b>	<b>288,493</b>
<b>Net profit/(loss) (annual basis)</b>			<b>414,214</b>	<b>288,493</b>
<b>Weighted average number of ordinary shares</b>			<b>130,659,600</b>	<b>130,659,600</b>
<b>Net profit/(loss) per ordinary shares (in PLN)</b>		55	<b>3.17</b>	<b>2.21</b>
<b>Diluted weighted average number of ordinary shares</b>			-	-
<b>Diluted profit/(loss) per ordinary share (in PLN)</b>		55	-	-

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## CHANGES IN SHAREHOLDERS' EQUITY

in PLN thousand	for the period	1.01 - 31.12 2004	1.01 - 31.12 2003
<b>I. Opening balance</b>		<b>5,946,930</b>	<b>5,969,109</b>
a) changes in adopted accounting principles		-	(76)
b) corrections of fundamental errors		-	-
<b>I.a. Opening balance, after reclassifications to conform with current year presentation</b>		<b>5,946,930</b>	<b>5,969,033</b>
<b>1. Authorised share capital at start of period</b>		<b>522,638</b>	<b>500,902</b>
1.1. Changes in share capital		-	21,736
a) increases (in respect of)		-	21,736
- issue of shares			-
- conversion of the Special Convertible Participating Bonds			21,736
b) decreases (in respect of)		-	-
- redemption of shares			
<b>1.2. Closing balance</b>		<b>522,638</b>	<b>522,638</b>
<b>2. Opening balance of unpaid contribution to share capital</b>		-	-
2.1. Change in unpaid contributions to share capital			
a) increase			
b) decrease			
<b>2.2. Closing balance</b>		-	-
<b>3. Own shares - opening balance</b>			
a) increase			
b) decrease			
<b>3.1. Own shares (treasury stock) - closing balance</b>			
<b>4. Opening balance of equity reserves</b>		<b>3,044,585</b>	<b>3,044,585</b>



in PLN thousand	for the period	1.01 - 31.12 2004	1.01 - 31.12 2003
4.1. Changes in equity reserves		-	-
a) increases (in respect of)		-	-
- issue of shares with premium			
- distribution of profit (according to the law regulations)			
- distribution of profit (voluntary)			
b) decreases (in respect of)		-	-
- covered loss			
<b>4.2. Closing balance of equity reserves</b>		<b>3,044,585</b>	<b>3,044,585</b>
<b>5. Opening balance of revaluation reserve</b>		<b>(13,212)</b>	<b>45,968</b>
a) changes in adopted accounting principles			10,771
<b>5a. Opening balance of revaluation reserve, after reclassifications to conform with current year presentation</b>		<b>(13,212)</b>	<b>56,739</b>
5.1. Changes in revaluation reserve		32,863	(69,951)
a) increase (in respect of)		41,186	19,692
- revaluation of securities for sale		41,186	-
- tax effect of revaluation of securities for sale		-	19,692
b) decrease (in respect of)		(8,323)	(89,643)
- sale of fixed assets		(498)	(1,075)
- revaluation of securities for sale		-	(88,568)
- tax effect of revaluation of securities for sale		(7,825)	-
<b>5.2. Closing balance of revaluation reserve</b>		<b>19,651</b>	<b>(13,212)</b>
<b>6. Opening balance of general risk fund</b>		<b>390,000</b>	<b>390,000</b>
6.1. Changes in general risk fund		-	-
a) increase (in respect of)		-	-
- distribution of profit			
b) decrease (in respect of)		-	-

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## Changes in shareholders' equity - cont.

in PLN thousand	for the period	1.01 - 31.12 2004	1.01 - 31.12 2003
<b>6.2. Closing balance of general risk fund</b>		<b>390,000</b>	<b>390,000</b>
<b>7. Opening balance of other reserves</b>		<b>1,725,273</b>	<b>1,776,283</b>
7.1. Changes in other reserves		1,288	(51,010)
a) increase (in respect of)		1,288	2,044
- distribution of profit		790	969
- sale of fixed assets		498	1,075
b) decreases (in respect of)		-	(53,054)
- absorption of loss from equity accounting revaluation of subordinate undertakings shares as of 1 Jan 2002 - changes of adopted accounting principles			(31,318)
- conversion of the Special Convertible Participating Bonds			(21,736)
<b>7.2 Closing balance of other reserves</b>		<b>1,726,561</b>	<b>1,725,273</b>
<b>8. Opening balance of retained earnings (loss brought forward)</b>		<b>277,646</b>	<b>242,689</b>
<b>8.1. Opening balance of retained earnings</b>		<b>288,493</b>	<b>242,689</b>
a) changes in adopted accounting principles		-	-
b) corrections of fundamental errors		-	-
<b>8.2. Opening balance of retained earnings, after reclassifications to conform to current year presentation</b>		<b>288,493</b>	<b>242,689</b>
<b>8.3. Change of retained earnings</b>		<b>(242,510)</b>	<b>(242,689)</b>
a) increase (in respect of)		-	-
- prior years' profit distribution			
b) decrease (in respect of)		(242,510)	(242,689)
- charge to equity reserve		(790)	(969)
- dividends		(241,720)	(241,720)
<b>8.4. Closing balance of retained earnings</b>		<b>45,983</b>	<b>-</b>
<b>8.5. Opening balance of loss brought forward</b>		<b>(10,847)</b>	<b>(31,318)</b>
a) changes in adopted accounting principles			(10,847)
b) corrections of fundamental errors			-

in PLN thousand	for the period	1.01 - 31.12 2004	1.01 - 31.12 2003
<b>8.6. Opening balance of loss brought forward, after reclassifications to conform with current year presentation</b>		<b>(10,847)</b>	<b>(42,165)</b>
<b>8.7. Change in loss brought forward</b>		-	<b>31,318</b>
a) increase (in respect of)			-
- loss brought forward			
b) decrease (in respect of)			31,318
- absorption of loss from equity accounting revaluation of subordinate undertakings shares as of 1 Jan 2002 - changes of adopted accounting principles			31,318
<b>8.8. Closing balance of loss brought forward</b>		<b>(10,847)</b>	<b>(10,847)</b>
<b>8.9. Closing balance of retained earnings (loss brought forward)</b>		<b>35,136</b>	<b>(10,847)</b>
<b>9. Net profit/(loss)</b>		<b>414,214</b>	<b>288,493</b>
a) net profit		414,214	288,493
b) net loss		-	-
<b>II. Closing balance of shareholders' equity</b>		<b>6,152,785</b>	<b>5,946,930</b>
<b>III. Shareholders' equity after proposed profit distribution (covering loss)*</b>		<b>4,588,790</b>	<b>5,705,210</b>

\*/ Shareholders' equity as of 31 December 2004 includes the proposed payment of a dividend from appropriation of 2004 profits and from previous years' profits, which was transferred from the supplementary and reserve capital (see Additional Note to Financial Statement No.10).

## CASH FLOWS STATEMENT

in PLN thousand	for the period	1.01 - 31.12 2004	1.01 - 31.12 2003
<b>A. CASH FLOWS FROM OPERATING ACTIVITIES (indirect method)</b>			
<b>I. Net profit (loss)</b>		<b>414,214</b>	<b>288,493</b>
<b>II. Adjustments for:</b>		<b>(239,858)</b>	<b>(149,139)</b>
1. Participation in profits (losses) of subordinated entities accounted for on an equity basis		(61,872)	(28,339)
2. Depreciation		142,179	155,445
3. Foreign exchange gains/(losses)		(35,038)	13,750
4. Interest and dividends		4,143	(16,346)
5. Profit (loss) on investing activities		24,233	10,858
6. Changes in provisions		(230,614)	1,936
7. Change in debt securities held		(3,460,766)	429,119
8. Change in amounts due from financial sector		333,361	(3,370,864)
9. Change in receivables from non-financial and public sector		3,547,422	284,442
10. Change in receivables in respect of securities subject to sale and repurchase agreements		(4,608)	(268,834)
11. Change in equity investments and in other financial assets		(480,228)	898,554
12. Change in amounts due to financial sector		531,553	241,780
13. Change in amounts due to non-financial and public sector		(1,243,230)	1,805,152
14. Change in payables in respect of securities subject to sale and repurchase agreements		(62,244)	230,029
15. Change in securities issued		-	-
16. Change in other liabilities		154,396	(26,697)
17. Change in accruals		18,410	68,053
18. Change in deferred income and income in suspense		51,504	72,973
19. Other items		531,541	(650,150)
<b>III. Net cash flows from operating activities (I +/- II) - indirect method</b>		<b>174,356</b>	<b>139,354</b>

in PLN thousand	for the period	1.01 - 31.12 2004	1.01 - 31.12 2003
<b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<b>I. Cash inflows from investing activities</b>		<b>17,850</b>	<b>440,715</b>
1. Sale of investments in subsidiary undertakings		-	500
2. Sale of investments in joint ventures		-	75,000
3. Sale of investments in associated undertakings		2,096	144
4. Sale of other investments, other securities and other financial assets		2,330	308,791
5. Sale of intangible and tangible fixed assets		4,440	6,848
6. Sale of investments in real estate and intangible fixed assets		-	-
7. Other inflows		8,984	49,432
<b>II. Cash outflows from investing activities</b>		<b>(117,218)</b>	<b>(128,605)</b>
1. Acquisition of investments in subsidiary undertakings		-	-
2. Acquisition of investments in joint ventures		-	-
3. Acquisition of investments in associated undertakings		-	-
4. Acquisition of other investments, other securities and other financial assets		(476)	(14,782)
5. Acquisition of intangible and tangible fixed assets		(116,742)	(113,823)
6. Acquisition of investments in real estate and intangible fixed assets		-	-
7. Other outflows		-	-
<b>III. Net cash flows from investing activities (I-II)</b>		<b>(99,368)</b>	<b>312,110</b>
<b>C. CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>I. Cash inflows from financing activities</b>		<b>1,350</b>	<b>34,392</b>
1. Long-term loans from banks		-	19,611
2. Long-term loans from other financial institutions		-	14,781
3. Issuance of debt securities		-	-
4. Increase in subordinated debt		-	-
5. Net proceeds from the issue of shares and subsidies to capital		-	-
6. Other inflows		1,350	-

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## Cash flows statement - cont.

in PLN thousand	for the period	1.01 - 31.12 2004	1.01 - 31.12 2003
<b>II. Cash outflows from financing activities</b>		<b>(316,185)</b>	<b>(282,560)</b>
1. Repayment of long-term loans to banks		(33,693)	-
2. Repayment of long-term loans to other financial institutions		(10,187)	(9,406)
3. Redemption of debt securities		-	-
4. Other financial liabilities		-	-
5. Payments related to financial lease agreements		-	-
6. Change in subordinated debt		-	-
7. Payment of dividends and other payments to owners		(241,720)	(241,720)
8. Payments related to profit distributions, other than dividend		-	-
9. Purchase of own shares		-	-
10. Other outflows		(30,585)	(31,434)
<b>III. Net cash flows from financing activities (I-II)</b>		<b>(314,835)</b>	<b>(248,168)</b>
<b>D. TOTAL NET CASH FLOWS (A.III+/-B.III+/-C.III)</b>		<b>(239,847)</b>	<b>203,296</b>
<b>E. BALANCE SHEET CHANGE IN CASH</b>		<b>(239,847)</b>	<b>203,296</b>
- out of which cash arising from FX differences on foreign currencies		(15,533)	4,891
<b>F. CASH AT THE BEGINNING OF REPORTING PERIOD</b>		<b>1,211,860</b>	<b>1,008,564</b>
<b>G. CASH AT THE END OF REPORTING PERIOD (F+/- D)</b>		<b>972,013</b>	<b>1,211,860</b>
- including cash with limited possibility of disposal		-	-

## EXPLANATORY NOTES

### NOTES TO BALANCE SHEET

#### Note 1A

Cash and due from NBP

in PLN thousand	2004	2003
a) Current account	841,114	1,186,514
b) Obligatory reserve	-	-
c) Amounts of Bank Guarantee Fund	-	-
d) Other	-	-
<b>Total cash and due from NBP</b>	<b>841,114</b>	<b>1,186,514</b>

#### Note 1B

Cash (currency structure)

in PLN thousand	unit	currency	2004	2003
a. in PLN			782,069	1,123,971
b. in foreign currencies (in currency and converted into PLN)			59,045	62,543
b1. in currency	thousand	EUR	6,857	5,835
converted into PLN			27,969	27,526
b2. in currency	thousand	USD	6,876	7,010
converted into PLN			20,561	26,221
other currencies			10,515	8,796
<b>Total cash</b>			<b>841,114</b>	<b>1,186,514</b>

Cash balances pledged or assigned:

- the obligatory reserve is kept on a current account in the NBP, the amount of this reserve declared as of 31 December 2004 was PLN 738,313 thousand (31 December 2003: PLN 688,085 thousand).

The Bank may draw on its obligatory reserve provided that the sum of the average monthly balance in its current account at NBP is not less than declared.

## Note 2A

Due from financial sector (by category)

in PLN thousand	2004	2003
a) Current accounts	824,190	883,069
b) Loans and placements, including	7,677,701	7,928,841
- deposits with other banks and financial institutions	7,043,329	7,275,059
c) Purchased receivables	12,710	26,876
d) Realised guarantees	251	314
e) Other receivables (in respect of)	3,000	3,763
- receivables in the course of settlement	3,000	3,763
f) Interest:	114,231	75,042
- accrued	72,244	34,838
- receivable	41,987	40,204
<b>Total (gross) receivables from financial sector</b>	<b>8,632,083</b>	<b>8,917,905</b>
g) provision for receivables from financial sector (negative value)	(135,103)	(193,119)
<b>Total (net) receivables from financial sector</b>	<b>8,496,980</b>	<b>8,724,786</b>

## Note 2B

Due from financial sector (by time to maturity)

in PLN thousand	2004	2003
a) Current accounts	5,468,055	6,822,600
b) Term, with maturity from balance sheet date:	3,049,797	2,020,263
- up to 1 month	769,240	1,414,452
- 1 month - 3 months	725,737	46,910
- 3 months - 1 year	1,132,631	178,452
- 1 year - 5 years	313,668	264,876
- over 5 years	12,709	16,614
- matured before balance sheet date	95,812	98,959
c) Interest	114,231	75,042
- accrued	72,244	34,838
- receivable	41,987	40,204
<b>Due from financial sector - gross</b>	<b>8,632,083</b>	<b>8,917,905</b>



**Note 2C**

Due from financial sector (by contractual maturity)

in PLN thousand	2004	2003
a) Current accounts	5,468,055	6,822,600
b) Term, with maturity from balance sheet date:	3,049,797	2,020,263
- up to 1 month	97,970	345,173
- 1 month - 3 months	813,233	1,070,281
- 3 months - 1 year	1,391,984	54,516
- 1 year - 5 years	478,710	401,978
- over 5 years	267,900	148,315
c) interest	114,231	75,042
- accrued	72,244	34,838
- receivable	41,987	40,204
<b>Due from financial sector - gross</b>	<b>8,632,083</b>	<b>8,917,905</b>

**Note 2D**

Due from financial sector (by currency structure)

in PLN thousand	unit	currency	2004	2003
a. in PLN			2,102,590	1,469,448
b. in foreign currencies (in currency and converted into PLN)			6,529,493	7,448,457
b1. in currency	thousand	CHF	105,748	144,484
converted into PLN			279,396	437,512
b2. in currency	thousand	EUR	266,250	148,199
converted into PLN			1,086,034	699,056
b3. in currency	thousand	USD	1,590,302	1,587,174
converted into PLN			4,755,639	5,936,825
other currencies			408,424	375,064
<b>Due from financial sector - gross</b>			<b>8,632,083</b>	<b>8,917,905</b>

## Note 2E

Due from financial sector - gross

in PLN thousand	2004	2003
1. Normal	8,154,846	8,410,508
2. Watch	132,668	107,219
3. Irregular:	230,338	325,136
a) substandard	135,894	5,226
b) doubtful	30	221,773
c) loss	94,414	98,137
4. Accrued interest	114,231	75,042
a) receivable	72,244	34,838
b) overdue	41,987	40,204
- from normal and watch receivables	-	35
- from non-performing receivables	41,987	40,169
<b>Due from financial sector - gross</b>	<b>8,632,083</b>	<b>8,917,905</b>

## Note 2F

Legal collateral reducing basis for calculation of specific provisions for non-performing receivables from financial sector

in PLN thousand	2004	2003
a) watch	92,212	-
b) irregular	5,000	121,626
- substandard	-	4,752
- doubtful	-	108,888
- loss	5,000	7,986
<b>Total legal collateral diminishing basis for calculation of specific provisions for non-performing receivables from financial sector</b>	<b>97,212</b>	<b>121,626</b>

## Note 2G

Provisions for receivables from financial sector

in PLN thousand	2004	2003
a) watch	-	-
b) irregular	135,103	193,119
- substandard	45,675	95
- doubtful	15	102,873
- loss	89,413	90,151
<b>Total provisions for receivables from financial sector</b>	<b>135,103</b>	<b>193,119</b>

**Note 2H**

## Movements in provisions for receivables from financial sector

in PLN thousand	2004	2003
1. Opening balance	193,119	151,935
a) increase (in respect of)	20,690	91,391
- charges to provisions	20,690	91,391
b) use (in respect of)	(26)	(120)
- write-off of receivables	(26)	(120)
c) release (in respect of)	(78,680)	(50,087)
- release of provisions	(78,680)	(50,087)
<b>2. Provisions for receivables from financial sector - closing balance</b>	<b>135,103</b>	<b>193,119</b>
<b>3. Required level of provisions for amounts due from financial sector at the end of the period, as per regulations in force</b>	<b>135,103</b>	<b>193,119</b>

As of 31 December 2004 and 31 December 2003 the Bank did not have any non-interest bearing loans and advances granted to financial sector customers.

Interest on receivables due from financial sector has been included in the Balance Sheet in term receivables.

