REPORT ON ACTIVITIES

OF BANK HANDLOWY W WARSZAWIE SA

IN THE FIRST SIX MONTHS OF 2004

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

1. Main macroeconomic trends

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

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

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

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

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

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

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

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

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

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

2. Money markets and FX markets

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

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

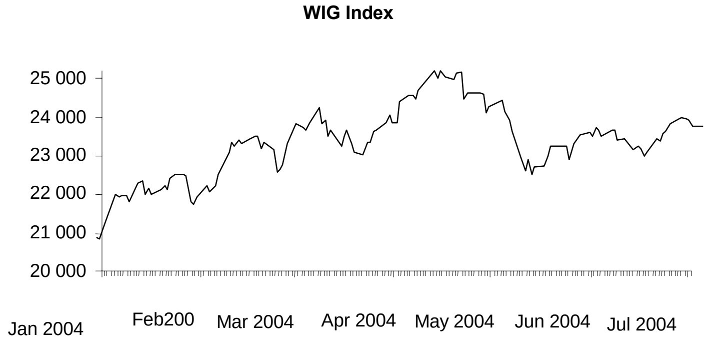
As a result of all the aforementioned factors, in the first six months of 2004 the market interest rates increased from the level of 40 basis points (WIBOR 1M) to 117 basis points (WIBOR 12M). At the end of June 2004, rates for longer tenors (over 3 Months) exceeded 6% while the reference rate amounted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

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

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

3. Capital market

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



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

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

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

4. Banking sector

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

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

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

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

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

II. Selected balance sheet data and financial results of Bank Handlowy w Warszawie SA

1. Summarised financial data of Bank Handlowy w Warszawie SA

PLN million	1998	1999	2000	2001	2002	2003	1st half of 2004
Balance sheet total	17,744.4	19,159.9	21,002.5	33,150.4	32,412.0	34,028.2	35,116.9
Equity*	2,557.8	2,758.4	3,034.8	5,742.1	5,267.6	5,658.4	5,610.3
Loans**	9,292.7	10,208.8	10,054.1	14,200.0	13,540.4	13,256.0	12,495.6
Deposits**	7,084.0	8,733.9	10,166.3	17,370.1	16,699.3	18,504.4	18,425.9
Profit on banking activity	1,191.8	1,330.9	1,555.3	2,074.5	2,089.3	1,949.3	953.2
Net profit	301.5	472.5	204.7	163.6	235.3	288.5	221.2
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	---
Dividend payout ratio	30.84%	39.37%	63.83%	99.81%	99.60%	99.67%	---
Capital adequacy ratio	13.7%	14.5%	15.6%	21.2%	18.5%	16.0%	17.3%

** Excluding net profit for the current period.*

*** Non-financial and public sector.*

**** On the basis of the net profit for the last 4 quarters.*

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

2.1 Profit and loss account

The net profit of the Bank in the first half of 2004 was PLN 221.2 million, an increase of PLN 125.9 million, i.e. 132.1%, compared to the same period of the previous year. The following were among the factors which contributed to the increase in the net profit of the Bank:

- increase in the profit on banking activity by PLN 41.1 million (4.5%),
- reduction in net write-downs for specific provisions and revaluation of financial assets, which amounted to a positive net amount of PLN 1.3 million in comparison with a charge of PLN 131.9 million in the same period of the previous year.

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

- decrease in gains on financial operations by PLN 127.0 million (129.3%)
- increase in general expenses by PLN 76.2 million (14.1%)

PROFIT AND LOSS ACCOUNT

in PLN thousand	The first half of 2004	2003	Change PLN thousand	%
Interest income	761,565	719,218	42,347	5.9%
Interest expense	(338,103)	(347,500)	9,397	(2.7%)
Net interest income	423,462	371,718	51,744	13.9%
Net fee and commission income	299,998	247,257	52,741	21.3%
Income on shares, other securities and other financial instruments with variable income securities	15,526	523	15,003	2,868.6%
Gains on financial operations	(28,764)	98,253	(127,017)	(129.3%)
Foreign exchange profit	242,934	194,269	48,665	25.1%
Profit on banking activity	**953,156**	**912,020**	**41,136**	**4.5%**
Other operating income	36,530	31,866	4,664	14.6%
Other operating expenses	(14,314)	(18,179)	3,865	(21.3%)
General expenses	(617,131)	(540,924)	(76,207)	14.1%
Depreciation and amortisation	(72,252)	(76,409)	4,157	(5.4%)
Goodwill amortisation	(36,223)	(36,223)	0	0.0%
Net charges to provisions and revaluation	1,276	(131,897)	133,173	101.0%
Operating profit	**251,042**	**140,254**	**110,788**	**79.0%**
Extraordinary items	-	-	-	-
Profit before taxation	**251,042**	**140,254**	**110,788**	**79.0%**
Corporate income tax	(55,121)	(56,330)	1,209	(2.1%)
Participation in net profit/(loss) of subordinated entities accounted for under the equity method	25,258	11,362	13,896	122.3%
Net profit	**221,179**	**95,286**	**125,893**	**132.1%**

2.1.1 Profit on banking activity

In the first half of 2004, the Bank reported an increase in the profit on banking activity by PLN 41.1 million, i.e. 4.5%. The following factors contributed in particular to profit on banking activity obtained in the current period in comparison with the first half of 2003:

- increase in net interest income by PLN 51.7 million (i.e. 13.9%), mainly as a result of higher interest income on debt securities due to a marked increase in the portfolio of these securities, and a decrease in interest cost on deposits by PLN 9.4 million (i.e. 2.7%);
- increase in net commission income by PLN 52.7 million (i.e. 21.3%), mainly due to commissions on insurance products, cash management commissions, and payments for issuance and use of payment and credit cards;
- increase in net profit on foreign exchange by PLN 48.7 million (i.e. 25.1%) mainly on foreign exchange operations on financial instruments.