**Note 3A**

## Receivables from non-financial sector (by category)

in PLN thousand	2004	2003
a) loans and advances	10,423,263	13,766,494
b) purchased receivables	162,803	239,040
c) realised guarantees	66,781	74,332
d) other receivables (in respect of)	506	3,157
- receivables in the course of settlement	506	3,157
e) interest	651,033	597,714
- accrued	55,388	141,466
- receivable	595,645	456,248
<b>Receivables from non-financial sector - gross</b>	<b>11,304,386</b>	<b>14,680,737</b>
f) provision for receivables from the non-financial sector (negative value)	(1,597,345)	(1,427,867)
<b>Receivables from non-financial sector - net</b>	<b>9,707,041</b>	<b>13,252,870</b>

### Note 3B

Receivables from non-financial sector (by time to maturity)

in PLN thousand	2004	2003
a) current accounts	2,375,331	3,519,264
b) term, with maturity from balance sheet date:	8,278,022	10,563,759
- up to 1 month	2,392,283	3,865,379
- 1 month - 3 months	587,858	762,134
- 3 months - 1 year	1,520,815	1,180,960
- 1 year - 5 years	1,789,415	2,762,308
- over 5 years	140,647	354,655
- matured before balance sheet date	1,847,004	1,638,323
c) interest	651,033	597,714
- accrued	55,388	141,466
- receivable	595,645	456,248
<b>Receivables from non-financial sector - gross</b>	<b>11,304,386</b>	<b>14,680,737</b>

### Note 3C

Receivables from non-financial sector (by contractual maturity)

in PLN thousand	2004	2003
a) current accounts	2,692,594	3,727,970
b) term, with maturity from balance sheet date:	7,960,759	10,355,053
- up to 1 month	1,586,731	2,444,399
- 1 month - 3 months	1,464,496	1,634,903
- 3 months - 1 year	1,132,878	1,044,640
- 1 year - 5 years	2,750,732	3,025,702
- over 5 years	1,025,922	2,205,409
c) interest	651,033	597,714
- accrued	55,388	141,466
- receivable	595,645	456,248
<b>Receivables from non-financial sector - gross</b>	<b>11,304,386</b>	<b>14,680,737</b>

**Note 3D**

## Receivables from non-financial sector (by currency)

in PLN thousand	unit	currency	2004	2003
a. in PLN			9,453,178	10,674,871
b. in foreign currencies (in currency and converted into PLN)			1,851,208	4,005,866
b1. in currency	thousand	CHF	76,437	193,247
converted into PLN			201,955	585,170
b2. in currency	thousand	EUR	298,924	512,351
converted into PLN			1,219,311	2,416,760
b3. in currency	thousand	USD	137,192	220,372
converted into PLN			410,258	824,303
other currencies			19,684	179,633
<b>Receivables from non-financial sector - gross</b>			<b>11,304,386</b>	<b>14,680,737</b>

**Note 3E**

## Receivables from non-financial sector - gross

in PLN thousand	2004	2003
1. Normal	5,847,617	8,160,026
2. Watch	1,780,860	1,587,918
3. Irregular:	3,024,876	4,335,079
a) substandard	637,350	703,960
b) doubtful	647,695	1,826,369
c) loss	1,739,831	1,804,750
4. Interest:	651,033	597,714
a) receivable	55,388	141,466
b) overdue	595,645	456,248
- on normal and watch loans	3,209	1,413
- on non-performing loans	592,436	454,835
<b>Receivables from non-financial sector - gross</b>	<b>11,304,386</b>	<b>14,680,737</b>

### Note 3F

Collateral reducing specific provisions against receivables from non-financial sector

in PLN thousand	2004	2003
a) normal	-	-
b) watch	673,478	367,262
c) irregular	1,182,212	2,616,280
- substandard	464,862	489,001
- doubtful	433,038	1,588,241
- loss	284,312	539,038
<b>Total collateral reducing specific provisions against receivables from non-financial sector</b>	<b>1,855,690</b>	<b>2,983,542</b>

### Note 3G

Provisions for receivables from non-financial sector

in PLN thousand	2004	2003
a) normal	-	-
b) watch	-	-
c) irregular	1,597,345	1,427,867
- substandard	34,498	43,049
- doubtful	107,331	119,099
- loss	1,455,516	1,265,719
<b>Total provisions for receivables from non-financial sector</b>	<b>1,597,345</b>	<b>1,427,867</b>

### Note 3H

Movements in provisions for receivables from non-financial sector

in PLN thousand	2004	2003
1. Opening balance	1,427,867	1,364,918
a) increases (in respect of)	884,552	732,693
- charges to provisions	881,128	732,610
- FX differences	-	83
- other	3,424	-
b) use (in respect of)	(152,574)	(54,635)
- write-offs	(152,574)	(54,635)
c) release (in respect of)	(562,500)	(615,109)
- release of provisions	(562,500)	(609,819)
- reclassification of assets	-	(5,233)
- FX differences	-	(57)
<b>2. Closing balance</b>	<b>1,597,345</b>	<b>1,427,867</b>
<b>3. Required level of provisions for amounts due from non-financial sector at the end of the period, as per regulations being in force</b>	<b>1,597,345</b>	<b>1,427,867</b>

As of 31 December 2004 and 31 December 2003, the Bank did not have any non-interest bearing loans and advances granted to non-financial sector customers.

Interest on receivables due from non-financial sector has been included in the Balance Sheet in term receivables.

**Note 4A**

Due from public sector (by category)

in PLN thousand	2004	2003
a) loans	91	1,095
b) purchased receivables	1,186	1,540
c) realised guarantees	-	-
d) other receivables (in respect of)	-	-
e) interest	261	496
- accrued	261	496
- receivable	-	-
<b>Due from public sector - gross</b>	<b>1,538</b>	<b>3,131</b>
f) provision made for amounts due from public sector (negative value)	-	-
<b>Due from public sector - net</b>	<b>1,538</b>	<b>3,131</b>

**Note 4B**

Due from public sector (by time to maturity)

in PLN thousand	2004	2003
a) current accounts	91	87
b) term, with maturity from balance sheet date:	1,186	2,548
- up to 1 month	-	369
- 1 month - 3 months	1,186	1,936
- 3 months - 1 year	-	243
- 1 year - 5 years	-	-
- over 5 years	-	-
- matured before balance sheet date	-	-
c) interest	261	496
- accrued	261	496
- receivable	-	-
<b>Due from public sector - gross</b>	<b>1,538</b>	<b>3,131</b>

## Note 4C

Due from public sector (by contractual maturity)

in PLN thousand	2004	2003
a) current accounts	91	87
b) term, with maturity from balance sheet date:	1,186	2,548
- up to 1 month		-
- 1 month - 3 months		126
- 3 months - 1 year	1,186	1,450
- 1 year - 5 years		972
- over 5 years		-
c) interest	261	496
- accrued	261	496
- receivable	-	-
<b>Due from public sector - gross</b>	<b>1,538</b>	<b>3,131</b>

## Note 4D

Due from public sector (by currency structure)

in PLN thousand	unit	currency	2004	2003
a. in PLN			1,538	3,130
b. in foreign currencies (in currency and converted into PLN)			0	1
b1. in currency	thousand	EUR	0	0
converted into PLN			0	1
other currencies			0	-
<b>Due from public sector - gross</b>			<b>1,538</b>	<b>3,131</b>

## Note 4E

Due from public sector - gross

in PLN thousand	2004	2003
1. Normal	1,277	2,635
2. Watch	-	-
3. Irregular:	-	-
a) substandard		
b) doubtful		
c) loss		
4. Interest:	261	496
a) accrued	261	496
b) receivable	-	-
- on normal and watch loans		
- on non-performing loans		
<b>Due from public sector - gross</b>	<b>1,538</b>	<b>3,131</b>



**Note 4F**

Collateral reducing specific provisions against amounts due from public sector

in PLN thousand	2004	2003
a) normal		
b) watch		
c) irregular		
- substandard		
- doubtful		
- loss		
<b>Total collateral reducing specific provisions against amounts due from public sector</b>	-	-

**Note 4G**

Provisions for non-performing amounts due from public sector

in PLN thousand	2004	2003
a) normal		
b) watch		
c) irregular		
- substandard		
- doubtful		
- loss		
<b>Total provisions for non-performing amounts due from public sector</b>	-	-

## Note 4H

Movements in provisions for non-performing amounts due from public sector

in PLN thousand	2004	2003
1. Opening balance	-	-
a) increases (in respect of)		
b) write-offs (in respect of)		
c) release (in respect of)		
<b>2. Closing balance</b>	<b>-</b>	<b>-</b>
<b>3. Required level of provisions for amounts due from public sector at the end of the period, as per regulations being in force</b>	<b>-</b>	<b>-</b>

As of 31 December 2004 and 31 December 2003, the Bank did not have any non-interest bearing loans and advances granted to public sector customers.

Interest on receivables due from public sector has been included in the Balance Sheet in term receivables.

## Note 5

Receivables subject to securities sale and repurchase agreements

in PLN thousand	2004	2003
a) financial sector	292,849	288,386
b) non-financial sector	-	-
c) state budget	-	-
d) interest	360	215
<b>Total receivables subject to securities sale and repurchase agreement</b>	<b>293,209</b>	<b>288,601</b>

**Note 6A**

## Debt securities

in PLN thousand	2004	2003
a) issued by central banks, of which:	384,287	384,884
- bonds denominated in foreign currencies	-	-
b) issued by other banks, of which:	160,727	116,627
- denominated in foreign currencies	-	-
c) issued by other financial institutions, of which:	-	70,457
- denominated in foreign currencies	-	70,159
d) issued by non-financial institutions, of which:	190,914	553,996
- denominated in foreign currencies	-	-
e) issued by State Budget, of which:	6,567,105	2,786,463
- denominated in foreign currencies	1,398,285	1,689,405
f) issued by local authorities, of which:	-	-
- denominated in foreign currencies	-	-
g) repurchased own securities	-	-
<b>Total debt securities</b>	<b>7,303,033</b>	<b>3,912,427</b>

**Note 6B**

## Debt securities (by category)

in PLN thousand	2004	2003
1. Issued by State Budget, of which:	6,567,105	2,786,463
a) bonds	6,263,335	2,640,357
b) treasury bills	303,770	146,106
c) other (by type):	-	-
2. Issued by parent entity, of which:	-	-
a) bonds	-	-
b) other (by type)	-	-
3. Issued by material investor, of which:	-	-
a) bonds	-	-
b) other (by type)	-	-
4. Issued by subsidiary undertakings, of which:	-	70,159
a) bonds	-	70,159
b) other (by type)	-	-
5. Issued by joint ventures, of which:	-	-
a) bonds	-	-
b) other (by type)	-	-
6. Issued by associated undertakings, of which:	-	-
a) bonds	-	-
b) other (by type)	-	-
7. Issued by other entities, of which:	735,928	1,055,805
a) bonds	727,409	1,033,564
b) other (by type)	8,519	22,241
- certificates of deposit	8,519	22,241
<b>Total debt securities</b>	<b>7,303,033</b>	<b>3,912,427</b>

## Note 6C

### Movements in debt securities

in PLN thousand	2004	2003
Opening balance	3,912,427	4,356,193
- change in adopted accounting principles	-	220,901
Opening balance, after reclassifications to conform with current year presentation	3,912,427	4,577,094
a) increases (in respect of)	155,664,837	122,967,465
- purchases	155,402,015	122,755,436
- revaluation	2,541	9,763
- FX differences	735	106,385
- amortisation of discount, premium and interest	259,546	95,881
b) decreases (in respect of)	(152,274,231)	(123,632,132)
- sales	(151,739,783)	(123,480,122)
- revaluation	(3,291)	(34,803)
- FX differences	(439,644)	-
- transfers to other asset groups	(60,669)	-
- amortisation of discount, premium and interest	(30,844)	(117,207)
<b>Closing balance</b>	<b>7,303,033</b>	<b>3,912,427</b>

As of 31 December 2004, the total amount of debt securities includes PLN 474,270 thousand representing pledges and assignments (31 December 2003: PLN 542,100 thousand), including:

- treasury bills with the par value of PLN 54,280 thousand, representing the security of liabilities towards the Bank Guarantee Fund (31 December 2003: PLN 75,650 thousand),
- bonds of the State Treasury with the par value of PLN 257,400 thousand, representing the security of Bank's liabilities arising from the accepted deposits resulting from repurchase transac-

- bonds of enterprises with the par value of PLN 162,590 thousand, representing the security of Bank's liabilities arising from the accepted deposits resulting from repurchase transactions on securities (31 December 2003: PLN 183,430 thousand).

The total amount of debt securities includes bonds of the National Bank of Poland with the par value of PLN 366,665 thousand purchased on 28 February 2002 within the framework of issue designated for banks in connection with the reduction in rates of obligatory reserve maintained by banks with the NBP. The NBP bonds held include bearer bonds bearing an interest on the basis of the interest rate fixed on the basis of the rate of return on 52-week treasury bills.

As of 31 December 2003, the total amount of debt securities issued by non-financial institutions includes EUR 14,874 thousand equivalent to PLN 70,159 thousand, which is the value of non-interest bearing convertible bonds issued by the subsidiary Handlowy Investments S.A. On 31 December 2004, as a result of the transaction executed, the Bank's receivable arising from the convertible bonds of Handlowy Investments S.A. was netted with the receivable due to this company from the Bank. The details of the transaction executed are presented in Note 16.

**Note 7A**

## Investments in subsidiary undertakings

in PLN thousand	2004	2003
a) in banks	40,255	38,788
b) in other financial institutions	339,338	289,988
c) in non-financial institutions	9,443	9,442
<b>Total investments in subsidiary undertakings</b>	<b>389,036</b>	<b>338,218</b>

**Note 7B**

## Movements in investments in subsidiary undertakings

in PLN thousand	2004	2003
Opening balance	338,218	371,271
a) increases (in respect of)	57,647	52,589
- FX differences	-	6,588
- revaluation	57,647	46,001
b) decreases (in respect of)	(6,829)	(85,642)
- sale	-	(6,113)
- revaluation	(797)	(17,454)
- FX differences	(6,032)	-
- repayment of supplementary payments to companies	-	(42,000)
- other	-	(20,075)
<b>Closing balance</b>	<b>389,036</b>	<b>338,218</b>

**Note 7C**

## Investments in subsidiary undertakings, including

in PLN thousand	2004	2003
- goodwill - subsidiary undertakings	-	-
- negative goodwill - subsidiary undertakings	-	-

**Note 7D**

## Movements in goodwill - subsidiary undertakings

in PLN thousand	2004	2003
a) opening balance		
b) increases (in respect of)		
c) decreases (in respect of)		
d) closing balance		
e) amortisation of goodwill - opening balance		
f) charge for the period (in respect of)		
g) amortisation of goodwill - closing balance		
h) net goodwill - closing balance	-	-

**Note 7E**

## Movements in negative goodwill - subsidiary undertakings

in PLN thousand	2004	2003
a) gross negative goodwill - opening balance		
b) increases (in respect of)		
c) decreases (in respect of)		
d) gross negative goodwill - closing balance		
e) amortisation of negative goodwill - opening balance		
f) charge for the period (in respect of)		
g) amortisation of negative goodwill - closing balance		
h) net negative goodwill - closing balance	-	-

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## Note 8A

### Investments in joint ventures

in PLN thousand	2004	2003
a) in banks	-	-
b) in other financial institutions	6,671	5,323
c) in non-financial institutions	-	-
<b>Total investments in joint ventures</b>	<b>6,671</b>	<b>5,323</b>

## Note 8B

### Movements in investments in joint ventures

in PLN thousand	2004	2003
Opening balance	5,323	20,072
a) increases (in respect of)	1,348	115,251
- revaluation	1,348	115,251
b) decreases (in respect of)	-	(130,000)
- sale	-	(130,000)
<b>Closing balance</b>	<b>6,671</b>	<b>5,323</b>

## Note 8C

### Shares in joint-ventures, including:

in PLN thousand	2004	2003
- goodwill - joint-ventures	-	-
- negative goodwill - joint-ventures	-	-

## Note 8D

### Movements in goodwill - joint ventures

in PLN thousand	2004	2003
a) opening balance		
b) increases (in respect of)		
c) decreases (in respect of)		
d) closing balance		
e) amortisation of goodwill - opening balance		
f) charge for the period (in respect of)		
g) amortisation of goodwill - closing balance		
h) net goodwill - closing balance	-	-

## Note 8E

### Movements in negative goodwill - joint ventures

in PLN thousand	2004	2003
a) opening balance		
b) increases (in respect of)		
c) decreases (in respect of)		
d) closing balance		
e) amortisation of negative goodwill - opening balance		
f) charge for the period (in respect of)		
g) amortisation of negative goodwill - closing balance		
h) net negative goodwill - closing balance	-	-

**Note 9A**

## Investments in associated undertakings

in PLN thousand	2004	2003
a) in banks	-	-
b) in other financial institutions	11,500	6,059
c) in non-financial institutions	329	6,329
<b>Total investments in associated undertakings</b>	<b>11,829</b>	<b>12,388</b>

**Note 9B**

## Movements in investments in subsidiary undertakings

in PLN thousand	2004	2003
Opening balance	12,388	19,942
a) increases (in respect of)	57,309	3,133
- reclassification of valuation from another group	29,663	-
- revaluation	27,646	3,133
b) decreases (in respect of)	(57,868)	(10,687)
- sale	(23,490)	(2,077)
- revaluation	-	(8,610)
- reclassification of the undertaking	(34,378)	-
<b>Closing balance</b>	<b>11,829</b>	<b>12,388</b>

**Note 9C**

## Investments in associated undertakings, including

in PLN thousand	2004	2003
- goodwill - associated undertakings	-	-
- negative goodwill - associated undertakings	-	-

**Note 9D**

## Movements in goodwill - associated undertakings

in PLN thousand	2004	2003
a) Opening balance		
b) increases (in respect of)		
c) decreases (in respect of)		
d) Closing balance		
e) amortisation of goodwill - opening balance		
f) charge for the period (in respect of)		
g) amortisation of goodwill - closing balance		
h) net goodwill - closing balance	-	-

**Note 9E**

## Movements in negative goodwill - associated undertakings

in PLN thousand	2004	2003
a) Opening balance		
b) increases (in respect of)		
c) decreases (in respect of)		
d) Closing balance		
e) amortisation of negative goodwill - opening balance		
f) charge for the period (in respect of)		
g) amortisation of negative goodwill - closing balance		
h) net negative goodwill - closing balance	-	-