On the other hand, the increase in the Bank's income was reduced by the drop in the net profit on financial operations by PLN 127.0 million caused by losses on government debt securities transactions, in particular Polish treasury bonds. This resulted from the increase in market interest rates.

2.1.2 *Expenses*

EXPENSES

in PLN thousand	The first half of 2004	2003	Change PLN thousand	%
Salaries	231,393	218,686	12,707	5.8%
Social security and other benefits	49,851	45,350	4,501	9.9%
Total personnel expenses	**281,244**	**264,036**	**17,208**	**6.5%**
Administrative expenses	302,563	267,335	35,228	13.2%
Taxes and fees	4,217	4,006	211	5.3%
Contributions and payments to the Bank Guarantee Fund	3,976	5,547	(1,571),	(28.3%)
Restructuring charge – personnel costs	25,131	-	25,131	-
Total general expenses	**617,131**	**540,924**	**76,207**	**14.1%**
Depreciation	72,252	76,409	(4,157)	(5.4%)
Total expenses	**689,383**	**617,333**	**72,050**	**11.7%**

In the first half of 2004, the Bank commenced restructuring activities with the aim to improve efficiency and increase profitability of the institution by lowering the costs of operation. The most significant event during this period related to employment reduction. The Management Board of the Bank decided that between 1 April and 31 December 2004 the Bank would terminate employment contracts of up to 630 employees. The changes in the structure of employment follow the reorganisation of individual areas and introduction of new technological and organisational solutions. The Bank expects that they will lead to an improvement in quality and effectiveness of customer service. On 23 March 2004, the Bank entered an agreement with trade unions 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 redeployed to the fast growing Consumer Sector of the Bank. As a consequence of this decision, total severance cost amounted to PLN 25.1 million.

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

Other important factors affecting the level of expenses were :

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

2.1.3 *Provisioning charges and financial assets revaluation*

NET CHARGES TO PROVISIONS AND REVALUATION

in PLN thousand	The first half of 2004	2003	Change PLN thousand	%
Specific provisions	(105,225)	(121,149)	15,925	13.1%
- financial institutions	2,800	23,561	(20,761)	(88.1%)
- non-financial sector	(206,625)	(72,525)	(134,101)	(184.9%)
- subordinated loans	35,000	(78,961)	113,961	144.3%
- other	1,650	(489)	2,139	437.4%
- off-balance sheet contingent liabilities	61,952	7,265	54,687	752.7%
Provision for general risk	105,000	-	105,000	-
Revaluation of financial assets	1,500	(10,748)	12,248	114.0%
Total net charges to provisions and net revaluation difference	**1,276**	**(131,897)**	**133,173**	**101.0%**

In the first half of 2004, net write-downs on provisions and revaluation of financial assets decreased by PLN 133.2 million. (i.e. 101.0%) in comparison with the first half of 2003. Moreover, in the first half of 2004, the Bank conducted a detailed review of its loan portfolio for correctness of classification of customers into individual risk groups and collateral reducing the credit risk exposure. As a result of the above review and the increase in specific provisions, it was also decided to reduce the general provision by PLN 105 million. The remaining amount of the general provision is PLN 195 million and is considered adequate to cover the credit risk relating to the consumer portfolio and the credit exposure from watch category.

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

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

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

2.1.4 *Accounting for subordinated entities*

In the first half of 2004, the net profit of the Bank was increased by PLN 25.3 million from valuation of fixed assets – significant shareholdings in undertakings subordinated valuated by the equity method. This amount was disclosed in the profit and loss account in the item “Participation in net profits (losses) of subordinated entities accounted for using equity method” and comprised of valuations of the following entities: Dom Maklerski Banku Handlowego SA, Handlowy-Leasing S.A., Citileasing Sp. z o.o., Handlowy Zarządzanie Aktywami S.A., Towarzystwo Funduszy Inwestycyjnych BH S.A., Handlowy Inwestycje Sp. z o.o., Handlowy Inwestycje II Sp. z o.o., Handlowy Investments S.A., Handlowy Inwestments II S.a.r.l., Bank

Rozwoju Cukrownictwa S.A., Polskie Pracownicze Towarzystwo Emerytalne DIAMENT S.A., Handlowy-Heller S.A., KP Konsorcjum Sp. z o.o. The largest part of this amount was the effect of valuation of net assets of Citileasing Sp. z o.o. totalling PLN 12.1 million.

2.1.5 Ratio analysis

In general, changes in ratios of return on equity and 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, but on the other hand explains a relatively low ROE.

PROFITABILITY AND COST EFFICIENCY RATIOS

	The first half of	
in PLN thousand	**2004**	**2003**
Return on owners' equity (ROE)*	7.0%	3.1%
Return on assets (ROA)**	1.2%	0.6%
Net interest margin (NIM)***	2.5%	2.3%
Earnings per 1 share or convertible bond (EPS), in PLN	3.17	1.40
Cost/Income****	70.7%	66.7%

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

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

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

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

2.2 Balance Sheet

As of 30 June 2004, the Bank's balance sheet total amounted to PLN 35,116.9 million and was higher by 7.6% than one year earlier.

BALANCE SHEET

		As of		**Change from**	
in PLN thousand	**30/06/2004**	**31/12/2003**	**30/06/2003**	**31/12/2003**	**30/06/2003**
Cash, operations with the Central Bank	808,986	1,186,514	1,132,036	(31.8%)	(28.5%)
Due from the financial sector*	5,745,477	8,714,786	5,153,978	(34.1%)	11.5%
Due from the non-financial sector	12,495,130	13,252,870	14,337,425	(5.7%)	(12.8%)
Due from the public sector	488	3,131	6,733	(84.4%)	(92.8%)
Receivables subject to securities sale and repurchase agreements	372,905	288,601	16,042	29.2%	2,224.6%
Debt securities*	9,579,532	3,842,268	4,560,664	149.3%	110.0%
Equity investments*	515,493	459,721	503,588	12.1%	2.4%
Other financial assets*	2,981,279	3,624,895	4,030,248	(17.8%)	(26.0%)
Intangible assets	1,259,070	1,295,012	1,331,087	(2.8%)	(5.4%)
- including: goodwill	1,207,423	1,243,645	1,279,868	(2.9%)	(5.7%)
Tangible fixed assets	734,506	764,145	782,023	(3.9%)	(6.1%)
Other assets	623,987	596,273	790,835	4.6%	(21.1%)
TOTAL ASSETS	**35,116,853**	**34,028,216**	**32,644,659**	**3.2%**	**7.6%**

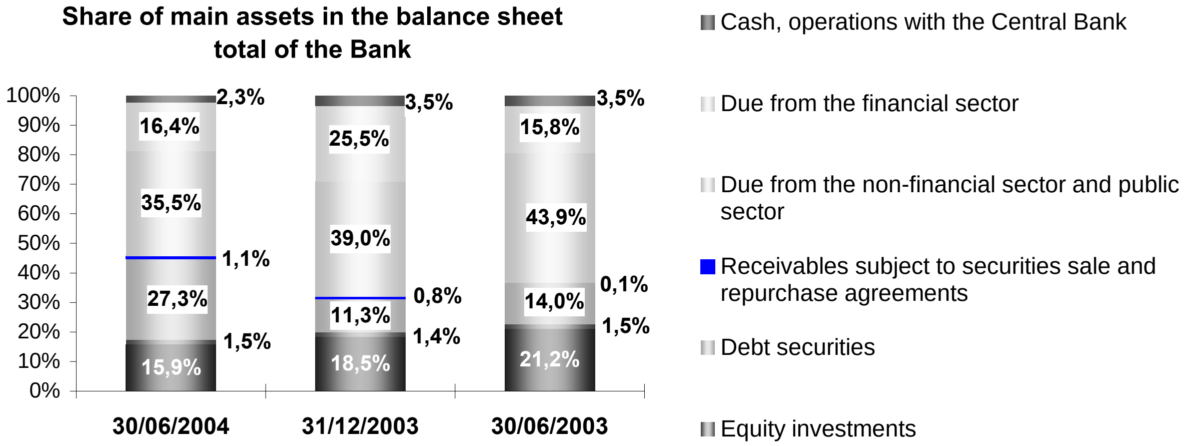
BALANCE SHEET

in PLN thousand	As of 30/06/2004	31/12/2003	30/06/2003	Change from 31/12/2003	30/06/2003
Due to the Central Bank	1,693	41,145	83,633	(95.9%)	(98.0%)
Due to the financial sector	4,784,722	3,826,082	3,506,989	25.1%	36.4%
Due to the non-financial sector	17,834,985	18,039,260	16,335,038	(1.1%)	9.2%
Due to the public sector	590,946	465,145	504,051	27.0%	17.2%
Liabilities in respect of securities subject to sale and repurchase agreements	558,045	470,803	46,248	18.5%	1,106.6%
Other liabilities arising from financial instruments	3,321,489	3,651,195	3,913,172	(9.0%)	(15.1%)
Other liabilities	1,913,719	1,140,324	1,997,355	67.8%	(4.2%)
Provisions	279,753	447,331	439,584	(37.5%)	(36.4%)
Equity and retained earnings	5,610,322	5,658,438	5,723,303	(0.9%)	(2.0%)
Net profit	221,179	288,493	95,286	(23.3%)	132.1%
TOTAL LIABILITIES	**35,116,853**	**34,028,216**	**32,644,659**	**3.2%**	**7.6%**

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

2.2.1 Assets

The largest component of the Bank's assets is receivables due from the non-financial sector. As of 30 June 2004, net credit exposure to non-financial entities amounted to PLN 12,495.1 million, which represented a reduction of exposure by 12.8% in comparison with the respective period of the previous year. The decrease results from a combination of the Bank's prudent lending policy and the continued uncertainty over the financial standing of numerous segments.