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## Note 10

### Shares in subordinated undertakings

No.	a	b	c	d	e	f	g	h	i	j	k	l
	Name of undertaking (legal form)	Location	Activity	Capital relationship (subsidiary, joint venture, associated undertaking) including direct and indirect relationship	Consolidation method/ equity accounting/ exclusion from consolidation or equity accounting	Date of obtaining control/ joint control/ significant influence	Value of shares at cost	Adjustments (total)	Book value of investment	Holding of share capital	Voting power at the General Assembly	Relationships other than mentioned in j) or k), basis for control/ joint control/ significant influence
1.	CITILEASING Sp. z o.o. <sup>1</sup>	Warsaw	Leasing	Subsidiary undertaking	equity accounting	04.03.1996	120,000	64,253	184,253	97.47	97.47	indirect relationship - see note below the table
2.	DOM MAKLECKI BANKU HANDLOWEGO SA	Warsaw	Brokerage	Subsidiary undertaking	equity accounting	28.02.2001	70,950	24,134	95,084	100.00	100.00	-
3.	BANK ROZWOJU CUKROWNICTWA S.A.	Poznań	Banking	Subsidiary undertaking	equity accounting	18.09.1997	52,580	(12,325)	40,255	100.00	100.00	-
4.	HANDLOWY- INVESTMENTS S.A. <sup>2</sup>	Luxembourg	Investment activity	Subsidiary undertaking	equity accounting	27.01.1997	38,515	(38,515)	0	100.00	100.00	-
5.	TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH BH S.A.	Warsaw	Investment activity	Subsidiary undertaking	equity accounting	16.04.1998	42,000	(19,157)	22,843	100.00	100.00	-
6.	HANDLOWY - INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	equity accounting	05.11.1997	41,475	(21,226)	20,249	80.97	80.97	indirect relationship - see note below the table
7.	PPH SPOMASZ Sp. z o.o. w likwidacji	Warsaw	Production of catering and trading equipment	Subsidiary undertaking	excluded from equity accounting	30.11.2001	13,502	(4,059)	9,443	100.00	100.00	-
8.	HANDLOWY INWESTYCJE II Sp. z o.o.	Warsaw	Investment activity	Subsidiary undertaking	equity accounting	18.02.1997	10,084	(6,023)	4,061	100.00	100.00	-
9.	HANDLOWY INWESTYCJE Sp. z o.o. <sup>3</sup>	Warsaw	Investment activity	Subsidiary undertaking	equity accounting	16.08.1994	8,070	226	8,296	100.00	100.00	-
10.	HANDLOWY ZARZĄDZANIE AKTYWAMI S.A.	Warsaw	Brokerage	Subsidiary undertaking	equity accounting	18.08.1999	5,000	(634)	4,366	100.00	100.00	-
11.	POLSKIE PRACOWNICZE TOWARZYSTWO EMERYTALNE DIAMENT S.A. w likwidacji	Warsaw	Insurance	Subsidiary undertaking	equity accounting	19.04.2000	2,140	(1,954)	186	79.27	79.27	-
12.	HANDLOWY HELLER S.A.	Warsaw	Factoring	Joint-venture	equity accounting	13.06.1994	2,752	3,919	6,671	25.00	25.00	indirect relationship - see note below the table



m							n			o			p	r	s	t
Equity:							Liabilities:			Receivables:			total assets	sales	unpaid shares	dividends received or receivable for the prior year
	authorised capital	unpaid capital (negative value)	equity reserves	other:	undis-tributed profit (loss) for previous years	net profit (loss)		short term	long term		short term	long term				
168,248	123,120	-	28,739	16,389	1,329	4,418	18,188	15,108	3,080	39,883	26,398	13,485	189,510	3,220	-	-
95,084	70,950	-	3,222	20,912	833	20,079	217,259	217,259	-	172,973	172,618	355	319,018	52,867	-	4,257
40,255	25,064	-	9,745	5,446	0	1,573	43	43	-	99	93	6	43,731	2,263	-	-
(67,698)	38,515	-	0	(106,213)	(91,484)	(15,101)	187,849	18	187,831	30,479	30,479	-	120,151	0	-	-
22,843	13,000	-	29,000	(19,157)	(24,870)	5,713	1,200	1,200	-	1,040	1,040	-	24,686	20,556	-	-
18,591	53,138	-	-	(34,547)	(42,745)	1,239	20,401	26	20,375	13	13	-	34,069	0	-	-
no data available																
4,061	4	-	10,080	(6,023)	(6,185)	162	1	1	-	32	0	32	4,062	18	-	-
8,054	4	-	8,066	(16)	(6,263)	(9)	1,599	1,599	-	55	0	55	18,321	29	-	-
4,366	5,000	-	5	(639)	(26)	(613)	103	103	-	884	884	-	5,706	5,425	-	-
235	100	-	1,223	(1,088)	(302)	(13)	164	164	-	161	161	-	399	0	-	-
26,685	10,000	-	11,011	5,674	-	5,674	366,813	366,813	-	391,215	391,215	-	398,438	32,681	-	-

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Shares in subordinated undertakings - cont

No.	a	b	c	d	e	f	g	h	i	j	k	l
	Name of undertaking (legal form)	Location	Activity	Capital relationship (subsidiary, joint venture, associated undertaking) including direct and indirect relationship	Consolidation method/ equity accounting/ exclusion from consolidation or equity accounting	Date of obtaining control/ joint control/ significant influence	Value of shares at cost	Adjustments (total)	Book value of investment	Holding of share capital	Voting power at the General Assembly	Relationships other than mentioned in j) or k), basis for control/ joint control/ significant influence
13.	MOSTOSTAL ZABRZE HOLDING S.A.	Zabrze	Production and service construction industry	Associated undertaking	excluded from equity accounting	28.06.2000	89,250	(89,250)	0	34.44	34.44	-
14.	KP KONSORCJUM Sp. z o.o.	Warsaw	Investment fund management	Associated undertaking	equity accounting	01.03.1995	1,260	10,240	11,500	49.99	49.99	-
15.	CREDITREFORM PL Sp. z o.o.	Warsaw	Business investigation agency	Associated undertaking	excluded from equity accounting	29.06.1992	329	-	329	49.03	49.03	-
<b>1/ Indirect relationship via Citileasing Sp. z o.o.</b>												
16.	HANDLOWY LEASING S.A.	Warsaw	Leasing, rent and hire purchase of real estate	Subsidiary undertaking	equity accounting	19.08.2003	3,125	10,836	13,961	100.00	100.00	-
<b>2/ Indirect relationship via Handlowy Investments S.A.</b>												
17.	HANDLOWY - INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	equity accounting	05.11.1997	10,112	(6,963)	3,149	19.03	19.03	-
18.	NIF FUND HOLDINGS PCC Ltd.	Guernsey	Investment activity	Associated undertaking	excluded from equity accounting	21.08.1998	19,722	(1,606)	18,116	23.86	23.86	-
<b>3/ Indirect relationship via Handlowy Inwestycje Sp. z o.o.</b>												
19.	CITILEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	equity accounting	19.08.2003	3,125	1,426	4,551	2.53	2.53	-
20.	HANDLOWY HELLER S.A.	Warsaw	Factoring	Joint-venture	equity accounting	07.01.1999	3,558	3,113	6,671	25.00	25.00	-

Re. 1. As of 31.12.2004, the Bank holds indirectly an additional interest in Citileasing Sp. z o.o. via Handlowy Inwestycje Sp. z o.o. - 2.53% of the authorised capital. The total share of the Bank in the entity equals 100 % of the authorised capital.

Re. 6. As of 31.12.2004, the Bank holds indirectly an additional interest in Handlowy Investments II S.a.r.l. via Handlowy Investments S.A. - 19.03% of the authorised capital. The total share of the Bank in the entity equals to 100 % of the authorised capital.

Re. 12. As of 31.12.2004, the Bank holds indirectly an additional interest in Handlowy Heller S.A. - 25% of the authorised capital, through Handlowy Inwestycje Sp.z o.o. The total share of the Bank in the entity equals to 50 % of the authorised capital.

m							n			o			p	r	s	t
Equity:							Liabilities:			Receivables:			total assets	sales	unpaid shares	dividends received or receivable for the prior year
authorised capital	unpaid capital (negative value)	equity reserves	other:	undis-tributed profit (loss) for previous years	net profit (loss)		short term	long term		short term	long term					
(102,895)	20,327	-	5,630	(128,852)	(122,233)	(12,298)	228,023	218,536	9,487	67,502	67,502	-	217,995	98,386	-	-
26,604	292	-	5,457	20,855	17,812	3,043	1,332	1,332	-	28,616	28,616	-	36,649	15,200	-	-
308	670	-	11	(373)	(505)	132	318	318	-	312	312	-	627	4,958	-	-
13,961	3,125	0	626	10,210	0	10,210	760,913	589,252	171,661	770,888	352,814	418,074	782,096	70,723	-	-
18,591	53,138	-	-	(34,547)	(42,745)	1,239	20,401	26	20,375	13	13	-	34,069	-	-	-
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
168,248	123,120	-	28,739	16,389	1,329	4,418	18,188	15,108	3,080	39,883	26,398	13,485	189,510	3,220	-	-
26,685	10,000	-	11,011	5,674	-	5,674	366,813	366,813	-	391,215	391,215	-	398,438	32,681	-	-

• Financial statements

The financial data of individual entities available at the time of preparation of these statements and originating from non-audited financial statements of the respective entities were presented.

## Note 11A

### Minority investments

in PLN thousand	2004	2003
a) in other financial institutions	17,553	18,152
b) in non-financial institutions	10,196	5,481
<b>Total minority investments</b>	<b>27,749</b>	<b>23,633</b>

## Note 11B

### Movements in minority investments

in PLN thousand	2004	2003
opening balance	23,633	23,512
a) increases (in respect of)	37,539	22,674
- purchases	476	14,782
- revaluation	2,685	40
- FX differences	-	12
- reclassification of the undertaking	34,378	-
- takeover for debt	-	7,840
b) decreases (in respect of)	(33,423)	(22,553)
- sale	(3,761)	(7,921)
- revaluation	-	(14,341)
- reclassification of valuation from another group	(29,662)	-
- other	-	(291)
<b>Closing balance of minority investments</b>	<b>27,749</b>	<b>23,633</b>

**Note 11C**

## Shares in other entities

No.	a	b	c	d	e	f	g		h	i
	Name of undertaking (legal form)	Location	Principal activity	Book value of invest- ment	Share capital held %	Votes at the General Meeting %	Shareholders' equity, including: - share capital		Unpaid share of capital	Dividends received or receivable for prior year
1.	POLSKIE TOWARZYSTWO REASEKURACYJNE S.A.	Warsaw	Reinsurance	12,809	11.88	11.88	119,736	105,180	-	250
2.	ELEKTROMONTAŻ S.A.	Poznań	Construction and assembly services	4,715	19.88	19.88	55,351	54,082	-	-
3.	WSCHODNI BANK CUKROWNICTWA SA	Lublin	Banking	4,386	7.38	7.39	178,779	200,191	-	-
4.	GÓRNOŚLĄSKIE TOWARZYSTWO LOTNICZE SA	Katowice	Aviation	4,105	4.90	4.90	87,254	83,845	-	-
5.	BIURO INFORMACJI KREDYTOWEJ S.A.	Warsaw	Creditworthiness information agency	1,026	12.54	12.54	22,846	15,550	-	-
6.	STALEXPORT S.A.	Katowice	Sale and distribution of steelwork products	344	1.73	1.73	(28,970)	215,524	-	-
7.	KIR S.A.	Warsaw	Interbank settlements	313	5.74	5.74	92,502	5,445	-	750
8.	MTS-CeTO S.A.	Warsaw	Over-the-counter stock exchange	31	3.39	3.39	6,079	10,000	-	-
9.	GPW S.A.	Warsaw	Stock exchange	14	0.05	0.05	383,685	41,979	-	-
10.	BIURO CENTRUM Sp. z o.o.	Katowice	Office building administration	6	7.63	7.63	153	80	-	-
11.	POLANIA Sp. z o.o. (in bankruptcy)	Gniezno	Leather and footwear industry	-	6.06	6.06	-	-	-	-
12.	PIA PIASECKI S.A. (in bankruptcy)	Kielce	Construction services	-	19.12	19.12	-	-	-	-

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Presented financial data of the entities as of the date of preparation of the financial statements are taken from the unaudited financial statements of these entities.

## Note 12A

### Other securities and other financial assets (by type)

in PLN thousand	2004	2003
a) pre-emptive rights	-	-
b) derivative rights	-	-
c) other (by type)	4,105,123	3,624,895
- amounts receivable arising from valuation of transactions in derivative instruments	4,105,123	3,624,895
<b>Total securities, shares and other financial assets</b>	<b>4,105,123</b>	<b>3,624,895</b>

## Note 12B

### Movements in other securities and other financial assets

in PLN thousand	2004	2003
Opening balance	3,624,895	4,527,450
a) increases (in respect of)	480,228	-
- revaluation	480,228	
b) decreases (in respect of)	-	(902,555)
- sale		(4,000)
- revaluation		(898,555)
<b>Closing balance</b>	<b>4,105,123</b>	<b>3,624,895</b>

## Note 12C

### Securities, shares and other financial assets (by currency)

in PLN thousand	unit	currency	2004	2003
a. in PLN			4,094,654	3,607,076
b. in foreign currencies (in currency and converted into PLN)			10,469	17,819
b1. in currency	thousand	EUR	1,117	1,213
converted into PLN			4,557	5,722
b2. in currency	thousand	USD	1,977	3,234
converted into PLN			5,911	12,097
other currencies			1	-
<b>Total securities, shares and other financial assets</b>			<b>4,105,123</b>	<b>3,624,895</b>

**Note 13A**

## Financial assets

in PLN thousand	2004	2003
a) financial assets in trading portfolio	5,316,963	4,743,692
b) loans and own receivables not intended for sale	18,495,262	22,262,468
c) financial assets held until maturity	–	70,159
d) financial assets available for sale	6,526,478	3,103,033
e) cash	841,114	1,186,514
<b>Financial assets, total</b>	<b>31,179,817</b>	<b>31,365,866</b>

**Note 13B**

## Financial assets (by currency)

in PLN thousand	unit	currency	2004	2003
a. in PLN			23,065,975	19,648,823
b. in foreign currencies (in currency and converted into PLN)			9,846,290	13,338,029
b1. in currency	thousand	EUR	756,814	938,747
converted into PLN			3,087,046	4,428,071
b2. in currency	thousand	USD	1,952,677	1,957,969
converted into PLN			5,839,286	7,323,783
other currencies			919,958	1,586,175
<b>Total financial assets</b>			<b>32,912,265</b>	<b>32,986,852</b>

**Note 13C**

## Financial assets in trading portfolio (by negotiability)

in PLN thousand	2004	2003
A. negotiable and quoted on the Stock Exchange (book value)	841,458	444,182
a) shares (book value):	–	–
- fair value		
- market value		
- value at cost		
b) bonds (book value):	841,458	444,182
- fair value	841,458	444,182
- market value	841,458	444,182
- value at cost	834,851	434,678
c) other - by type (book value)	–	–
B. negotiable and quoted on the OTC market (book value)	–	–
a) shares (book value):		
- fair value		
- market value		
- value at cost		
b) bonds (book value):		
- fair value		
- market value		
- value at cost		
c) other - by type (book value)		

Financial assets in trading portfolio (by negotiability) - cont.

in PLN thousand	2004	2003
C. negotiable and non-quoted on the Stock Exchange or OTC market (book value)	18,740	36,042
a) shares (book value):	-	-
- fair value		
- market value		
- value at cost		32,348
b) bonds (book value):		32,348
- fair value		-
- market value		32,661
- value at cost		
c) other - by type (book value)	18,740	3,694
c1) treasury bills ( book value):	18,740	3,694
- fair value	18,740	3,694
- market value	-	-
- value at cost	18,678	3,684
D. Non-negotiable securities (book value)	4,456,765	4,263,468
a) shares (book value):	-	-
- fair value		
- market value		
- value at cost		
b) bonds (book value):	343,122	616,332
- fair value	343,122	616,332
- market value	-	-
- value at cost	342,163	614,228

in PLN thousand	2004	2003
c) other - by type (book value)	4,113,643	3,647,136
c1) certificates of deposit (book value)	8,520	22,241
- fair value	8,520	22,241
- market value	-	-
- value at cost	8,464	22,126
c2) assets arising from valuation of financial instruments (book value)	4,105,123	3,624,895
- fair value	4,105,123	3,624,895
- market value	4,105,123	3,624,895
- value at cost		-
<b>Total value at cost*</b>	<b>1,204,156</b>	<b>1,107,377</b>
<b>Total opening balance</b>	<b>4,561,580</b>	<b>6,241,704</b>
<b>Total valuation adjustments*</b>	<b>7,683</b>	<b>11,421</b>
<b>Total book value</b>	<b>5,316,963</b>	<b>4,743,692</b>

\*/ Value at cost and valuation adjustments are related to securities.



**Note 13D****Financial assets held until maturity (by maturity)**

in PLN thousand	2004	2003
A. negotiable and quoted on the Stock Exchange (book value)	-	-
a) bonds (book value):		
- value adjustments (balance)		
- opening balance for the period		
- value at cost		
b) other - by type (book value)		
B. negotiable and quoted on the OTC market (book value)	-	-
a) bonds (book value):		
- value adjustments (balance)		
- opening balance for the period		
- value at cost		
b) other - by type (book value)		
C. negotiable and non-quoted on the Stock Exchange or OTC market (book value)	-	-
a) bonds (book value):		
- value adjustments (balance)		
- opening balance for the period		
- value at cost		
b) other - by type (book value)		

in PLN thousand	2004	2003
D. Non-negotiable (book value)		70,159
a) bonds (book value):		70,159
- value adjustments (balance)		-
- opening balance for the period		305,707
- value at cost		70,159
b) other - by type (book value)		-
<b>Total value at cost</b>	<b>-</b>	<b>70,159</b>
<b>Opening balance for the period</b>	<b>70,159</b>	<b>305,707</b>
<b>Total valuation adjustments</b>	<b>-</b>	<b>-</b>
<b>Total book value</b>	<b>-</b>	<b>70,159</b>

## Note 13E

### Financial assets available for sale (by type)

in PLN thousand	2004	2003
A. negotiable and quoted on the Stock Exchange (book value)	5,422,221	2,196,519
a) shares (book value):	344	344
- fair value	344	344
- market value	-	-
- value at cost	92,986	132,985
b) bonds (book value):	5,421,877	2,196,175
- fair value		2,196,175
- market value	5,421,877	2,196,175
- value at cost	5,309,984	2,219,423
c) other - by type (book value)	-	-
B. negotiable and quoted on the OTC market (book value)	-	-
a) shares (book value):		
- fair value		
- market value		
- value at cost		
b) bonds (book value):		
- fair value		
- market value		
- value at cost		
c) other - by type (book value)		

in PLN thousand	2004	2003
C. negotiable and non-quoted on the Stock Exchange or OTC market (book value)	669,317	527,296
a) shares (book value):	-	-
- fair value		
- market value		
- value at cost		
b) bonds (book value):	384,287	384,884
- fair value	384,287	384,884
- market value	-	-
- value at cost	366,665	366,665
c) other - by type (book value)	285,030	142,412
c1) treasury bills (book value):	285,030	142,412
- fair value	285,030	142,412
- market value	-	-
- value at cost	274,362	140,927
D. Non-negotiable (book value)	434,940	379,218
a) shares (book value):	434,940	379,218
- fair value	434,940	379,218
- market value	-	-
- value at cost	475,357	468,165
b) bonds (book value):	-	-
- fair value		
- market value		
- value at cost		

in PLN thousand	2004	2003
c) other - by type (book value)	-	-
c1) participation units (book value):		
- fair value		
- market value		
- value at cost		
<b>Total value at cost</b>	<b>6,519,354</b>	<b>3,328,165</b>
<b>Opening balance for the period</b>	<b>3,103,033</b>	<b>3,004,560</b>
<b>Total valuation adjustments</b>	<b>7,124</b>	<b>(225,132)</b>
<b>Total book value</b>	<b>6,526,478</b>	<b>3,103,033</b>

## Note 14A

### Intangible assets

in PLN thousand	2004	2003
a) cost of completed development works	-	-
b) goodwill	1,171,200	1,243,645
c) concessions, patents, licences and similar assets, including:	65,826	51,079
- computer software	65,622	50,749
d) other intangible assets	-	-
e) advances for intangible assets	107	288
<b>Total intangible assets</b>	<b>1,237,133</b>	<b>1,295,012</b>