In the first six months of 2004, the Bank's structure of assets changed. Debt securities portfolio increased in this period by PLN 5,737.3 million (149.3%), mainly owing to the growth in the portfolio of treasury bonds and bills. At the same time the scale of investing free funds in the interbank market was reduced in comparison with the end of 2003. This tendency is reflected by the drop in receivables due from the financial sector by PLN 2,969.3 million (34.1%), and receivables due from banks decreased by PLN 7,594.9 million to 4,678.4 million, i.e. by PLN 2,916.5 million (38.4%).

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

DEBT SECURITIES PORTFOLIO

	As of			Change from	
in PLN thousand	30/06/2004	31/12/2003	30/06/2003	31/12/2003	30/06/2003
Treasury bonds	7,542,295	2,640,357	3,364,820	185.7%	124.2%
NBP bonds	372,316	384,884	376,201	(3.3%)	(1.0%)
Treasury bills	1,185,181	146,106	191,538	711.2%	518.8%
Certificates of deposit and bonds issued by banks	57,280	116,627	34,512	(50.9%)	66.0%
Issued by other financial institutions	29,346	298	11,652	9,747.7%	151.9%
Issued by non-financial sector	393,114	553,996	581,941	(29.0%)	(32.4%)
T O T A L	**9,579,532**	**3,842,268**	**4,560,664**	**171.0%**	**102.1%**

The Bank pursues a strategy of reducing its equity investments, nevertheless, due to increased valuation and the release of part of the provision for subordinated loans financing investment companies, the value of the capital expenditure portfolio increased in the first half of 2004 by PLN 55.8 million (12.1%).

2.2.2 Liabilities and equity

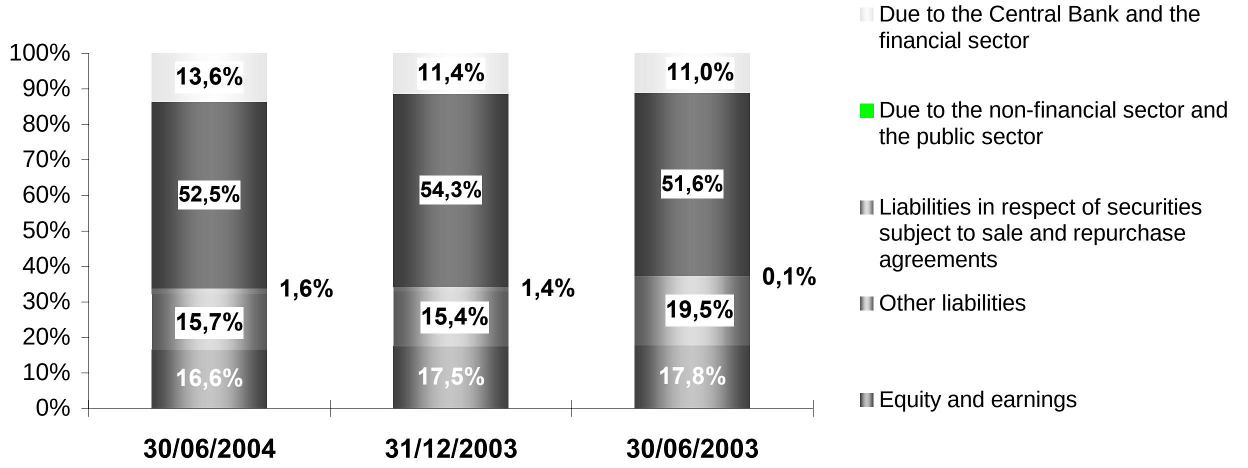
There were no significant changes in the structure of liabilities and equity of the Bank in the first half of 2004, which to a large extent resulted from the stability of the deposit base.

The main source of financing the Bank's assets continued to be from liabilities due to the non-financial and public sectors. In comparison with the end of 2003 this item slightly decreased, by PLN 78.5 million (i.e. 0.4%), nevertheless this reduction, together with the reduction in liabilities due to the Central Bank (PLN 39.5 million) was offset by the increase in liabilities due to the financial sector, by PLN 958.6 million (i.e. 25.1%).

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

The decrease in equity in comparison with the end of 2003 resulted from allocation of almost the whole profit for 2003 as a dividend for shareholders. After the Ordinary General Meeting of Shareholders adopted on 24 June 2004 the resolution on the allocation of profit for 2003, the dividend amount (PLN 241.7 million) was transferred to the item "Other liabilities to various creditors" where it remained until the payment date, i.e. 1 September 2004.

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



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

2.3 Equity and capital adequacy

In the first half of 2004, the equity of the Bank decreased by PLN 48.1 million (i.e. by 0.9%) as a result of:

- reduction in the revaluation fund by PLN 95.0 million, caused by an increase in the negative value of revaluation of debt securities available for sale
- increase in reserve capital by PLN 790 thousand as a result of distribution of profit for 2003. The remaining part of the profit, of PLN 241.7 million, was allocated for payment of dividend to shareholders
- change in principles of recording repo/reverse repo transactions of the sell-buy-back and buy-sell-back type on securities. The positive effect of the introduced changes in accounting principles, of PLN 35.1 million, was disclosed in equity as the correction of the net profit/loss from previous years in the item of profit (loss) from previous years.

Also changes in the structure of equity occurred in the period described. These changes included:

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

EQUITY

in PLN thousand	As of 30/06/2004	As of 31/12/2003	As of 30/06/2003	Change from: 31/12/2003	Change from: 30/06/2003
Authorised capital	522,638	522,638	522,638	0.0%	0.0%
Capital surplus	3,044,585	3,044,585	3,044,585	0.0%	0.0%
Reserve capital	1,726,191	1,725,273	1,724,871	0.1%	0.1%
Revaluation capital	(108,228)	(13,211)	52,056	(719.2%)	(307.9%)
General risk fund	390,000	390,000	390,000	0.0%	0.0%
Profit (loss) from previous years	35,136	(10,847)	(10,847)	423.9%	423.9%
Total equity	**5,610,322**	**5,658,438**	**5,723,303**	**(0.9%)**	**(2.0%)**
Core capital	5,683,414	5,682,496	5,682,094	0.8%	0.8%
Supplementary capital	(108,228)	(13,211)	52,056	(719.2%)	(307.9%)
Profit (loss) from previous years	35,136	(10,847)	(10,847)	423.9%	423.9%

At the end of June 2004, in terms of total equity, the Bank ranked third in the banking sector. The level of capital was sufficient to guarantee financial security to the institution and the deposits it accepts.

As of 30 June 2004, the only shareholder holding at least 5% of the Bank's authorised capital and of total voting rights at the General Meeting of Shareholders was Citibank Overseas Investment Corporation ("COIC") based in Newcastle, United States, a subsidiary of Citibank N.A. It then held 116,717,574 shares in the Bank, i.e. 89.33% interest in the Bank's authorised capital entitling it to exercise 89.33% votes at the General Meeting of Shareholders.

As of 30 June 2004, the adequacy ratio was 17.34% and was higher then at the end of 2003 by 1.3 percent point. The increase in the adequacy was mainly due to:

- reduction in assets weighted by risk and off-balance sheet commitments by PLN 3,257.5 million, to which the drop in the loan portfolio contributed to a significant extent. The surplus of cash was invested in securities with a low risk weight.
- reduction in the capital requirement due to a decrease in the credit concentration limit by PLN 136.1 million.

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

CAPITAL ADEQUACY RATIO (*)

As of, in PLN thousand	30/06/2004	31/12/2003	30/06/2003
Balance sheet value of capital funds	**5,610,322**	**5,704,457**	**5,729,280**
Deductions, of which:	1,491,251	1,113,992	1,181,849
- goodwill	1,207,423	746,187	767,921
- other intangible fixed assets	51,647	30,820	30,731
- investments in subordinated financial institutions	369,801	344,544	365,933
- financial assets revaluation reserve fund	(137,620)	(7,559)	17,264
Eligible capital	**4,119,071**	**4,590,465**	**4,547,431**
Risk-weighted assets and contingent liabilities (bank portfolio)	**16,841,321**	**20,098,770**	**19,496,879**
Total capital requirement, of which:	**1,900,316,**	**2,289,828**	**2,525,182**
- capital requirement for credit risk	1,347,306	1,607,902	1,559,750
- capital requirement due to the excess of credit concentration limit	181,574	317,650	515,625
- total capital requirement for market risks	235,715	229,581	231,036
- other capital requirements	135,721	134,695	218,771
Capital Adequacy Ratio	**17.34%**	**16.04%**	**14.41%**

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

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

1. Lending and other risk exposures

1.1 Lending

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

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

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

Lending to non-bank customers (gross)

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

Loans excluding interest receivable.

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

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

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

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

The Bank monitors the concentration of its exposure on a regular basis, seeking to avoid a situation where the portfolio is dependent on a limited group of customers. As of 30 June 2003, the Bank's portfolio of exposure to non-bank entities did not include any exposure exceeding the exposure concentration limits laid down by the law. The largest exposure related to financing of a leasing company owned by the Bank (Customer 1).

Exposure concentration – non-bank customers

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

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

1.2 Quality of loan portfolio

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

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

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

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

Indices of loan portfolio quality

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

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

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

Provisions against non-bank loan portfolio

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

1.3 *Off-balance sheet exposures*

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

Off-balance sheet exposures

	Wg stanu na dzień			Zmiana od	
M PLN	**30/06/2004**	**31/12/2003**	**30/06/2003**	**31/12/2002**	**30/06/2002**
Guarantees	2,864,046	3,020,936	2,662,641	(5.2%)	7.6%
Letters of credit issued	128,143	160,337	117,036	(20.1%)	9.5%
Third-party confirmed letters of credit	19,377	16,969	20,577	14.2%	(5.8%)
Undrawn credit lines	7,645,301	8,034,233	6,403,718	(4.8%)	19.4%
Forward placements	38,923	3,179,425	40,106	(98.8%)	(2.9%)
Other financing	635,678	646,991	436,468	(1.7%)	45.6%
Total	**11,331,468**	**15,058,891**	**9,680,546**	**(24.8%)**	**17.1%**
Provisions for off-balance sheet liabilities	83,068	145,019	138,041	(42.7%)	(39.8%)
Provision coverage index	0.73%	0.96%	1.43%		

2. External Funding

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

External funding

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

Excluding interest to be paid.