## Note 14B

### Movements in intangible assets (in assets categories)

	a	b	c		d	e	f
	research and development costs	goodwill	purchased licences, patents, etc., including		other intangible fixed assets	advances for intangible fixed assets	total intangible fixed assets
in PLN thousand				computer software			
a) gross opening balance	-	1,448,907	167,712	166,972	-	288	1,616,907
b) increases (in respect of)		-	37,183	37,183	-	5,907	43,090
- purchase			16,048	16,048			16,048
- capital expenditures						5,907	5,907
- transfer from capital expenditures			21,135	21,135	-		21,135
c) decreases (in respect of)		-	-	-		(6,088)	(6,088)
- settlement of capital expenditures						(5,289)	(5,289)
- other						(799)	(799)
d) gross closing balance	-	1,448,907	204,895	204,155	-	107	1,653,909
e) opening balance of accumulated depreciation	-	205,262	116,633	116,223	-	-	321,895
f) depreciation for the period (in respect of)	-	72,445	22,436	22,310	-	-	94,881
- increases (in respect of)		72,445	22,436	22,310	-	-	94,881
- depreciation charges		72,445	22,436	22,310			94,881
- decreases (in respect of)							-
g) accumulated depreciation at the end of period	-	277,707	139,069	138,533	-	-	416,776
h) charges for permanent diminution in value at the beginning of the period	-	-	-	-	-	-	-
- increases							
- decreases							
i) charges for permanent diminution in value at the end of the period	-	-	-	-	-	-	-
j) net intangible fixed assets at the end of period	-	1,171,200	65,826	65,622	-	107	1,237,133

**Note 14C**

Intangible assets (ownership structure)

in PLN thousand	2004	2003
a) own	1,237,026	1,294,724
b) used under rent, lease or similar agreements	-	-
<b>Total intangible fixed assets</b>	<b>1,237,026</b>	<b>1,294,724</b>

**Note 15A**

Tangible fixed assets

in PLN thousand	2004	2003
Tangible fixed assets		
a) fixed assets, of which:	707,841	745,944
- land (including perpetual usufruct of land)	31,465	43,885
- buildings, premises and civil engineering structures	526,454	537,120
- equipment	-	-
- means of transport	36,254	32,540
- other fixed assets	113,668	132,399
b) assets under construction	3,869	18,201
c) prepayments	-	-
<b>Total tangible fixed assets</b>	<b>711,710</b>	<b>764,145</b>

## Note 15B

### Movements in tangible fixed assets (by asset categories)

in PLN thousand	Land (including perpetual usufruct of land)	Buildings, premises and civil engineering structures	Equipment	Means of transport	Other fixed assets	Total fixed assets
a) opening balance at cost	70,461	689,837	–	56,032	671,315	1,487,645
b) increase (in respect of)	0	19,497		18,161	54,352	92,010
- purchase		2,149			32,327	34,476
- transfer from assets under construction		17,348		18,161	18,957	54,466
- stocktaking					2,269	2,269
- other					799	799
c) decrease (in respect of)	(176)	(13,383)		(12,088)	(64,996)	(90,643)
- sale	(176)			(11 769)	(2,224)	(14,169)
- liquidation		(13,383)			(10,245)	(23,628)
- donation				(81)	(691)	(772)
- stocktaking					(50,751)	(50,751)
- other				(238)	(1,085)	(1,323)
d) closing balance at cost	70,285	695,951	–	62,105	660,671	1,489,012
e) opening balance of accumulated depreciation	26,576	151,264	–	23,492	538,678	740,010
f) depreciation for the period (in respect of)	12,244	16,780		2,359	8,087	39,470
- increase (in respect of)	12,419	26,105		11,254	72,197	121,975
- charge for the period	12,419	26,105		11,254	69,965	119,743
- stocktaking					2,188	2,188
- other					44	44

## Movements in tangible fixed assets (by asset categories) - cont.

in PLN thousand	Land (including perpetual usufruct of land)	Buildings, premises and civil engineering structures	Equipment	Means of transport	Other fixed assets	Total fixed assets
- decrease (in respect of)	(175)	(9,325)	-	(8,895)	(64,110)	(82,505)
- sale	(175)			(8,781)	(2,217)	(11,173)
- liquidation		(9,282)			(9,782)	(19,064)
- donations				(47)	(687)	(734)
- stocktaking					(50,436)	(50,436)
- other		(43)		(67)	(988)	(1,098)
g) accumulated depreciation at the end of period	38,820	168,044		25,851	546,765	779,480
h) charges for permanent diminution in value at the beginning of the period	-	1,453	-	-	238	1,691
- increases						
- decreases						
i) charges for permanent diminution in value at the end of the period	-	1,453	-	-	238	1,691
j) net fixed assets at the end of period	31,465	526,454	-	36,254	113,668	707,841

## Note 15C

### On-balance sheet fixed assets (ownership structure)

in PLN thousand	2004	2003
a) own	707,841	745,873
b) used under rent, lease or similar agreements	-	71
- leasing agreements		71
<b>Total on-balance sheet fixed assets</b>	<b>707,841</b>	<b>745,944</b>

## Note 15D

### Off-balance sheet fixed assets

in PLN thousand	2004	2003
used under rent, lease or similar agreements, of which:		
- perpetual usufruct of land		
<b>Total off-balance sheet fixed assets</b>	<b>-</b>	<b>-</b>

## Note 16A

### Other assets

in PLN thousand	2004	2003
a) Repossessed assets	23,780	21,025
b) Other, of which:	364,567	294,692
- interbank settlements	14,729	18,828
- settlements related to trade in securities	1,468	-
- settlements related to operations on derivative instruments*	220,995	9,689
- accounts receivable	23,554	36,427
- staff loans out of the Social Fund	39,581	45,135
- sundry debtors	64,240	184,613
<b>Total other assets</b>	<b>388,347</b>	<b>315,717</b>

\*/ As of 31 December 2004 settlements of operations on derivative instruments included funds hedging derivative transactions amounting to PLN 215,578 thousand, representing pledges and assignments (31 December 2003: PLN 8,117 thousand).



**Note 16B**

## Repossessed assets

in PLN thousand	2004	2003
a) fixed assets under construction	–	–
b) real estate	23,425	21,024
c) other	355	1
<b>Total repossessed assets</b>	<b>23,780</b>	<b>21,025</b>

**Note 16C**

## Change in repossessed assets

in PLN thousand	2004	2003
Opening balance	21,025	25,677
- real estate	21,024	25,677
- other	1	–
a) increases (in respect of)	2,756	1
- transfer of a disputed claim	2,756	1
b) decreases (in respect of)	(1)	(4,653)
- write-downs for permanent impairment	–	(4,653)
- sale	(1)	–
Closing balance	23,780	21,025
- real estate	23,425	21,024
- other	355	1

**Note 17A**

## Prepayments

in PLN thousand	2004	2003
a. Long term	217,678	218,563
- deferred tax asset	217,678	218,563
- other accruals	–	–
b. Short term, including	81,741	61,993
- other accruals	81,741	61,993
<b>Total prepayments</b>	<b>299,419</b>	<b>280,556</b>

## Note 17B

### Change in assets in respect of deferred corporate income tax\*

in PLN thousand	2004	2003
1. Opening balance	218,563	329,318
a) recognised in financial results	205,716	326,170
b) recognised in shareholders' equity	12,847	3,148
c) recognised in goodwill or negative goodwill	-	-
1a. Adjustment resulting from the change in accounting principles adopted, concerning the recording of repurchase transactions on securities - recognised under current charge to profit (loss)	-	2,739
1b. Adjustment resulting from the change in accounting principles adopted, concerning the recording of repurchase transactions on securities - recognised under charge to profit (loss) from previous years	-	1,273
1c. Adjustment resulting from the change in accounting principles adopted, concerning the recording of repurchase transactions on securities - recognised under revaluation capital	-	(3,983)
1d. Opening balance after reconciliation to comparable data	218,563	329,347
2. Increases	27,069	49,540
a) recognised in financial results of the period and resulting from positive or negative temporary differences	15,579	19,465
- provisions and permanent loss of share value	12,224	-
- accrued interest	686	-
- settlement of tax allowance for investments	1,070	2,198
- valuation of financial instruments and securities	1,599	10,146
- payable expenses	-	-
- income collected in advance	-	7,121
- other	-	-
b) recognised in the financial result and resulting from equity-accounting valuation of shares	-	-
c) carried over from retained profit (loss) to reserve capital, without effect on current result	-	8,833
d) recognised in shareholders' equity and resulting from negative temporary differences	-	-
e) recognised in the equity and resulting from tax loss	-	-
f) recognised in goodwill or negative goodwill and resulting from negative temporary differences	-	-
g) recognised in shareholders' equity and resulting from decreases of positive temporary differences on securities valuation, including repurchase transactions on securities	425	19,692

<b>in PLN thousand</b>	<b>2004</b>	<b>2003</b>
h) recognised in charge to profit (loss) from previous years arising from changes in the recording of repurchase transactions on securities	11,065	1,550
<b>3. Decreases</b>	<b>(27,953)</b>	<b>(160,324)</b>
a) recognised in the financial result for the period and resulting from positive and negative temporary differences	(1,208)	(146,107)
- valuation of financial instruments and securities	-	-
- accrued interest	-	(24,382)
- accrued expenses	-	(622)
- accrued income	(856)	-
- provisions and permanent loss of share value	-	(71,357)
- changes of tax rate from 27% in 2003 to 19% in 2004	-	(49,746)
- other	(352)	-
b) recognised in financial results of the period and resulting from tax loss	-	-
c) recognised in shareholders' equity and resulting from negative temporary differences	-	-
d) recognised in shareholders' equity and resulting from tax loss	-	-
e) recognised in goodwill or negative goodwill and resulting from negative temporary differences	-	-
f) recognised in financial results of the period and resulting from tax on current equity accounting of investments	(18,495)	(5,384)
g) recognised in liabilities from income tax	-	-
h) recognised in shareholders' equity and resulting from decreases of positive temporary differences on securities valuation	(8,250)	-
i) retained profit (loss) recognised in reserve capital, without effect on current result	-	(8,833)
j) recognised in charge to profit (loss) from previous years arising from changes in the recording of repurchase transactions on securities	-	-
<b>4. Closing balance, including</b>	<b>217,678</b>	<b>218,563</b>
<b>a) recognised in current financial result</b>	<b>212,657</b>	<b>205,716</b>
<b>b) recognised in revaluation capital</b>	<b>2,198</b>	<b>10,024</b>
<b>c) recognised in profit (loss) from previous years</b>	<b>2,823</b>	<b>2,823</b>
<b>c) recognised in goodwill or negative goodwill</b>	<b>-</b>	<b>-</b>
<b>d) recognised in liabilities from income tax</b>	<b>-</b>	<b>-</b>

\*/ Positive and negative temporary differences adopted for the calculation of deferred income tax are presented jointly in this note.

## Note 17C

### Other prepayments

in PLN thousand	2004	2003
a) prepayments, of which:	81,741	61,993
- interest paid in advance	-	802
- other prepaid expenses	81,741	61,191
b) other prepayments, of which:	-	-
<b>Total prepayments</b>	<b>81,741</b>	<b>61,993</b>

## Note 18

### Subordinated loans

a Name of undertaking	b Amount			c Interest terms	d Maturity
	in PLN '000	in currency	unit currency		
1. Handlowy Investments S.A.	38,174		thousand PLN	WIBOR 3M PLN +1% p.a.	30.09.2005
2. Handlowy Investments S.A.	33,210		thousand PLN	WIBOR 3M PLN +1% p.a.	30.09.2005
3. Handlowy Investments S.A.	25,308		thousand PLN	WIBOR 3M PLN +1% p.a.	30.09.2005
4. Handlowy Investments II S.a.r.l	16,168		thousand PLN	WIBOR 3M PLN +1% p.a.	30.09.2005
<b>Total subordinated loans</b>	<b>112,860</b>				
Interest receivable	39,255				
<b>Total subordinated loans gross</b>	<b>152,115</b>				
Provision	(34,158)				
<b>Total subordinated loans net</b>	<b>117,957</b>				

**Note 19**

Charges/adjustments of (net) revaluation charges for permanent diminution in financial asset value

in PLN thousand	2004	2003
<b>Recognised in profit and loss account</b>	<b>68,598</b>	<b>7,514</b>
1. Investments in subsidiaries, investments in other entities		
- (net) charges for permanent diminution in value	-	-
- adjustments (net) for permanent diminution in value	66,057	8,981
2. Trading debt securities		
- (net) charges for permanent diminution in value	-	(1,467)
- adjustments (net) for permanent diminution in value	2,541	-
<b>Recognised in shareholders' equity - revaluation capital*</b>	<b>33,359</b>	<b>(58,105)</b>
1. Debt securities available for sale		
- (net) charges for permanent diminution in value	-	(68,876)
- adjustments (net) for permanent diminution in value	33,359	-
- positive (net) valuation as of 1 January 2003 (change in accounting principles adopted)	-	10,771
<b>Total charges/adjustments of (net) revaluation charges for permanent diminution in financial asset value</b>	<b>101,957</b>	<b>(50,591)</b>

\*/ taking into account the tax effect of valuation

**Note 20A**

Due to financial sector (by type)

in PLN thousand	2004	2003
a) Current accounts and deposits	3,814,668	3,233,270
- deposits of banks and other financial institutions	3,093,183	2,177,593
b) Loans and borrowings	446,825	545,332
c) Bills of exchange	-	-
d) Securities issues	-	-
e) Other liabilities (in respect of)	24,403	27,401
- liabilities in the course of settlement	21,033	16,186
- cash collaterals	3,370	11,215
f) interest	18,698	20,079
<b>Total due to financial sector</b>	<b>4,304,594</b>	<b>3,826,082</b>

## Note 20B

Due to financial sector (by time to maturity)

in PLN thousand	2004	2003
a) Current	3,039,901	2,343,320
b) Term, with maturity from balance sheet date:	1,245,995	1,462,683
- up to 1 month	504,373	312,388
- 1 month - 3 months	65,090	46,129
- 3 months - 1 year	562,357	564,864
- 1 year - 5 years	93,700	494,190
- 5 years - 10 years	20,475	45,112
- 10 years - 20 years	-	-
- over 20 years	-	-
- matured before balance sheet date	-	-
c) Interest	18,698	20,079
<b>Total due to financial sector</b>	<b>4,304,594</b>	<b>3,826,082</b>

## Note 20C

Due to financial sector (by contractual maturity)

in PLN thousand	2004	2003
a) Current	3,039,901	2,343,320
b) Term, with maturity from balance sheet date:	1,245,995	1,462,683
- up to 1 month	232,399	204,265
- 1 month - 3 months	64,354	104,272
- 3 months - 1 year	487,994	153,517
- 1 year - 5 years	119,280	571,404
- 5 years - 10 years	336,274	421,762
- 10 years - 20 years	-	-
- over 20 years	5,694	7,463
- matured before balance sheet date	-	-
c) Interest	18,698	20,079
<b>Total due to financial sector</b>	<b>4,304,594</b>	<b>3,826,082</b>

**Note 20D**

Due to financial sector (by currency)

in PLN thousand	unit	currency	2004	2003
a. in PLN			3,424,887	2,917,049
b. in foreign currencies (in currency and converted into PLN)			879,707	909,033
b1. in currency	thousand	EUR	131,861	115,787
converted into PLN			537,861	546,168
b2. in currency	thousand	USD	80,860	86,223
converted into PLN			241,803	322,517
other currencies			100,043	40,348
<b>Total due to financial sector</b>			<b>4,304,594</b>	<b>3,826,082</b>

Interest on liabilities due to financial sector was included in the Balance Sheet in term liabilities.

**Note 21A**

Due to non-financial sector (by type)

in PLN thousand	2004	2003
a) Current accounts and deposits	16,322,099	17,569,386
b) Loans and borrowings	-	-
c) Issued bills of exchange	-	-
d) Issue of securities	-	-
e) Other liabilities	369,039	406,668
- liabilities in the course of settlement	27,510	35,126
- cash collaterals	341,529	371,542
f) Interest	38,520	63,206
<b>Total due to non-financial sector</b>	<b>16,729,658</b>	<b>18,039,260</b>

**Note 21B**

Due to non-financial sector - saving accounts (by time to maturity)

in PLN thousand	2004	2003
a) current		
b) term, with maturity from balance sheet date:		
- up to 1 month		
- 1 month - 3 months		
- 3 months - 1 year		
- 1 year - 5 years		
- 5 years - 10 years		
- 10 years - 20 years		
- over 20 years		
- matured before balance sheet date		
c) interest		
<b>Total due to non-financial sector - savings accounts</b>	<b>-</b>	<b>-</b>

## Note 21C

Due to non-financial sector - savings accounts  
(by contractual maturity)

in PLN thousand	2004	2003
a) current		
b) term, with maturity from balance sheet date:		
- up to 1 month		
- 1 month - 3 months		
- 3 months - 1 year		
- 1 year - 5 years		
- 5 years - 10 years		
- 10 years - 20 years		
- over 20 years		
- matured before balance sheet date		
c) interest		
<b>Total due to non-financial sector - savings accounts</b>	<b>-</b>	<b>-</b>

## Note 21D

Due to non-financial sector - other (by time to maturity)

in PLN thousand	2004	2003
a) current	8,422,514	8,877,277
b) term, with maturity from balance sheet date:	8,268,624	9,098,777
- up to 1 month	5,052,910	5,229,253
- 1 month - 3 months	1,828,860	1,649,915
- 3 months - 1 year	983,012	1,540,772
- 1 year - 5 years	403,684	678,743
- 5 years - 10 years	158	94
- 10 years - 20 years	-	-
- over 20 years	-	-
- matured before balance sheet date	-	-
c) interest	38,520	63,206
<b>Total due to non-financial sector - other</b>	<b>16,729,658</b>	<b>18,039,260</b>



**Note 21E**

Due to non-financial sector - other (by contractual maturity)

in PLN thousand	2004	2003
a) current	8,422,514	8,877,277
b) term, with maturity from balance sheet date:	8,268,624	9,098,777
- up to 1 month	3,951,497	4,166,019
- 1 month - 3 months	2,066,746	1,823,583
- 3 months - 1 year	1,637,496	1,957,901
- 1 year - 5 years	612,662	1,149,419
- 5 years - 10 years	223	325
- 10 years - 20 years	-	-
- over 20 years	-	1,530
- matured before balance sheet date	-	-
c) interest	38,520	63,206
<b>Total due to non-financial sector - other</b>	<b>16,729,658</b>	<b>18,039,260</b>

**Note 21F**

Due to non-financial sector (by currency)

in PLN thousand	unit	currency	2004	2003
a. in PLN			12,104,204	13,030,206
b. in foreign currencies (in currency and converted into PLN)			4,625,454	5,009,054
b1. in currency	thousand	EUR	487,150	408,593
converted into PLN			1,987,086	1,927,331
b2. in currency	thousand	USD	783,044	708,424
converted into PLN			2,341,615	2,649,860
other currencies			296,753	431,863
<b>Total due to non-financial sector</b>			<b>16,729,658</b>	<b>18,039,260</b>

Interest on liabilities due to non-financial sector was included in the Balance Sheet in term liabilities.