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

Liabilities to non-bank customers

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

Excluding interest to be paid.

3. Corporate funds management

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

3.1 Transaction servicing

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

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

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

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

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

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

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

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

The first half of 2004 saw further development of *SpeedCollect*, which is a mass payments servicing system. It enables the Bank's corporate customers to automatically allocate payments made by their clients to appropriate accounts and to reconcile account balances. The system is offered to cellular and cable telecom operators, cable TV providers, distributors of gas and power supply and insurance companies. At the end of the first half of 2004, the system was used by 1,016 customers, including 13 customers who used the version of *SpeedCollect Plus* added to the Bank's offer in 2002. In the first half of 2003, the average number of monthly transactions processed by *SpeedCollect* amounted to 11 million.

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

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

3.2 Trade Finance products

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

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

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

3.3 Foreign trade settlements

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

3.4 Custody services

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

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

4. Money market and FX market

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

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

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

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

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

5. Corporate Banking

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

5.1 Financial and advisory for enterprises

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

5.2 Issuance of corporate debt securities

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

- In January 2004, the Bank participated in the short-term debt securities issuance program of Europejski Fundusz Leasingowy S.A. with the indebtedness limit of PLN 600 million. The Bank acted as co-arranger and dealer of the program.
- In June 2004 the Bank participated in the short- and medium-term bonds issue program of Carrefour Polska Sp z o.o. with the indebtedness limit of PLN 300 million. The Bank acts as a dealer of the program.

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

6. Commercial Banking

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

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

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

7. Cooperation with international financial institutions

7.1 Cooperation with Hansabanka

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

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

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

8. Retail Banking

8.1 Consumer Banking Sector

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

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

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

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

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

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

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

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

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

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

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

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

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

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

8.2 CitiFinancial

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

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

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

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

8.3 SME Banking: Citibusiness

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

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

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

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

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

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

8.4 Insurance

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

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

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

9. Branch network

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

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

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

10. Changes in IT

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

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

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

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

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

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

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

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

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

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

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

11. Brokerage

11.1 Secondary Market

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

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

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

11.2 IPOs Market

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

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

11.3 DMBH as a Market Maker

DMBH commenced its operations on the Warsaw Stock Exchange in 1994, firstly as a Stock Exchange Member – Specialist, and then as a Market Maker. Since the creation of the futures market on WSE, DMBH acts as a Market Maker for futures contracts for the WIG 20 index. Also for eight years the brokerage house was the market Organizer on the Central Table of Offers (CTO), whose operating principles are similar to those of a Market Maker.

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

For three years DMBH has been the top Market Maker among 14 brokerage offices who act as Market Makers. As of 30 June 2004 DMBH was the Market Maker for 43 corporate shares, representing 21.3% of all shares listed on WSE, one convertible bond and futures contracts for the WIG 20 index. As an Organizer at CTO the brokerage house performed its task for one share and for the investment certificate of US Dollar CitiBonds of Mixed Investment Fund.

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

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

12. 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 the Bank. The range of products includes operating leases, financial leases and sale and lease back of fixed assets in the following groups: truck-tractors, complete trucks, trailers and semi-trailers, delivery vans, machinery and equipment, as well as other fixed assets. The companies service small and medium value transactions (so-called small/medium-ticket leasing) as well as large value transactions (so-called big-ticket leasing) and support sales programs of equipment manufacturers and suppliers (so-called vendor financing).

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

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

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

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

13. Asset management

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

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

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

14. Investment Funds management

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

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

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

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

The company also improved its financial performance in the first half of the current year. Sales revenues amounted to PLN 10,631 thousand and were higher by PLN 1,663 thousand, i.e. by 18.54%, than in the same period of the previous year. Net profit in the first half of the year amounted to PLN 3,708 thousand, and was higher by 1,152 thousand, i.e. by 45.06% than in the first half of 2003.

15. Special purpose investment companies

In the first half of 2004 the Bank conducted investment activity through four special purpose investment companies, whose activities were financed by means of returnable contributions to shareholder's equity, subordinated loans and also by financial profits of the companies. As the group intends to limit this type of activity, the special purpose investment companies will be gradually restructured and liquidated.