## Note 22A

Due to public sector (by type)

in PLN thousand	2004	2003
a) Current accounts and deposits	531,002	464,655
b) Loans and borrowings	-	-
c) Issued bills of exchange	-	-
d) Issue of securities	-	-
e) Other liabilities	211	146
- liabilities in the course of settlement	-	2
- cash collaterals	211	144
f) Interest	304	344
<b>Total due to public sector</b>	<b>531,517</b>	<b>465,145</b>

## Note 22B

Due to public sector - saving accounts (by time to maturity)

in PLN thousand	2004	2003
a) current		
b) term, with maturity from balance sheet date:		
- up to 1 month		
- 1 month - 3 months		
- 3 months - 1 year		
- 1 year - 5 years		
- 5 years - 10 years		
- 10 years - 20 years		
- over 20 years		
- matured before balance sheet date		
c) interest		
<b>Total due to public sector - savings accounts</b>	<b>-</b>	<b>-</b>

**Note 22C**

Due to public sector - savings accounts (by contractual maturity)

in PLN thousand	2004	2003
a) current		
b) term, with maturity from balance sheet date:		
- up to 1 month		
- 1 month - 3 months		
- 3 months - 1 year		
- 1 year - 5 years		
- 5 years - 10 years		
- 10 years - 20 years		
- over 20 years		
- matured before balance sheet date		
c) interest		
<b>Total due to public sector - savings accounts</b>	<b>-</b>	<b>-</b>

**Note 22D**

Due to public sector - other (by time to maturity)

in PLN thousand	2004	2003
a) current	338,869	304,107
b) term, with maturity from balance sheet date:		
- up to 1 month	145,967	110,155
- 1 month - 3 months	16,349	22,640
- 3 months - 1 year	29,950	27,877
- 1 year - 5 years	78	22
- 5 years - 10 years		-
- 10 years - 20 years	-	-
- over 20 years	-	-
- matured before balance sheet date	-	-
c) interest	304	344
<b>Total due to public sector - other</b>	<b>531,517</b>	<b>465,145</b>

## Note 22E

Due to public sector - other (by contractual maturity)

in PLN thousand	2004	2003
a) current	338,869	304,107
b) term, with maturity from balance sheet date:	192,344	160,694
- up to 1 month	125,802	90,631
- 1 month - 3 months	32,913	25,292
- 3 months - 1 year	33,510	43,865
- 1 year - 5 years	118	906
- 5 years - 10 years	1	-
- 10 years - 20 years	-	-
- over 20 years	-	-
- matured before balance sheet date	-	-
c) interest	304	344
<b>Total due to public sector - other</b>	<b>531,517</b>	<b>465,145</b>

## Note 22F

Due to public sector (by currency structure)

in PLN thousand	unit	currency	2004	2003
a. in PLN			460,971	399,100
b. in foreign currencies (in currency and converted into PLN)			70,546	66,045
b1. in currency	thousand	EUR	13,471	8,201
converted into PLN			54,950	38,686
b2. in currency	thousand	USD	5,149	7,314
converted into PLN			15,398	27,359
other currencies			198	-
<b>Total due to public sector</b>			<b>531,517</b>	<b>465,145</b>

Interest on liabilities due to public sector was included in the Balance Sheet in term liabilities.

## Note 23

Liabilities in respect of securities subject to sale and repurchase agreements

in PLN thousand	2004	2003
a) financial institutions	239,490	297,711
b) non-financial sector and Budgets	168,871	172,797
c) interest	198	295
<b>Liabilities in respect of securities subject to sale and repurchase agreements</b>	<b>408,559</b>	<b>470,803</b>

**Note 24A**

## Securities issued

in PLN thousand	2004	2003
a) bonds		
b) certificates of deposit		
c) other		
d) interest		
<b>Total securities issued</b>	-	-

**Note 24B**

## Movements in securities issued

in PLN thousand	2004	2003
Opening balance	-	-
a) increases		
b) decreases		
<b>Closing balance</b>	-	-

**Note 24C**

## Long term liabilities arising from debt securities issued

a	b	c	d	e	f	g	h
debt securities by type	nominal value	interest terms	maturity	collateral	additional rights	organised secondary market	other

**Liabilities secured by assets**

The liabilities arising from deposits accepted, presented in Note 23 and arising from reverse repo transactions on securities, were secured by debt securities. The type and value of debt securities representing the security of these liabilities are presented in information under Note 6C.

## Note 25

### Special funds and other payables

in PLN thousand	2004	2003
a) special funds (in respect of)	67,609	80,208
- staff benefits	67,609	80,208
b) other liabilities, of which:	209,976	141,912
- interbank settlements	65,804	37,753
- interbranch settlements	128	1,398
- settlements related to operations on derivative instruments	230	-
- settlements with Tax Office and National Insurance (ZUS)	28,935	5,175
- sundry creditors	114,879	97,586
<b>Total special funds and other payables</b>	<b>277,585</b>	<b>222,120</b>

## Note 26A

### Accruals and deferred income

in PLN thousand	2004	2003
a) short term, including:	131,793	96,470
- provision for employee payments	90,772	73,597
- accrued expenses on restructuring, of which:	7,627	7,221
- personnel	6,307	-
- premises	1,320	7,221
- other	33,394	15,652
b) long term, including:	26,956	25,000
- provision for employees retirement and jubilee payments	26,956	25,000
<b>Total accruals and deferred income</b>	<b>158,749</b>	<b>121,470</b>

## Note 26B

### Change in negative goodwill

in PLN thousand	2004	2003
Opening balance		
a) increases		
b) decreases		
<b>Closing balance</b>	<b>-</b>	<b>-</b>

## Note 26C

### Other accruals and deferred income

in PLN thousand	2004	2003
a) short term, including:	309,834	249,906
- deferred income	113,342	77,692
- interest received in advance	2,420	5,897
- commission received in advance	57,191	16,964
- other income received in advance	53,731	54,831
- income in suspense (of which)	196,492	172,214
- interest in suspense	166,653	98,153
- other income to settle	15,838	49,089
- capitalised interest	14,001	24,972
b) long term, including:	534,926	546,829
- interest in suspense	534,926	546,829
<b>Total other accruals and deferred income</b>	<b>844,760</b>	<b>796,735</b>

**Note 27A**

## Change in accruals in respect of deferred corporate income tax

in PLN thousand	2004	2003
1. Opening balance, in this:	-	-
a) recognised in financial results		
b) recognised in shareholders' equity		
c) recognised in goodwill or negative goodwill		
2. Increases		
a) recognised in financial results of the period and resulting from positive temporary differences (in respect of)		
b) recognised in shareholders' equity and resulting from positive temporary differences (in respect of)		
c) recognised in goodwill or negative goodwill and resulting from positive temporary differences (in respect of)		
3. Decreases		
a) recognised in financial results of the period and resulting from positive temporary differences (in respect of)		
b) recognised in shareholders' equity and resulting from positive temporary differences (in respect of)		
c) recognised in goodwill or negative goodwill and resulting from positive temporary differences (in respect of)		
<b>Closing balance, including</b>	<b>-</b>	<b>-</b>
<b>a) recognised in financial results</b>		
<b>b) recognised in shareholders' equity</b>		
<b>c) recognised in goodwill or negative goodwill</b>		

Note 17B presents in total net positive and negative temporary differences adopted for the calculation of the deferred income tax.

**Note 27B**

## Reserve for deferred income tax (currency structure)

in PLN thousand	unit	currency	2004	2003
a. in PLN				
b. in foreign currencies (in currency and converted into PLN)				
b1. in currency				
converted into PLN				
other currencies				
<b>Total reserve for deferred income tax</b>			<b>-</b>	<b>-</b>

**Note 27C**

## Other provisions (by type), of which

in PLN thousand	2004	2003
- off-balance sheet contingent liabilities	39,352	145,019
- general risk	164,000	300,000
- other	13,365	2,312
<b>Total other provisions</b>	<b>216,717</b>	<b>447,331</b>

## Note 27D

### Other provisions

in PLN thousand	2004	2003
a) short term (by type)	29,353	96,558
- off-balance sheet commitments	15,988	94,246
- other	13,365	2,312
b) long term (by type)	187,364	350,773
- off-balance sheet commitments	23,364	50,773
- general risk	164,000	300,000
<b>Total other provisions</b>	<b>216,717</b>	<b>447,331</b>

## Note 27E

### Other provisions (currency structure)

in PLN thousand	unit	currency	2004	2003
a. in PLN			199,200	403,683
b. in foreign currencies (in currency and converted into PLN)			17,517	43,648
b1. in currency	thousand	EUR	2,367	4,682
converted into PLN			9,654	22,085
b2. in currency	thousand	USD	2,263	5,272
converted into PLN			6,768	19,720
other currencies			1,095	1,843
<b>Total other provisions</b>			<b>216,717</b>	<b>447,331</b>

## Note 27F

### Movements in other short term provisions

in PLN thousand	2004	2003
Opening balance (by type)	96,558	52,419
- off-balance sheet commitments	94,246	52,331
- other	2,312	88
a) increases	119,091	213,313
- charges to provisions for off-balance sheet commitments	104,468	210,642
- charges to provisions for future liabilities	14,623	2,671
b) utilisation	(1,207)	-
- charge to provisions	(1,207)	-
c) release	(185,089)	(169,174)
- release of provisions for off-balance sheet commitments	(182,726)	(168,727)
- release of provisions for future liabilities	(2,363)	(447)
Closing balance (by type)	29,353	96,558
- off-balance sheet commitments	15,988	94,246
- other	13,365	2,312
<b>Total closing balance</b>	<b>29,353</b>	<b>96,558</b>



**Note 27G**

## Movements in other long term provisions

in PLN thousand	2004	2003
Opening balance (by type)	350,773	392,976
- off-balance sheet commitments	50,773	92,976
- general risk	300,000	300,000
a) increases	81,540	86,455
- transfer to provisions for off-balance sheet commitments	81,540	86,455
b) utilisation	-	-
c) release	(244,949)	(128,658)
- release of provisions for off-balance sheet commitments	(108,949)	(127,058)
- release of provisions for general risk	(136,000)	-
- reclassifications	-	(1,600)
Closing balance (by type)	187,364	350,773
- off-balance sheet commitments	23,364	50,773
- general risk	164,000	300,000
<b>Total closing balance</b>	<b>187,364</b>	<b>350,773</b>

**Note 28B**

## Movements in subordinated debt

in PLN thousand	2004	2003
Opening balance		
a) increases (in respect of)		
b) decreases (in respect of)		
<b>Closing balance</b>	<b>-</b>	<b>-</b>

**Note 28A**

## Subordinated debt

a	b		c	d	e	f
Name of undertaking	Loan value (principal)		Interest terms	Maturity	Outstanding balance	Interest
	currency	PLN '000				

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## Note 29

### Share capital (structure)

Series/ issue	Type of shares	Type of preference	Type of limitation	Number of shares	Par value of series/ issue	Method of payment	Date of registration	Eligibility for dividends (from date)
A	bearer shares	ordinary shares	–	65,000,000	260,000	paid in	27.03.97	01.01.97
B	bearer shares	ordinary shares	–	1,120,000	4,480	paid in	27.10.98	01.01.97
B	bearer shares	ordinary shares	–	1,557,500	6,230	paid in	25.06.99	01.01.97
B	bearer shares	ordinary shares	–	2,240,000	8,960	paid in	16.11.99	01.01.97
B	bearer shares	ordinary shares	–	17,648,500	70,594	paid in	24.05.02	01.01.97
B	bearer shares	ordinary shares	–	5,434,000	21,736	paid in	16.06.03	01.01.97
C	bearer shares	ordinary shares	–	37,659,600	150,638	transfer of CPSA assets to Bank	28.02.01	01.01.00
<b>Total number of shares</b>				<b>130,659,600</b>				
<b>Total share capital</b>					<b>522,638</b>			
<b>Par value of 1 share = PLN 4.00</b>								

#### Changes in authorised share capital

As of 31 December 2004 and 31 December 2003, the Bank's authorised share capital amounted to PLN 522,638,400 and was divided into 130,659,600 ordinary bearer shares with the par value of PLN 4 each.

Between 31 December 2003 and 31 December 2004, the structure of ownership of considerable shareholdings changed. This change

resulted from the sale by Citibank Overseas Investment Corporation (COIC), a subsidiary of Citibank N.A., to International Finance Associates B.V. based in Amsterdam, a subsidiary of COIC, 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%.

### List of shareholders

The table below presents the shareholders holding as of 31 December 2004 at least 5% of the total number of votes at the General Meeting of Shareholders or at least 5% of the Bank's authorised share capital.

The item "Other shareholders" includes the pooled data of shareholders with shareholdings which give them the right to less than 5% votes at the General Meeting of Shareholders.

	Value of shares (in PLN thousand)	Number of shares	Shares in %	Number of votes at General Meeting	% of votes at General Meeting
Citibank Overseas Investment Corporation, USA	391,979	97,994,700	75.0	97,994,700	75.0
International Finance Associates, USA	74,891	18,722,874	14.3	18,722,874	14.3
Other shareholders	55,768	13,942,026	10.7	13,942,026	10.7
<b>Total</b>	<b>522,638</b>	<b>130, 659,600</b>	<b>100.0</b>	<b>130,659,600</b>	<b>100.0</b>

The Bank did not issue any privileged shares.

### Note 30A

Issuer own shares (treasury stock)

a	b	c	d	e
number of shares	value at cost	B/S value	purpose of acquisition	destination

### Note 30B

Issuer's shares owned by subordinated undertakings

a	b	c	d
name of undertaking	number of shares	value at cost	book value

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## Note 31

### Equity reserves

in PLN thousand	2004	2003
a) from sale of shares above par value	-	-
b) mandatory reserve	166,967	166,967
c) statutory reserves	2,877,618	2,877,618
d) contribution of shareholders	-	-
e) other (by type)	-	-
<b>Total equity reserves</b>	<b>3,044,585</b>	<b>3,044,585</b>

## Note 32

### Revaluation reserve

in PLN thousand	2004	2003
a) revaluation of fixed assets	29,021	29,520
b) deferred tax	2,198	1,773
c) FX differences arising from translation of foreign branches	-	-
d) other (by type)	(11,568)	(44,505)
- revaluation of financial assets	(11,568)	(44,505)
<b>Total revaluation reserve</b>	<b>19,651</b>	<b>(13,212)</b>

## Note 33

### Other reserves (by purpose), including:

in PLN thousand	2004	2003
- General banking risk fund	390,000	390,000
- Equity reserves	1,726,561	1,725,273
<b>Total other reserves</b>	<b>2,116,561</b>	<b>2,115,273</b>

## Note 34

### Data necessary for the calculation of the capital adequacy ratio

The capital adequacy ratio 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).

in PLN thousand	31.12.2004	31.12.2003*
Total capital requirement	1,670,944	2,289,828
Own funds, including:	4,029,954	4,590,465
Basic funds (with decreases)	4,481,787	4,905,489
Supplementary funds	29,021	29,520
Decreases of sum of basic and supplementary funds	480,854	344,544
<b>Capital adequacy ratio</b>	<b>19.29</b>	<b>16.04</b>

\*/ Due to inessential impact the data presented do not take into account the effect of change in the applied accounting principles introduced in 2004 (see: Notes 32 and 33).

**Note 35**

Data for calculation of book value per share

in PLN thousand	2004	2003
Shareholders' equity (Tier I)	5,683,784	5,682,496
Share capital	522,638	522,638
Equity reserves	3,044,585	3,044,585
General reserve	1,726,561	1,725,273
General banking risk fund	390,000	390,000
Other equity (Tier II)	19,651	(13,212)
Revaluation reserve	19,651	(13,212)
Profit (loss) for previous years (adjusted)	35,136	(10,847)
Net profit	414,214	288,493
Book value	6,152,785	5,946,930
Number of shares	130,659,600	130,659,600
<b>Book value per share (in PLN)</b>	<b>47.09</b>	<b>45.51</b>
Diluted number of shares	-	-
<b>Diluted book value per share (in PLN)</b>	<b>-</b>	<b>-</b>

**Note 36**

Off-balance sheet commitments granted to related parties

in PLN thousand	2004	2003
a) guarantees granted	1,847	60,987
- subsidiary undertakings	1,500	1,500
- joint ventures	347	347
- associated undertakings	-	59,140
- material investor	-	-
- parent entity	-	-
b) other	132,272	134,837
- import L/Cs	545	4,620
- subsidiary undertakings	545	4,620
- joint ventures	-	-
- associated undertakings	-	-
- material investor	-	-
- parent entity	-	-
- credit lines granted	131,727	130,217
- subsidiary undertakings	57,911	90,056
- joint ventures	73,816	38,503
- associated undertakings	-	1,658
- material investor	-	-
- parent entity	-	-
<b>Total off-balance sheet commitments granted to related parties</b>	<b>134,119</b>	<b>195,824</b>

## Note 37

### Off-balance sheet commitments received from related parties

in PLN thousand	2004	2003
a) guarantees granted		13,484
- subsidiary undertakings		-
- joint ventures		748
- associated undertakings		12,736
- material investor		-
- parent entity		-
b) other		-
<b>Total off-balance sheet commitments received to related parties</b>	<b>-</b>	<b>13,484</b>

## NOTES TO THE PROFIT AND LOSS STATEMENT

### Note 38

#### Interest income

in PLN thousand	2004	2003
a) from financial sector	216,302	125,001
b) from non-financial sector	929,255	981,912
c) from budget sector	3,663	4,794
d) from fixed-income securities	503,941	274,594
e) other	-	-
<b>Total interest income</b>	<b>1,653,161</b>	<b>1,386,301</b>

### Note 39

#### Interest expense

in PLN thousand	2004	2003
a) from financial sector	227,487	138,842
b) from non-financial sector	503,225	476,225
c) from budget sector	23,180	22,407
d) other	-	-
<b>Total interest expense</b>	<b>753,892</b>	<b>637,474</b>

### Note 40

#### Fee and commission income

in PLN thousand	2004	2003
a) fee and commissions income from banking operations	655,854	570,945
b) fee and commission income from brokerage activities	-	-
<b>Total fee and commissions income</b>	<b>655,854</b>	<b>570,945</b>

### Note 41

#### Income from variable-income investments, other securities and other financial instruments

in PLN thousand	2004	2003
a) from subsidiary undertakings	15,185	500
b) from joint ventures	-	59,530
c) from associated undertakings	341	23
d) from other undertakings	1,000	4,697
<b>Total income from variable-income investments, other securities and other financial instruments</b>	<b>16,526</b>	<b>64,750</b>

In 2004, the total amount of income from variable-income equity investments, other securities and other financial instruments included the income from the liquidation of the subsidiary undertaking Budowa Centrum Plac Teatralny Sp. z o.o. under liquidation, income from the sale of some of the shares held in the associated undertaking Elektromontaż Poznań S.A., and income from dividends from shares in minority undertakings.

In 2003, the total amount of income from variable-income equity investments, other securities and other financial instruments included the income from the sale of shares in PKO/Handlowy Powstanie Towarzystwo Emerytalne S.A., Bytom Collection Sp. z o.o. and ZO Bytom S.A., and income from dividends from shares in minority undertakings.