16. Other information about the Bank

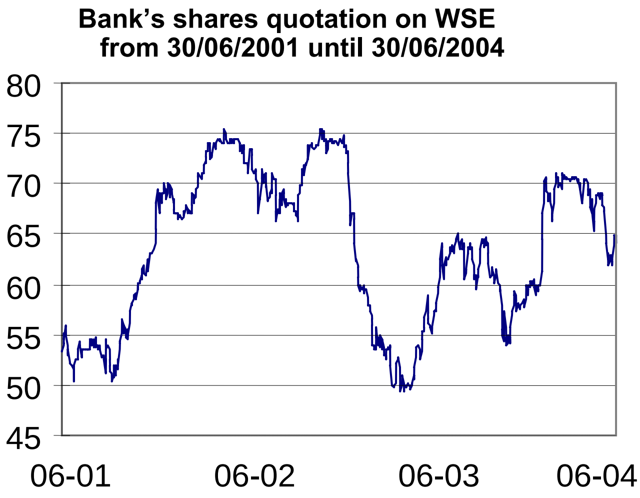
16.1 Rating

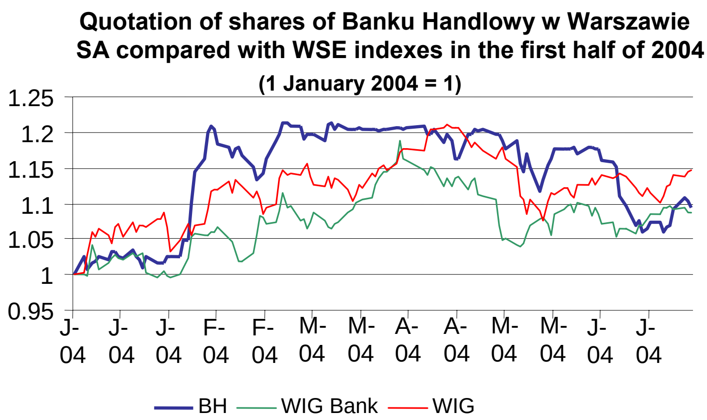
The Bank has a full rating from the international rating agency Moody's Investors Service.

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

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

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





16.3 Awards and honors

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

1. The prestigious financial monthly, Global Finance, recognized the Bank as the best bank in Poland in the foreign exchange market ("Best Foreign Exchange Bank 2004").
2. For the first time in the history of Dom Maklerski Banku Handlowego S.A., the President of the Warsaw Stock Exchange honored it with an award for the largest share of stock exchange turnover and for the largest share of market maker activity.
3. The Editing Board of the Polish edition of "Newsweek" awarded the Bank the title of the best employer of 2003 in the financial institutions category.
4. The Bank was recognized as the best bank in Poland in the ranking list of "Best Emerging Market Banks 2004" published by the Global Finance magazine.

5. “Twój Styl” magazine granted to the Bank the special award “Alicja 2003” as a member of the Coalition for Direct Debit.
6. Analysts of the Bank were ranked number one for their forecasts of macroeconomic indices published in Gazeta Bankowa in 2003.
7. MasterCard International awarded Bank Handlowy w Warszawie SA the silver “Rock Award 2003” in the category of highest achievements in credit card development.

16.4 Sponsoring activity and cultural patronage

- 2004 started with the concert entitled „VIVA KARNAWAŁ” *{Long Live the Carnival}*, performed in Witold Lutosławski Concert Studio in Warsaw.
- The Bank, as the National Philharmonics Patron of the Year 2004, was the main sponsor of the King’s Singers concert on 27 April 2004 in the National Philharmonics Concert Hall in Warsaw.
- The Bank sponsored the Extraordinary Symphonic Concert to commemorate the 10th Anniversary of Witold Lutosławski’s death on 17 May 2004 in the National Philharmonics Concert Hall in Warsaw.
- The artistic season at the National Philharmonics ended in a gala concert on 28 May 2004 together with the Patron of the Year awards, one of which was bestowed upon the Bank. The program of the concert included one of the most eminent opera masterpieces: “Cavalleria Rusticana” by Pietro Macagni.

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

IV. Major risk factors relating to the environment and operations of Bank Handlowy w Warszawie SA

1. Major risk factors related to Bank Handlowy’s environment

1.1 Economy

The Bank’s forecasts on the Polish economy assume an acceleration of economic activity in the coming years and GDP growth at the level of 5.0% - 5.5%. In 2004 the main engine of growth will be exports (in connection with Poland’s accession to the EU as well as the improvement of the economic situation in the EU Member States and the favorable euro/dollar exchange rate). Exports will remain an important growth factor, and increasing domestic demand (especially for investments) will contribute to an increase in imports. Consequently, the current account deficit will gradually increase and will grow in relation to GDP by almost 2% in 2004 and by 3% to 4% in the years 2005 to 2006. As a result of supply shocks and economic revival the average annual rate of inflation will increase and may remain at the level of about 3%. As a consequence, monetary policy may be tightened and subsequent moderate rises of interest rates may represent a periodic drop in real interest rates due to increasing inflation. The main risk factor in the coming years is related to the implementation of public finance reforms, which constitute a prerequisite for meeting the Maastrich criteria and, consequently, Poland's accession to the euro zone.

The prospect of joining the European Union and thereafter the Economic and Monetary Union will attract investors, encouraged mainly by the market size, the supply of qualified workforce and relatively low labor costs with similar levels of business activity risk and technological development. The growth of foreign investments will be stimulated by economic growth and the expected acceleration of the privatization process.

Apart from the inflow of foreign investments, mainly in the form of direct investments, the growth of foreign trade turnover is also expected following the opening of the European Union borders and the growth of Polish companies' productivity resulting from the flow of know-how and modern technologies. On the other hand, Polish enterprises will be subject to intensified competition from EU enterprises.

The extent of utilization of Union funds will affect the macroeconomic situation of the country. In the first three months of membership the amount Poland obtained from the EU was 2.5 times higher than the amount transferred for the benefit of the Community, which substantially decreased the risk that in the first year of EU membership Poland would be a net payer. In subsequent years, an increase in inflow of EU funds is expected and the major improvement will take place from 2007 when the new community budget will have taken effect, and Poland will become the biggest net beneficiary of EU aid. The ability to utilize the community funds effectively still remains an open question.