## Note 42

### Result on financial operations

in PLN thousand	2004	2003
a) securities and other financial instruments	51,765	132,175
- income from transactions on securities and other financial instruments	3,720,478	3,344,734
- cost of transactions on securities and other financial instruments	3,668,713	3,212,559
b) other	-	-
<b>Total result on financial operations</b>	<b>51,765</b>	<b>132,175</b>

## Note 43

### Other operating income

in PLN thousand	2004	2003
a) professional asset management services	-	-
b) sale or liquidation of fixed assets and assets for sale	1,798	1,147
c) recovered loss receivables	8,212	8,737
d) received compensation, fines, etc.	-	-
e) received donations	-	-
f) other	80,091	67,981
- refund of BGF expense	4,309	3,957
- other	1,733	3,121
- sale of goods and services	7,687	8,543
- release of specific provisions for sundry debtors	3,539	3,509
- release of provisions for future liabilities	2,363	447
- settlement of perpetual usufruct right to land	7,261	6,389
- real estate taken over for debt	4,299	7,554
- income from rental services and other income	48,900	34,461
<b>Total other operating income</b>	<b>90,101</b>	<b>77,865</b>



**Note 44**

## Other operating expenses

in PLN thousand	2004	2003
a) professional asset management services	-	-
b) sale or liquidation of fixed assets and assets for sale	4,096	2,744
c) write-offs of receivables	-	1
d) paid compensation, fines, etc.	-	-
e) donations made	340	2,907
f) other	112,773	108,107
- non-operating expenses	3,548	3,632
- special provision on sundry debtors	2,078	3,609
- amortisation of goodwill	72,445	72,445
- creation of provisions for future liabilities	14,623	2,671
- real estate taken over for debt	6,232	5,382
- permanent loss of value of assets for sale	-	4,652
- other expenses	13,847	15,716
<b>Total other operating expenses</b>	<b>117,209</b>	<b>113,759</b>

In 2004 and 2003, the Bank made an amortisation write-down of goodwill resulting from the combination of the Bank with Citibank (Poland) S.A. on 28 February 2001.

**Note 45**

## General administrative expenses

in PLN thousand	2004	2003
a) salaries	468,899	448,760
b) insurance and other benefits	91,580	82,907
c) operating costs	654,585	568,963
d) taxes and levies	8,526	8,060
e) Bank Guarantee Fund charges	7,680	11,089
f) other	33,048	-
- provision for restructuring - personnel costs	33,048	-
<b>Total general administrative expenses</b>	<b>1,264,318</b>	<b>1,119,779</b>

In the first half of 2004, the general administrative expenses of the Bank included additional expenses resulting from the creation of provisions for severance packages for employees released within the framework of group layoffs planned for 2004, provisions for costs of payments arising from managerial options, and provisions for costs of services provided by entities belonging to the strategic shareholder, related to the IT systems used and advisory support (see Note 16).

## Note 46

### Charges to provisions and revaluation

in PLN thousand	2004	2003
a) Charges to provisions for:	1,090,609	1,124,969
- normal loans	-	-
- watch loans	-	-
- non-performing loans	901,817	745,040
- receivables arising from subordinated loans	-	78,961
- general risk fund	-	-
- off-balance sheet commitments	186,007	297,097
- other	2,785	3,871
b) revaluation:	-	23,909
- financial assets	-	23,909
- other	-	-
<b>Total charges to provisions and revaluation</b>	<b>1,090,609</b>	<b>1,148,878</b>

In 2003, the total amount of revaluation of financial assets included write-offs for permanent loss of value of shares in subsidiary undertaking PPH Spomasz Sp. z o.o. under liquidation, in the associated undertaking Mostostal Zabrze Holding S.A., and in minority undertakings.

## Note 47

### Release of provisions and revaluation

in PLN thousand	2004	2003
a) release of provisions for:	1,077,663	956,619
- normal loans	-	-
- watch loans	-	-
- non-performing loans	572,476	649,906
- receivables arising from subordinated loans	68,703	10,000
- general risk fund	136,000	-
- off-balance sheet commitments	291,675	295,786
- other	8,809	927
b) revaluation:	4,185	4,551
- financial assets	4,185	4,551
- other	-	-
<b>Total release of provisions and revaluation</b>	<b>1,081,848</b>	<b>961,170</b>

## Note 48

The Bank draws up the consolidated financial statements. The data concerning the sale of companies will be presented in Note 51 in the consolidated financial statements.

**Note 49**

## Extraordinary gains

in PLN thousand	2004	2003
a) contingent		
b) other (in respect of)		
- extraordinary events		
<b>Total extraordinary gains</b>	-	-

**Note 50**

## Extraordinary losses

in PLN thousand	2004	2003
a) contingent		
b) other		
<b>Total extraordinary losses</b>	-	-

**Note 51A**

## Corporate income tax

in PLN thousand	2004	2003
1. Profit (loss) before taxation	537,882	478,777
2. Differences between profit before taxation and taxable income	198,544	(257,272)
a) permanent differences between profit before taxation and taxable income	138,273	142,901
b) temporary differences between profit before taxation and taxable income	60,271	(400,173)
3. Taxable income	736,426	221,505
4. Corporate income tax at the rate 19% / 27%	139,921	59,806
5. Deductions and decreases	1,002	(984)
6. Corporate income tax payable as per tax return for the period, including:	138,919	58,822
- recognised in the profit and loss account	138,919	58,822
- related to items that decreased or increased shareholders' equity	-	-
- related to items that decreased or increased goodwill or negative goodwill	-	-
7. Corporate income tax presented in the profit and loss account (including tax on participation in profits of legal persons)	139,597	59,808

## Note 51B

### Deferred income tax recognised in profit and loss account

in PLN thousand	2004	2003
- decrease (increase) resulting from creation and reversal of temporary differences	6,941	(80,730)
- decrease (increase) resulting from change in tax rates	-	(49,746)
- decrease (increase) resulting from previously not recognised tax losses, tax allowances or temporary difference related to previous periods	-	-
- decrease (increase) resulting from writing off deferred tax assets or impossibility of utilisation of deferred tax provision	-	-
- other components of deferred tax	8,988	-
- receivables from Budget arising from tax deductions for 2007-2009	8,988	-
<b>Total deferred income tax expense</b>	<b>15,929</b>	<b>(130,476)</b>

## Note 51C

### Total deferred income tax expense

in PLN thousand	2004	2003
- recognised in shareholders' equity	2,198	1,773
- recognised in positive or negative goodwill	-	-

## Note 51D

### Corporate income tax expense reported in profit and loss account

in PLN thousand	2004	2003
- discontinued activities	-	-
- result on extraordinary operations	-	-

## Note 52

### Other obligatory decreases of profit (increases of loss)

in PLN thousand	2004	2003
Other obligatory charges reducing profit (increasing loss), of which:	-	-
<b>Total other obligatory charges to profit (loss)</b>	<b>-</b>	<b>-</b>

## Note 53

### Participation in net profits (losses) of subordinated entities accounted for using equity method, of which:

in PLN thousand	2004	2003
- charge of goodwill of subordinated entities	-	-
- charge of negative goodwill of subordinated entities	-	-
- charge of difference in revaluation of net assets	61,872	28,339

## Note 54

The table below presents the proposal of distribution of net profit for 2004 and the method of distribution of net profit for 2003:

	Proposed distribution of profit for 2004		Distribution of profit for 2003	
	in PLN	in %	in PLN	in %
<b>Retained earnings</b>	<b>414,214,162.25</b>	<b>100%</b>	<b>242,510,335.70</b>	<b>100%</b>
- Dividend	414,190,932.00	99.,99%	241,720,260.00	99.67%
- Equity reserves	23,230.25	0.01%	790,075.70	0.33%

On 16 March 2005 the Management Board of Bank adopted a resolution regarding the proposed appropriation 2004 profits (as above) and the payment of a dividend from previous years' profits amounting to 1,149,804,480.00, transferred from the supplementary and reserve capital (see Additional Note to Financial Statement No.10).

On 17 March 2005 the Management Board of Bank adopted a resolution regarding the transfer of PLN 35,136,029.29 to the Bank's reserve capital, which represents the difference resulting from the changes in accounting principles. In Financial Statements as of 31 December 2004 the cumulative results of this difference relating previous years were presented as a retained earnings (see Additional Notes No.32 and 33). Above resolution of the Management Board of Bank will be submitted to the Supervisory Board for its opinion and subsequently to Bank's General Shareholders' Meeting to approval.

## Note 55

Data for calculation of profit per share

12 months to 31 December	2004	2003
<b>Net profit (loss) (in PLN)*</b>	<b>414,214,162.25</b>	<b>288,493,561.98</b>
Average weighted number of ordinary shares	130,659,600	130,659,600
<b>Profit (loss) per ordinary share (in PLN)</b>	<b>3.17</b>	<b>2.21</b>
Diluted average weighted number of ordinary shares	-	-
<b>Diluted profit (loss) per ordinary share (in PLN)</b>	<b>-</b>	<b>-</b>

\* / Net profit for the year ended 31 December 2003 includes the result from the change in the principles recording repo/reverse repo transactions of the sell-buy-back and buy-sell-back type on securities, which were retrospectively implemented in 2004 (see: Additional Explanatory Notes No. 32 and 33).

## ADDITIONAL NOTES TO CASH FLOWS STATEMENT

### Cash structure in cash flows statement

Cash structure in PLN thousand	12 months to 31 December	
	2004	2003
<b>opening balance:</b>	<b>1,211,860</b>	<b>1,008,564</b>
- cash at hand	321,536	326,960
- nostro in NBP	864,977	652,348
- current accounts with other banks (nostro) and overdrafts in nostro accounts	25,347	29,256
<b>closing balance:</b>	<b>972,013</b>	<b>1,211,860</b>
- cash at hand	310,650	321,536
- nostro in NBP	530,464	864,977
- current accounts with other banks (nostro) and overdrafts in nostro accounts	130,899	25,347

### Reconciliation of differences between changes in certain items reported in the balance sheet and movements in those items shown in the cash flows statement

in PLN thousand	12 months to 31 December	
	2004	2003
<b>Cash flows statement</b>		
<b>A-II-7. Change in debt securities</b>	<b>(3,460,766)</b>	<b>429,119</b>
- net movement in debt securities held until redemption date (proceeds and expenditures related debt securities held until redemption date are presented in the investing activities section of the cash flow statement)	70,160	235,548
<b>Balance sheet change</b>		
<b>VII. Debt securities</b>	<b>(3,390,606)</b>	<b>664,667</b>
<b>Cash flows statement</b>		
<b>A-II-8. Change in amounts from the financial sector</b>	<b>333,361</b>	<b>(3,370,864)</b>
- movement in current balances (nostro accounts, vostro overdrafts) as reported in section D. Net cash flow, total (movement in cash)	(105,555)	3,910
<b>Balance sheet change</b>		
<b>III. Due from financial sector</b>	<b>227,806</b>	<b>(3,366,954)</b>
<b>Cash flows statement</b>		
<b>A-II-11. Change in equity investments and other financial assets</b>	<b>(480,228)</b>	<b>898,554</b>
- net movement in equity investment and other financial assets available for sale (proceeds and expenditure related to equity investments and other financial assets available for sale are reported in the investing activities part of the cash flow statement)	(4,116)	3,880

	12 months to 31 December	
	2004	2003
<b>in PLN thousand</b>		
<b>Balance sheet change</b>		
<b>XI. Investments in other undertakings and XII. Other securities and other financial assets</b>	<b>(484,344)</b>	<b>902,434</b>
<b>Cash flows statement</b>		
<b>A-II-12. Change in liabilities to financial institutions</b>	<b>531,553</b>	<b>241,780</b>
- movement in liabilities arising from operations with NBP	40,427	80,795
- long-term funding (term of over 1 year) received from financial institutions (reported in the financing activities section) and interest payable (item A-II-19), and also movement in FX differences on borrowings received in prior periods (included in item A-II-3)	(93,468)	55,313
<b>Balance sheet change</b>		
<b>II. Due to financial institutions</b>	<b>478,512</b>	<b>377,888</b>
<b>Cash flows statement</b>		
<b>A-II-17. Change in accruals (presented as the net movement in asset and liability items)</b>	<b>18,410</b>	<b>68,053</b>
- change in accruals (liability items)	(37,273)	19,096
<b>Change in the balance sheet</b>		
<b>XVI. Accruals and prepaid expenses</b>	<b>(18,863)</b>	<b>87,149</b>

## Notes to the cash flow items: „Other adjustments”, „Other proceeds”, „Other expenditure”

### Net cash flows from operating activities

Other adjustments	12 months to 31 December	
	2004	2003
<b>in PLN thousand</b>		
Change in receivables/liabilities relating to securities (permanent diminution in value, valuation of shares with the equity method, discount, premium, interest) not affecting cash flows	(27,860)	(102,456)
Change in liabilities arising from interest accrued on long-term borrowings from banks and financial institutions	13,603	13,981
Change in other assets	(195,934)	155,204
Change in other liabilities	570,227	(759,177)
Other items relating to changes in tangible and intangible fixed assets not affecting cash flows	79,029	78,183
Change in the Bank's capital and revaluation of financial assets	33,359	(68,875)
Participation in net profits (losses) of subordinated undertakings accounted for under the equity method	61,872	28,339
Change in assets for sale	(2,755)	4,651
<b>Total other adjustments</b>	<b>531,541</b>	<b>(650,150)</b>

#### Net cash flows from investing activities

Other proceeds from investing activities in PLN thousand	12 months to 31 December	
	2004	2003
Dividends from shares available for sale	8,984	4,696
Interest received on securities (investing activities)	-	2,724
Return of additional capital contributed to Handlowy Inwestycje Sp. z o.o.	-	42,000
Realised FX differences on investing activities	-	12
<b>Total other proceeds from investing activities</b>	<b>8,984</b>	<b>49,432</b>

#### Net cash flows from financing activities

Other proceeds from financing activities in PLN thousand	12 months to 31 December	
	2004	2003
Realised FX differences on financing activities	1,350	-
<b>Total other proceeds from financing activities</b>	<b>1,350</b>	<b>-</b>

Other financial expenditure in PLN thousand	12 months to 31 December	
	2004	2003
Repayment of interest on long-term borrowings from banks and financial institutions	(30,585)	(30,773)
Realised FX differences on financial activities	-	(661)
<b>Total other financial expenditure</b>	<b>(30,585)</b>	<b>(31,434)</b>



## ADDITIONAL EXPLANATORY NOTES

### Note 1

#### Concentration of exposure

##### 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. Equity for the purpose of setting concentration limits specified in the Banking Act has been established in accordance with Resolution No. 6/2001 of the Commission for Banking Supervision dated 12 December 2001 regarding specific rules for calculating equity for banks (...) (NBP Official Journal No. 22, item 44).

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. 24.6% of these funds (31 December 2003: PLN 762,565 thousand, i.e. 16.6%).

##### 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)

in %	31.12.2004	31.12.2003
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
<b>Top 10 sectors</b>	<b>65.67</b>	<b>63.77</b>

## Sector of the economy according to PKD

in %	31.12.2004	31.12.2003
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 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
<b>Top 20 sectors</b>	<b>86.20</b>	<b>84.03</b>
Other sectors	13.80	15.97
<b>Total Bank</b>	<b>100.00</b>	<b>100.00</b>

## Note 2

## Sources and uses of funds

## Source of funds

in PLN thousand	31.12.2004	31.12.2003
Funds from banks	1,898,252	1,868,837
Funds of customers and public sector	19,911,344	20,502,794
Other external funds	5,857,551	5,709,655
Own funds and net profit	6,152,785	5,946,930
<b>Total source of funds</b>	<b>33,819,932</b>	<b>34,028,216</b>

## Use of funds

in PLN thousand	31.12.2004	31.12.2003
Bank placements*	7,043,329	7,275,059
Amounts due from customers and public sector	10,957,444	14,388,879
Securities, shares, and other financial assets	12,136,650	8,205,485
Other uses	3,682,509	4,158,793
<b>Total use of funds</b>	<b>33,819,932</b>	<b>34,028,216</b>

\* including one-day deposits like: "overnight", "tom/next", "spot/next".

Set out below are amounts due to and from customers and the public sector as on 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.

Name of region / Geographic operating area by provinces - districts in PLN thousand	Amounts due to customers and public sector	Amounts due from customers and public sector
<b>NORTHERN Region</b>	944,001	975,195
provinces: Kujawsko-Pomorskie, Pomorskie, Warmińsko-Mazurskie and districts of the Zachodnio-Pomorskie Province: stawieński, koszaliński, kołobrzeczki, białogardzki, świdwiński, szczecinecki, drawski, grodzki Koszalin.		
<b>SOUTHERN Region</b>	1,359,975	1,173,741
provinces: Śląskie, Opolskie, Małopolskie, Podkarpackie, Świętokrzyskie		
<b>WESTERN Region</b>	1,199,392	1,516,851
provinces: Lubuskie, Wielkopolskie, Dolnośląskie, Zachodnio-Pomorskie without districts allocated to the Northern Region		
<b>CENTRAL-EASTERN Region</b>	10,542,408	5,246,036
city of Warsaw, provinces: Mazowieckie, Lubelskie, Łódzkie, Podlaskie		
<b>Consumer Bank - CITIBANK HANDLOWY</b>	5,865,568	2,045,621
<b>TOTAL</b>	19,911,344	10,957,444

Set out below are amounts due to and from customers and the public sector as on 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.

Name of region / Geographic operating area by provinces - districts	in PLN thousand	Amounts due to customers and public sector	Amounts due from customers and public sector
<b>NORTHERN Region</b>		825,853	1,619,226
provinces: Kujawsko-Pomorskie, Pomorskie, Warmińsko-Mazurskie and districts of the Zachodnio-Pomorskie Province: sławieński, koszaliński, kołobrzeski, białogardzki, świdwiński, szczecinecki, drawski, grodzki Koszalin.			
<b>SOUTHERN Region</b>		1,397,428	2,084,312
provinces: Śląskie, Opolskie, Małopolskie, Podkarpackie, Świętokrzyskie			
<b>WESTERN Region</b>		1,613,975	2,595,867
provinces: Lubuskie, Wielkopolskie, Dolnośląskie, Zachodnio-Pomorskie without districts allocated to the Northern Region			
<b>CENTRAL-EASTERN Region</b>		10,613,343	6,756,397
city of Warsaw, provinces: Mazowieckie, Lubelskie, Łódzkie, Podlaskie			
<b>Consumer Bank - CITIBANK HANDLOWY</b>		6,052,195	1,333,077
<b>TOTAL</b>		<b>20,502,794</b>	<b>14,388,879</b>

### Note 3

#### Contributions to foreign branches

The Bank does not conduct any operations through foreign branches.

## Note 4

### Financial instruments

#### Financial instruments by categories of financial assets and liabilities

in PLN thousand	31.12.2004	31.12.2003
Financial assets for trading purposes	5,316,962	4,743,692
Financial liabilities for trading purposes	4,194,290	3,651,195
Loans granted and own receivables	18,495,262	22,262,468
Financial assets held until maturity	–	70,159
Financial assets available for sale	6,118,936	2,747,098
<b>Total financial instruments</b>	<b>34,125,450</b>	<b>33,474,612</b>

### Financial assets for trading purposes

Financial assets for trading purposes by particular group of assets:

in PLN thousand	31.12.2004	31.12.2003
Debt securities	1,211,839	1,118,797
Amounts receivable from revaluation of derivative instruments	4,105,123	3,624,895
<b>Total financial assets for trading purposes</b>	<b>5,316,962</b>	<b>4,743,692</b>

Change in financial assets for trading purposes:

in PLN thousand	2004	2003
<b>Opening balance</b>	<b>4,743,692</b>	<b>6,080,900</b>
- change in accounting principles	–	160,804
<b>Opening balance after restatement to conform with current year presentation</b>	<b>4,743,692</b>	<b>6,241,704</b>
increases	122,317,652	103,201,486
- purchases	122,199,799	103,169,266
- FX differences	735	1
- revaluation	2,541	210
- settlement of discount, premium, interest	114,577	32,009
decreases	(121,744,382)	(104,699,498)
- sale	(121,738,931)	(103,770,180)
- revaluation	–	(900,232)
- settlement of discount, premium, interest	(5,451)	(29,086)
<b>Balance of financial assets for trading purposes as of the end of the period</b>	<b>5,316,962</b>	<b>4,743,692</b>

### 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.

### 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

The object of FX option contracts is 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 object 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.

The 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 preagreed 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 carry out trade in futures-type FX contracts.

## Characteristics of derivative instruments

Instrument	FX forward	FX swap	Currency option contracts	IRS	CIRS
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.
Valuation methods applied	discounted cash flow model	discounted cash flow model	option valuation model (Garman-Kohlhagen)	discounted cash flow model	discounted cash flow model
Purpose of contract	for trade	for trade	for trade	for trade	for trade
Number of transactions before maturity	1201	331	6067	2060	50
Future revenue/payments	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
Possibility to exchange to another asset/liability	none	none	none	none	none
Fixed rates/amounts of revenue and payment dates	variable	variable	variable	variable	variable
Other conditions	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 nonlinear 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

FRA	Securities contracts	Futures contracts on interest rates	Share options	Interest rate options
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.	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. They are traded on an organised stock exchange.	Purchase by the option contract purchaser of a right (but not an obligation) to receive the difference between the share price fixed in the contract and the value of the instrument as of the date of exercise of the option.	Purchase by the option contract purchaser of a right (but not an obligation) to exchange the amount of interest accrued on transaction amount on the basis of the reference rate
discounted cash flow model	discounted cash flow model	inventory method	option valuation model (Black Scholes)	option valuation model (Black 76)
for trade	for trade	for trade	for trade	for trade
233	102	8	46	20
variable	variable	variable	variable	variable
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
none	none	none	none	none
variable	variable	variable	variable	variable
none	none	none	none	none
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

• Financial statements

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.

## Times to maturity of derivative instruments as of 31 December 2004

in PLN thousand	Nominal value											
	Time to maturity						As of 31.12.2004		As of 31.12.2003			
	Up to 3 months		3 months - 1 year		1 - 5 years		Above 5 years					
	Banks	Other	Banks	Other	Banks	Other	Banks	Other		Banks	Other	
<b>Interest rate instruments</b>	<b>21,098,435</b>	<b>1,441,803</b>	<b>43,727,899</b>	<b>2,641,764</b>	<b>62,239,021</b>	<b>2,587,605</b>	<b>12,613,454</b>	<b>1,984,161</b>	<b>148,334,142</b>	<b>119,135,918</b>	<b>4,737,724</b>	<b>123,873,642</b>
- 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 rate 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	-	-	-
<b>Currency instruments</b>	<b>17,255,990</b>	<b>2,653,965</b>	<b>15,201,058</b>	<b>3,467,136</b>	<b>3,112,675</b>	<b>967,681</b>	<b>-</b>	<b>-</b>	<b>42,658,506</b>	<b>35,310,908</b>	<b>6,719,596</b>	<b>42,030,504</b>
- 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
<b>Securities contracts</b>	<b>595,233</b>	<b>118,679</b>	<b>68,573</b>	<b>68,573</b>	<b>41,330</b>	<b>41,330</b>	<b>-</b>	<b>-</b>	<b>933,718</b>	<b>666,618</b>	<b>391,757</b>	<b>1,058,375</b>
- 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
<b>Total derivative instruments</b>	<b>38,949,658</b>	<b>4,214,447</b>	<b>58,997,530</b>	<b>6,177,473</b>	<b>65,393,026</b>	<b>3,596,616</b>	<b>12,613,454</b>	<b>1,984,161</b>	<b>191,926,366</b>	<b>155,113,444</b>	<b>11,849,077</b>	<b>166,962,521</b>

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

in PLN thousand	Positive market value			Negative market value			Credit equivalents**		
	As of 31.12.2004		As of 31.12.2003	As of 31.12.2004		As of 31.12.2003	As of 31.12.2004		As of 31.12.2003
	Banks	Other		Banks	Other		Banks	Other	
<b>Interest rate instruments</b>	<b>2,185,115</b>	<b>248,143</b>	<b>2,708,464</b>	<b>2,174,556</b>	<b>158,623</b>	<b>2,509,489</b>	<b>540,734</b>	<b>189,312</b>	<b>1,176,392</b>
- 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 rate 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	-	-	-	-
<b>Currency instruments</b>	<b>1,490,181</b>	<b>149,764</b>	<b>870,755</b>	<b>1,301,495</b>	<b>251,032</b>	<b>802,104</b>	<b>331,852</b>	<b>102,455</b>	<b>345,529</b>
- 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
- 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
<b>Securities contracts</b>	<b>3,060</b>	<b>4,243</b>	<b>12,947</b>	<b>4,982</b>	<b>2,361</b>	<b>12,330</b>	<b>6,868</b>	<b>29</b>	<b>15,372</b>
- share options purchased	2,347	-	1,512	3,921	-	10,729	6,868	29	15,372
- share options sold	-	3,921	10,729	-	2,347	1,512	-	-	-
- forward contracts	713	322	706	1,061	14	89	-	-	-
<b>Total derivative instruments</b>	<b>3,678,356</b>	<b>402,150</b>	<b>3,592,166</b>	<b>3,481,033</b>	<b>412,016</b>	<b>3,323,923</b>	<b>879,454</b>	<b>291,796</b>	<b>1,537,293</b>

\* the valuation does not include premiums received and paid for the options issued and purchased.

\*\* the column of off-balance sheet equivalents presents the value of so-called credit equivalents of derivatives calculated in accordance with the rules stated in the Resolution No. 5/2001 of the Banking Supervision Commission dated 12 December 2001 concerning the specific principles for calculation of capital requirements for particular types of risk, including excesses of debt concentration limits, method and principles for calculation of solvency ratio of the bank, (...) (Official Journal of NBP No 22, item 43, as amended). Credit equivalents are used as a measure of derivatives contractor risk in capital adequacy and debt concentration accounting.

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### Financial liabilities for trading purposes

Financial liabilities available for trading purposes by category:

in PLN thousand	31.12.2004	31.12.2003
Liabilities arising on valuation of derivative transactions	3,926,173	3,362,332
Liabilities arising from short sale of securities	268,117	288,863
<b>Total financial liabilities available for trading purposes</b>	<b>4,194,290</b>	<b>3,651,195</b>

Change in financial liabilities available for trading purposes:

in PLN thousand	2004	2003
<b>Opening balance</b>	<b>3 651 195</b>	<b>4 182 578</b>
increases	563,841	288,863
- sale	-	288,863
- revaluation	563,841	-
decreases	(20,746)	(820,246)
- purchases	(20 746)	-
- revaluation	-	(820 246)
<b>Closing balance of financial liabilities available for trading purpose</b>	<b>4,194,290</b>	<b>3,651,195</b>

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. 'Financial assets for trading purposes'.

### Loans granted and own receivables

Loans granted and own receivables by category:

in PLN thousand	31.12.2004	31.12.2003
Loans and advances	16,522,781	21,240,209
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
<b>Total loans granted and own receivables - gross</b>	<b>20,227,710</b>	<b>23,883,454</b>
Provision created	(1,732,448)	(1,620,986)
<b>Total loans granted and own receivables - net</b>	<b>18,495,262</b>	<b>22,262,468</b>

Change in loans granted and own receivables:

in PLN thousand	2004	2003
<b>Opening balance</b>	<b>23,883,454</b>	<b>20,398,499</b>
increases	24,903,348	28,731,824
- new contracts*	24,810,930	28,658,010
- interest receivable	92,418	73,814
decreases	(28,559,092)	(25,246,869)
- repayment*	(28,559,092)	(25,246,869)
<b>Closing balance of loans granted and own receivables</b>	<b>20,227,710</b>	<b>23,883,454</b>

\* including short term revolving loans

Change in provision for loans and own receivables:

in PLN thousand	2004	2003
<b>Opening balance</b>	<b>1,620,986</b>	<b>1,516,853</b>
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)
<b>Closing balance of provision for loans and own receivables</b>	<b>1,732,448</b>	<b>1,620,986</b>

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.

### Financial assets held until maturity

Financial assets held until maturity - by category:

in PLN thousand	31.12.2004	31.12.2003
Debt securities	-	70,159
<b>Total financial assets held until maturity</b>	<b>-</b>	<b>70,159</b>

Change in financial assets held until maturity:

in PLN thousand	2004	2003
<b>Opening balance</b>	<b>70,159</b>	<b>305,707</b>
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)
<b>Closing balance of financial assets held until maturity</b>	<b>-</b>	<b>70,159</b>

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.

#### Financial assets available for sale

Financial assets available for sale - by category:

in PLN thousand	31.12.2004	31.12.2003
Debt securities	6,091,194	2,723,471
Shares in non-subordinated undertakings	27,742	23,627
<b>Total financial assets available for sale</b>	<b>6,118,936</b>	<b>2,747,098</b>

Change in financial assets available for sale:

in PLN thousand	2004	2003
<b>Opening balance</b>	<b>2,747,098</b>	<b>2,520,153</b>
- change in adopted accounting principles	-	60,097
<b>Opening balance after restatement to conform with current year presentation</b>	<b>2,747,098</b>	<b>2,580,250</b>
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)
<b>Closing balance of financial assets available for sale</b>	<b>6,118,936</b>	<b>2,747,098</b>

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.



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

Category of assets/ interest income	in PLN thousand	31.12.2004	31.12.2003
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

### 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 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, EUR 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". The information about them is transferred 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.

### **Hedge accounting**

To date the Bank has not applied hedge accounting.

## Note 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.

## Note 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.

## Note 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.

## Note 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).

## Note 9

### Off-balance sheet commitments

#### Off-balance sheet commitments granted

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

in PLN thousand	31.12.2004	31.12.2003
L/Cs	185,181	177,306
including to related parties	545	4,620
Guarantees granted	2,351,306	3,020,936
including to related parties	2,355	60,987
Credit lines granted	8,353,740	8,034,233
including to related parties	131,727	130,217
Deposits to be issued	121,359	3,179,425
Other financial liabilities	751,277	646,991
<b>Total commitments granted</b>	<b>11,762,863</b>	<b>15,058,891</b>

Letters of credit by category were as follows:

in PLN thousand	31.12.2004	31.12.2003
Import L/Cs issued	168,073	160,337
including to related parties	545	4,620
Export L/Cs confirmed	17,108	16,969
<b>Total L/Cs</b>	<b>185,181</b>	<b>177,306</b>

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).

#### 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, of which PLN 2,817,354 thousand of guarantee contingencies). As of 31 December 2004, the Bank did not have any guarantee contingent liabilities received from subordinated entities (31 December 2003: PLN 13,484 thousand).

#### 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
						<b>Total</b>	<b>40,000</b>

## Note 10

### Dividend payment

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

- 1) 414,190,932.00 PLN from the 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 will be submitted to the Supervisory Board for its opinion.

The proposed payment of the dividend from previous years' profits will require an amendment to the Bank's Charter. The Management Board will recommend amendments to the Charter at the Bank's nearest Extraordinary General Shareholders' Meeting, that will be convened on 28 April 2005 - a date that allows the amendments in the National Court Register to be registered prior to the date of the Bank's Ordinary General Shareholders' Meeting in 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. If the Supervisory Board gives a favorable opinion on the proposed dividend payment, the Management Board will apply to the Commission for Banking Supervision for such consent.

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.

### **Note 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.

### **Note 12**

#### **Amounts due to the Budget or local authorities**

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

### **Note 13**

#### **Abandoned business**

In 2004, the Bank did not abandon any form of business and does not envisage the abandonment of any form of economic activity in the foreseeable future.

### **Note 14**

#### **Expenses relating to projects in progress, fixed assets and development costs**

In 2004 and in 2003, the Bank did not incur any expenses relating to projects in progress, fixed assets and development costs.

### **Note 15**

#### **Incurred and planned capital expenditures**

Capital expenditure incurred under projects in progress and intangible assets as of 31 December 2004 amounted to PLN 3,976 thousand (31 December 2003: PLN 18,489 thousand). Capital expenditure in the next 12 months are planned at PLN 100,466 thousand and include mainly investments in expenditure on building improvements and information technology.

### **Note 16**

#### **Transactions with related parties**

#### **Transactions with shareholders of the Bank holding at least 20% 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	31.12.2004	31.12.2003
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.

#### Transactions with subordinated undertakings

Balance sheet amounts due from and revenues received from subsidiaries, joint ventures and associated undertakings as of 31 December 2004 are as follows:

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<b>in PLN thousand</b>	<b>Subsidiary</b>	<b>Joint venture</b>	<b>Associate</b>	<b>Total</b>
Amounts due from (net):				
<b>financial entities - in respect of:</b>				
- current accounts	488,405	100,323	-	588,728
- loans granted	41,809	-	-	41,809
- subordinated loans	117,957	-	-	117,957
- bonds convertible into shares	-	-	-	-
<b>other undertakings - in respect of</b>				
- current accounts	-	-	1,889	1,889
- loans granted	-	-	2,849	2,849
<b>Total receivables</b>	<b>648,171</b>	<b>100,323</b>	<b>4,738</b>	<b>753,232</b>
<b>Interest and commission income</b>	<b>20,868</b>	<b>4,372</b>	<b>39</b>	<b>25,279</b>

As of 31 December 2004, the specific provisions for receivables from subsidiaries, joint ventures and associated undertakings amounted to PLN 57,036 thousand.

Amounts due and expense paid to subsidiaries, joint ventures and associated undertakings as of 31 December 2004 are as follows:

<b>in PLN thousand</b>	<b>Subsidiary</b>	<b>Joint venture</b>	<b>Associate</b>	<b>Total</b>
Amounts due to:				
<b>financial institutions - in respect of</b>				
- current accounts	490,308	145	-	490,453
- deposits taken	50,211	-	-	50,211
<b>other undertakings - in respect of</b>				
- current accounts	-	-	169	169
- deposits taken	-	-	-	-
<b>Total payable</b>	<b>540,519</b>	<b>145</b>	<b>169</b>	<b>540,833</b>
<b>Interest and commission expense</b>	<b>14,703</b>	<b>4</b>	<b>1</b>	<b>14,708</b>

Amounts due from and revenues received from subsidiaries, joint ventures and associated undertakings as at 31 December 2003 are as follows:

<b>in PLN thousand</b>	<b>Subsidiary</b>	<b>Joint venture</b>	<b>Associate</b>	<b>Total</b>
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:				
- current accounts	-	-	4,481	4,481
- loans granted	-	-	11,431	11,431
- other term receivables			161	161
<b>Total receivables</b>	<b>844,957</b>	<b>21,274</b>	<b>16,073</b>	<b>882,304</b>
<b>Interest and commission income</b>	<b>24,639</b>	<b>700</b>	<b>2,451</b>	<b>27,790</b>

The total amount of interest and fee income includes PLN 5,441 thousand of interest received from subordinated loans granted to subsidiary undertakings of the Bank.

As of 31 December 2003, the specific provisions for receivables from subsidiaries, joint ventures and associated undertakings amounted to PLN 141,453 thousand.

Amounts due and expense paid to subsidiaries, joint ventures and associated undertakings as of 31 December 2003 are as follows:

<b>in PLN thousand</b>	<b>Subsidiary</b>	<b>Joint venture</b>	<b>Associate</b>	<b>Total</b>
Amounts due to:				
<b>financial institutions - in respect of</b>				
- current accounts	229,225	74	17	229,316
- deposits taken	85,001	-	-	85,001
<b>other undertakings - in respect of</b>				
- current accounts	-	-	9,589	9,589
- deposits taken	-	-	16,365	16,365
<b>Total payable</b>	<b>314,226</b>	<b>74</b>	<b>25,971</b>	<b>340,271</b>
<b>Interest and commission expense</b>	<b>13,219</b>	<b>15</b>	<b>1,603</b>	<b>14,837</b>

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 Elektro-montaż 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 A 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 shareholders meeting 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 whole owned 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.

**The Bank did not enter into any transactions with related entities, i.e. transactions involving the transfer of rights and obligations with spouses, in-laws or ascendants and descendants to the second degree, adopted or adopting persons, or other relatives of members of the Board and supervisory bodies of the Bank.**

Transactions with members of the Board and supervisory bodies of the Bank are presented in Note 26.

### 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 in the following table:

Transaction categories in PLN thousand	Transactions with Citigroup Inc. companies	Transactions with Bank's Capital Group companies	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 in the following table:

Transaction categories in PLN thousand	Transactions with Citigroup Inc. companies	Transactions with Bank's Capital Group companies	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
Derivative transactions	97,279,361	-	97,279,361	58.25

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

Credit decision-making in respect of borrowers constituting the Capital Group of Bank Handlowy w Warszawie SA follows the rules applicable to external customers.

## Note 17

### Joint ventures excluded from the consolidation

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

## Note 18

### Income and expenses related to brokerage activity

The Bank does not engage in brokerage activity within its structure. Brokerage activity is carried out via the Bank's wholly owned subsidiary, Dom Maklerski Banku Handlowego S.A.

## Note 19

### Write-offs of bad debts

As of 31 December 2004, bad debts written off against provisions created amounted to PLN 152,600 thousand (31 December 2003: PLN 55,011 thousand).

In 2004, the amount of bad debts written off against other operating expenses was PLN 4,819 thousand. In 2003 the Bank did not record operating expenses relating to write-offs of bad debts.

## Note 20

### Provisions for employee payments

As of 31 December 2004, provision for future payments to employees amounted to PLN 124,035 thousand (31 December 2003: PLN 98,597 thousand), including:

- provision for remunerations and charges to remunerations amounting to PLN 90,772 thousand (31 December 2003: PLN 73,597 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).

## Note 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 at the amount of 6% of individual salary of the employee - Plan participant.

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.



## Note 22

### Custody services for securities

The Custody Department ("the Department") operates on the basis of the Polish legal regulations and in accordance with international standards of custody services offered to investors and intermediaries active on international markets of securities and is able to comply with the requirements of the largest and most demanding institutional customers. The Department operates as part of the global Citigroup structure operating under the name of Global Transaction Services which offers transaction banking-related services, also including trade in securities.

The Bank is the leader in the market of depository banks in Poland. It offers both custody services for foreign institutional investors as well as the depository services intended for domestic financial entities, in particular pension funds, investment funds, and capital insurance funds.

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, assets portfolio valuation, develops individual reports, and arranges representation of clients at general shareholders meetings of public companies. Additionally, the Securities Custody Department provides services of maintenance of the foreign securities register, which includes settlement of transactions concluded by domestic customers on foreign markets.

In the past year, the Bank made available to its customers the possibility of participation in the special programme of loans of securities granted as collateral for liquidity risk associated with the settlement of transactions in the stock exchange market. The objective of the programme for borrowers is to reduce the costs incurred as a result of suspensions of transactions settled in

Krajowy Depozyt Papierów Wartościowych S.A. and to generate additional income to long-term investors holding passive portfolios, who play the role of lenders.

In December 2004, the Bank concluded an agreement to purchase the operations related to securities accounts, current accounts, and performing the function of a depository for investment funds from ABN AMRO Bank (Polska) S.A. The agreement was completed in February 2005 after the consent of supervisory authorities, including the Commission for Banking Supervision, was obtained. The objective of the transaction is to extend the range of products offered and to increase the customer base, and as a consequence to reinforce the position of the Bank in the domestic market of custody services.

### Number of securities accounts

As of 31 December 2004, the Bank operated 7477 securities accounts.

### Depository for open-end pension funds

The Bank performed the duties of a depository for seven Open-End Pension Funds:

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

and for Pracownicy Fundusz Emerytalny Telekomunikacji Polskiej S.A.

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### Depository for investment funds

The Bank acted as a depository for twelve investment funds managed by the following investment fund companies:

- BZ WBK AIB TFI S.A.
- SEB TFI S.A.
- PIONEER PEKAO TFI S.A.
- DWS Polska TFI S.A.

### Note 23

#### Asset securitisation

As of 31 December 2004 and 31 December 2003, the Bank had no securitised receivables.

### Note 24

#### Employment

In 2004, the average number of employees at the Bank was 5,120, including 40 technical staff positions (in 2003: 4,822 employees, including 44 technical staff positions).

### Note 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:

Name  in PLN thousand	Salaries, awards and benefits received in the Bank				Remuneration received for positions held in governing bodies of subordinated undertakings
	Base salaries and awards	Other benefits	Value of shares awarded in 2004	Managerial options granted in 2004 (in units)	
Management Board members performing their functions at the end of 2004					
Slawomir 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 Jablonowska-Luba	1,057	3	48	1,500	30
Michał Mrożek (until 25 May 2004 performed function as Managing Director)	1,249	14	48	1,500	8
Management Board members who ceased performing their functions in 2004:					
Wieslaw Kalinowski (until 30 March 2004)	428	2,765			
<b>Total</b>	<b>11,600</b>	<b>4,603</b>	<b>786</b>	<b>27,000</b>	<b>38</b>

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 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:

Name and Surname in PLN thousand	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 (till 24 June 2004)	41
<b>Total</b>	<b>462</b>

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.

## Note 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	-	-	-	-
<b>Total:</b>	<b>104</b>	<b>1,451</b>	<b>70,838</b>	<b>39,581</b>

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

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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	-	-	-	-
<b>Total:</b>	<b>138</b>	<b>1,658</b>	<b>69,776</b>	<b>45,135</b>

\* 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.

## Note 27

### Significant events relating to previous years presented in the financial statements for 2004

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

## Note 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 claiming of shares in increased share capital of this company. The claiming 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 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 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.

## Note 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 longterm 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 via 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 registra-

tion 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.

### Note 30

#### Information on the Bank's relationship with its legal predecessor

The Bank has no legal predecessor.

### Note 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.

## Note 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 the respective modifications with respect to the previously published data in the annual report SAB-R 2003.

These transformations are presented in the tables below:

### BALANCE SHEET

#### Assets

in PLN thousand	as of 31.12.2003 presented previously	Change	Change description item	as of 31.12.2003 after the change
<b>I. Cash and due from NBP</b>	<b>1,186,514</b>			<b>1,186,514</b>
<b>II. Treasury bills and other bills eligible for refinancing with NBP</b>				
III. Due from financial sector	<b>8,732,903</b>	<b>(8,117)</b>		<b>8,724,786</b>
1. Current	6,822,543			6,822,543
2. Term	1,910,360	(8,117)	1)	1,902,243
<b>IV. Due from non-financial sector</b>	<b>13,252,870</b>			<b>13,252,870</b>
1. Current	3,529,638			3,529,638
2. Term	9,723,232			9,723,232
<b>V. Due from public sector</b>	<b>3,131</b>			<b>3,131</b>
1. Current	87			87
2. Term	3,044			3,044
<b>VI. Receivables subject to securities sale and repurchase agreements</b>		<b>288,601</b>	2)	<b>288,601</b>
<b>VII. Debt securities</b>	<b>3,441,865</b>	<b>470,562</b>	2)	<b>3,912,427</b>



in PLN thousand	as of 31.12.2003 presented previously	Change	Change description item	as of 31.12.2003 after the change
<b>VIII. Investments in subsidiary undertakings</b>	<b>338,218</b>			<b>338 218</b>
<b>IX. Investments in joint ventures</b>	<b>5,323</b>			<b>5 323</b>
<b>X. Investments in associated undertakings</b>	<b>12,388</b>			<b>12 388</b>
<b>XI. Minority investments</b>	<b>23,633</b>			<b>23 633</b>
<b>XII. Other securities and other financial assets</b>	<b>3,624,437</b>	<b>458</b>	2)	<b>3 624 895</b>
<b>XIII. Intangible fixed assets</b>	<b>1,295,012</b>			<b>1 295 012</b>
- goodwill	1,243,645			1 243 645
<b>XIV. Tangible fixed assets</b>	<b>764,145</b>			<b>764 145</b>
<b>XV. Other assets</b>	<b>307,600</b>	<b>8,117</b>		<b>315 717</b>
1. Repossessed assets	21,025			21 025
2. Other	286,575	8,117	1)	294 692
<b>XVI. Prepayments</b>	<b>280,548</b>	<b>8</b>		<b>280 556</b>
1. Deferred tax	218,555	8	2)	218 563
2. Other interbank settlements	61,993			61 993
<b>Total assets</b>	<b>33,268,587</b>	<b>759,629</b>		<b>34 028 216</b>

## Liabilities

in PLN thousand	as of 31.12.2003 presented previously	Change	Change description item	as of 31.12.2003 after the change
<b>I. Due to NBP</b>	<b>41,145</b>			<b>41,145</b>
<b>II. Due to financial sector</b>	<b>3,826,082</b>			<b>3,826,082</b>
<b>1. Current</b>	<b>2,343,320</b>			<b>2,343,320</b>
<b>2. Term</b>	<b>1,482,762</b>			<b>1,482,762</b>
<b>III. Due to non-financial sector</b>	<b>18,039,260</b>			<b>18,039,260</b>
1. Savings deposits				
a) current				
b) term				
2. Other	18,039,260			18,039,260
a) current	8,877,277			8,877,277
b) term	9,161,983			9,161,983
<b>IV. Due to public sector</b>	<b>465,145</b>			<b>465,145</b>
a) current	304,107			304,107
b) term	161,038			161,038
<b>V. Liabilities in respect of securities subject to sale and repurchase agreements</b>		<b>470,803</b>		<b>470,803</b>
<b>VI. Securities issued</b>				
1. Short term				
2. Long term				
<b>VII. Other liabilities arising on financial instruments</b>	<b>3,362,332</b>	<b>288,863</b>	2)	<b>3,651,195</b>
<b>VIII. Special funds and other payables</b>	<b>222,120</b>			<b>222,120</b>
<b>IX. Accruals and deferred income</b>	<b>918,205</b>			<b>918,205</b>
1. Accruals	121,470			121,470
2. Negative goodwill				
3. Other deferred income and income in suspense	796,735			796,735

in PLN thousand	as of 31.12.2003 presented previously	Change	Change description item	as of 31.12.2003 after the change
<b>X. Provisions</b>	<b>447,331</b>			<b>447,331</b>
1. Provision for corporate income tax				
2. Other provisions	447,331			447,331
a) short term	96,558			96,558
b) long term	<b>350,773</b>			<b>350,773</b>
<b>XI. Subordinated debt</b>				
<b>XII. Share capital</b>	<b>522,638</b>			<b>522,638</b>
<b>XIII. Unpaid contributions to share capital (negative value)</b>				
<b>XIV. Own shares (negative value)</b>				
<b>XV. Equity reserves</b>	<b>3,044,585</b>			<b>3,044,585</b>
<b>XVI. Revaluation reserve</b>	<b>21,961</b>	<b>(35,173)</b>	2)	<b>(13,212)</b>
<b>XVII. Other reserves</b>	<b>2,115,273</b>			<b>2,115,273</b>
<b>XVIII. Undistributed profit (loss) of prior year</b>		<b>(10,847)</b>	2)	<b>(10,847)</b>
<b>XIX. Net profit (loss)</b>	<b>242,510</b>	<b>45,983</b>	2)	<b>288,493</b>
<b>Total liabilities</b>	<b>33,268,587</b>	<b>759,629</b>		<b>34,028,216</b>

## Off-balance sheet items

in PLN thousand	as of 31.12.2003 presented previously	Change	Change description item	as of 31.12.2003 after the 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
<b>Total off-balance sheet items</b>	<b>192,359,604</b>	<b>(736,244)</b>		<b>191,623,360</b>

## Profit and loss account

in PLN thousand	for the period 01.01 - 31.12 2003 previously published	Change	Change description item	for the period 01.01 - 31.12 2003 after the change
<b>I. Interest income</b>	<b>1,373,643</b>	<b>12,658</b>	2)	<b>1,386,301</b>
<b>II. Interest expense</b>	<b>(628,444)</b>	<b>9,030</b>	2)	<b>(637,474)</b>
<b>III. Net interest income (I-II)</b>	<b>745,199</b>	<b>3,628</b>		<b>748,827</b>
<b>IV. Fee and commission income</b>	<b>570,945</b>			<b>570,945</b>
<b>V. Fee and commission expense</b>	<b>(48,794)</b>			<b>(48,794)</b>
<b>VI. Net fee and commission income (IV-V)</b>	<b>522,151</b>			<b>522,151</b>
<b>VII. Income from shares and other securities</b>	<b>64,750</b>			<b>64,750</b>
1. Subsidiary undertakings	500			500
2. Joint ventures	59,530			59,530
3. Associated undertakings	23			23
4. Other entities	4,697			4,697
<b>VIII. Net profit on financial operations</b>	<b>77,566</b>	<b>54,609</b>	2)	<b>132,175</b>
<b>IX. Net profit on foreign exchange</b>	<b>481,361</b>			<b>481,361</b>
<b>X. Profit/(loss) on banking activity</b>	<b>1,891,027</b>	<b>58,237</b>		<b>1,949,264</b>
<b>XI. Other operating income</b>	<b>77,865</b>			<b>77,865</b>
<b>XII. Other operating expense</b>	<b>(113,759)</b>			<b>(113,759)</b>
<b>XIII. General administrative expense</b>	<b>(1,119,779)</b>			<b>(1,119,779)</b>
<b>XIV. Depreciation expense</b>	<b>(155,445)</b>			<b>(155,445)</b>
<b>XV. Charges to provisions and revaluation</b>	<b>(1,148,878)</b>			<b>(1,148,878)</b>
1. Charges to specific provisions and general risk fund	(1,124,969)			(1,124,969)
2. Revaluation of financial assets	(23,909)			(23,909)
<b>XVI. Release of provisions and revaluation</b>	<b>961,170</b>			<b>961,170</b>
1. Release of specific provisions and provision for general risk fund	956,619			956,619
2. Revaluation of financial assets	4,551			4,551

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## Profit and loss account - cont.

in PLN thousand	for the period 01.01 - 31.12 2003 previously published	Change	Change description item	for the period 01.01 - 31.12 2003 after the change
<b>XVII. Net (charges to)/release of provisions and decrease in respect of revaluation</b>	<b>(187,708)</b>			<b>(187,708)</b>
<b>XVIII. Operating profit</b>	<b>392,201</b>	<b>58,237</b>		<b>450,438</b>
<b>XIX. Extraordinary (losses)/gains</b>				
1. Extraordinary gains				
2. Extraordinary losses				
<b>XX. Profit (loss) before tax</b>	<b>392,201</b>	<b>58,237</b>		<b>450,438</b>
<b>XXI. Corporate income tax expense</b>	<b>(178,030)</b>	<b>(12,254)</b>		<b>(190,284)</b>
1. Current	(59,808)			(59,808)
2. Deferred	(118,222)	(12,254)	2)	(130,476)
<b>XXII. Other obligatory charges to profit/(loss)</b>				
<b>XXIII. Participation in net profits (losses) of subordinated entities accounted for using equity method</b>	<b>28,339</b>			<b>28,339</b>
<b>XXIV. Net profit (loss)</b>	<b>242,510</b>	<b>45,983</b>		<b>288,493</b>

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 repur-

chase clause. Before the recording rules were changed, these transactions were disclosed as independent purchase or sale transactions.

In the annual financial statements for 2004, changes were introduced in the balance sheet data and cash flow statement with respect to the earlier published quarterly report for the fourth quarter of 2004, resulting from verification of financial data. As a result of these changes, the balance sheet total as of 31 December 2004 was reduced by PLN 31,316 thousand, and shareholders' equity as well as net profit were decreased by PLN 2,210 thousand, respectively.

## Note 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 re-

corded 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.

## Note 34

### Adjustments of fundamental errors

The Bank did not have to adjust any fundamental errors in the financial statements for 2004.

## Note 35

### Going concern assumption

There is no doubt as to the Bank's ability to continue operations.

## Note 36

### Business combination

No business combinations took place in 2004 and 2003.

## Note 37

### 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 for core currencies as of 31 December 2004 was as follows:

Country in PLN thousand	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)
United Kingdom	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
<b>Total unconvertible currencies</b>		<b>89,761</b>	<b>89,807</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(46)</b>
<b>Total</b>		<b>9,931,537</b>	<b>5 712 628</b>	<b>16,266,185</b>	<b>20,470,274</b>	<b>-</b>	
<b>Total currency position</b>							<b>116,359</b>



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

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

Country in PLN thousand	Currency	Assets	Liabilities	Off-balance sheet assets	Off-balance sheet liabilities	Indexed assets/ 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)
United Kingdom	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
<b>Total unconvertible currencies</b>		<b>189,211</b>	<b>189,268</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(57)</b>
<b>Total</b>		<b>13,189,111</b>	<b>6,463,253</b>	<b>19,179,816</b>	<b>25,902,561</b>	<b>-</b>	
<b>Total currency position</b>							<b>50,555</b>

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.

## Note 38

### Main items of the balance sheet, profit and loss account and cash flow statement without rounding

1. The Balance Sheet as of 31 December 2004 shows total assets and liabilities amounting to PLN 33,819,932,007.05;
2. Off-balance sheet items as of 31 December 2004 amounted to PLN 211,909,242,473.89, including offbalance liabilities granted at PLN 11,762,862,936.53;
3. The Profit and Loss Account for the period from 1 January 2004 to 31 December 2004 shows a net profit of PLN 414,214,162.25;
4. The statement of changes in shareholders' equity for the period from 1 January 2004 to 31 December 2004 shows shareholders' equity of PLN 6,152,785,024.29;
5. The Cash Flow Statement for the period from 1 January 2004 to 31 December 2004 shows a net cash outflow of PLN 239,847,604.37.

## Note 39

The annual report for 2004 will be made available at the website of Bank Handlowy w Warszawie SA, at [www.citibankhandlowy.pl](http://www.citibankhandlowy.pl)





# Opinion of the independent auditor

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• Opinion of the independent auditor

## **To the Shareholders of Bank Handlowy w Warszawie SA**

We have audited the accompanying financial statements of Bank Handlowy w Warszawie SA seated in Warsaw, ul. Senatorska 16, consisting of the introduction to the financial statements, the balance sheet as at 31 December, 2004, with total assets and total liabilities and equity of PLN 33,819,932 thousand, the capital adequacy ratio, the statement of contingencies and commitments granted as at 31 December, 2004 amounting to PLN 11,762,863 thousand, the profit and loss account for the year then ended with a net profit of PLN 414,214 thousand, the statement of changes in equity for the year then ended with an increase in equity of PLN 205,855 thousand, the cash flow statement for the year then ended with a decrease in cash amounting to PLN 239,847 thousand, and the supplementary information and explanations.

Management Board of Bank Handlowy w Warszawie SA is responsible for the true and fair presentation of the accompanying financial statements and the accuracy of the accounting records. Our responsibility was to audit and express an opinion on the true and fair presentation of the financial statements and whether the financial statements are derived from properly maintained accounting records.

We conducted our audit of financial statements in accordance with International Standards on Auditing as promulgated by the International Federation of Accountants, section 7 of the Polish Accounting Act dated 29 September 1994 (Official Journal from 2002, No. 76, item 694 with subsequent amendments) and the professional standards established by the Polish National Council of Certified Auditors. These standards require that we plan and perform the audit to obtain reasonable basis for expressing an opinion on the financial statements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Bank's Management Board, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the audited financial statements of Bank Handlowy w Warszawie SA have been prepared from properly maintained accounting records and present fairly, in all material aspects, the financial position of the Bank as at 31 December 2004 and the results of its operations for the year then ended in accordance with the accounting standards as set out in the Polish Accounting Act dated 29 September 1994, the Resolution of the Minister of Finance dated 10 December 2001 regarding special accounting principles for banks (Official Journal from 2001, No. 149, item 1673 with

subsequent amendments), requirements relating to issuers of publicly traded securities and regulations and with the respective laws, regulations and the Bank's statute, that apply to the Bank's financial statements.

As required under the Polish Accounting Act dated 29 September 1994, we also report that the Report on the Bank's activities includes the information required by Art. 49 Note 2 of the

Accounting Act and requirements of the Resolution of Council of Ministers dated 16 October 2001 on current and periodic information provided by issuers of publicly traded securities (Official Journal from 2001, No. 139, item 1569 with subsequent amendments) and the information is consistent with the financial statements.



Certified Auditor No. 3683/5018

**Janina Skwarka**



On behalf of KPMG Audyt Sp. z o.o.  
ul. Chłodna 51; 00-867 Warsaw  
Certified Auditor No. 9941/7390

**Bożena Graczyk**  
**Member of the Management Board**



On behalf of KPMG Audyt Sp. z o.o.  
ul. Chłodna 51; 00-867 Warsaw

**Robert J. Widdowson, Director**

Warsaw, 24 March 2005

Bank Handlowy w Warszawie SA  
Head office: 16 Senatorska St., 00-923 Warsaw, Poland  
tel. (48 22) 657 72 00, 690 40 00, fax (48 22) 692 50 23  
[www.citibankhandlowy.pl](http://www.citibankhandlowy.pl), e-mail: [listybh@citigroup.com](mailto:listybh@citigroup.com)

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