The situation of the banking industry in Poland, and thus the financial condition of the Bank, is closely linked to the overall state of the national economy, and also to the conditions prevailing on local and regional markets within the country.

Increased economic activity will affect the customers' willingness to use the Bank's services and their ability to repay their liabilities to the Bank on a timely basis. Similarly, the Bank's results may be influenced by macroeconomic factors such as inflation, wage levels, unemployment, quantitative and qualitative changes of interest rates, foreign trade performance and the current account balance, the size of the budget deficit, and exchange rate fluctuations. Any unfavourable changes in these macroeconomic factors, particularly a significant increase of the inflation rate (causing an increase in uncertainty accompanying investments) and current account deficit and significant unfavorable movements in interest or foreign exchange rates may have an adverse effect on the earnings and overall financial standing of the Bank. It should also be noted that lower real interest rates, will promote customer interest in other savings vehicles as alternatives to bank deposits, and will increase demand for credit.

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.

1.2 *Regulatory risk*

Any changes in economic policies or in the legal system could have a considerable effect on the Bank's financial condition. In terms of banking sector regulation, a particularly important role is played by statute law, and 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 Commission for Banking Supervision),
- calculation and maintenance of mandatory reserves (NBP, Banking Act, and resolutions of the Commission for Banking Supervision and of the NBP Management Board),
- obligation to create specific provisions against irregular assets (Accounting Act, Banking Act),
- taxation and similar charges.

1.3 *Taxation*

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

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

1.4 *Competition within the banking sector*

Competition between banks in different segments of the Polish banking market seems to be strong. Corporate entities are increasingly using financial alternatives to bank loans, such as issuance of short-term debt securities, bonds and equity or lease finance. It is possible 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. However, one should not expect significant changes in the banking sector structure and the emergence of new players, because institutions interested in the Polish market, which perceive it as an attractive target, have already been present on the market for a number of years. As a result, the offering of banks operating in Poland is often similar to that of Western banks. Hence, it may be expected that changes in the sector resulting from EU accession will not significantly change banking activity and competition will take place in the quality of services and its efficiency and customer service time. Further consolidation processes could eventually lead to a decrease of 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.

2. Major risk factors connected with Bank Handlowy w Warszawie SA and its operations

2.1 *Liquidity risk*

Maturity mismatches between loans and the deposits that fund them are a typical aspect of banking activity, and occur in the Bank too. 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.

2.2 *Foreign exchange risk*

The Bank performs foreign exchange operations both on behalf of its customers and for its own account, and holds open 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.

2.3 *Interest rate risk*

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

2.4 *Credit risk*

The conduct of business involving the extension of loans and guarantees is inextricably 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. The Bank's Management Board considers the current provisions as adequate. 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.

2.5 *Equity investment risk*

Equity investments can be divided into three categories: active, strategic and restructuring. The objective of active investments is to ensure a high rate of return. The strategic investment portfolio includes the Bank's shares in financial institutions of a strategic significance to the Bank due to its operations. Restructuring investments exposure arises from the conversion of receivables into equity shares. Investments are executed directly by the Bank or indirectly via the Bank's wholly-owned special purpose investment vehicles. The value of net equity investments including subordinated loans and convertible bonds for the Bank's investment companies amounted to PLN 402.9 million as of 30 June 2004, compared to PLN 437.3 million as of 31 December 2003. For some equity investments, their assessment is based on the assumption of finding a strategic investor for the company, in which the Bank holds shares. Therefore, maintaining a high level of foreign investment may be crucial to valuation of such investment. 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.

2.6 *Risk related to the reduction of the strategic investor involvement*

After the merger of Bank Handlowy w Warszawie S.A. and Citibank (Poland) S.A. in March 2001, Citigroup holds 89.33% of the Bank's authorized capital. The majority shareholder declared to scale down the size of its ownership of Bank shares to 75% by the end of 2004. This widely known information about the planned reduction of the Citigroup share in Bank carries a short-term risk of a decrease in the share price.

2.7 *Operating risk*

The Bank's operations are based on two separate systems for corporate and consumer bank operations. In connection with the transfer of small enterprise segment customers from the Corporate Division to the Consumer Banking Division, their migration from the corporate system to the consumer system is underway. In order to limit the risk connected with the migration, it is conducted in five phases preceded by detailed system tests.

Data processing for consumer banking provided by the technology centre in Singapore ensures cost efficiency and technical support, as well as access to the most modern solutions. This creates a failure risk related to data transmission at long distances and potential vulnerability of the Bank to natural disasters that may occur in that region. The Bank has COB *(Continuity of Business)* procedures to mitigate this risk – for example it has reserve back up computer capabilities at its disposal in the Regional Processing Centre in Olsztyn and in other locations, which guarantee maintenance of the Bank's functional continuity.

The overall level of operating risk is moderate.

2.8 *Legal risk*

The Bank is a subsidiary undertaking of Citibank N.A. (indirectly through Citibank Overseas Investment Corporation), a member of Citigroup. In order for the Bank's majority shareholder to be able to control the risk inherent in its operations properly, on a global scale, and also to maintain compliance with the US regulations which it is governed by, the Bank must ensure the compliance of its own regulations and activity with the standards set by Citibank and with the relevant regulations applicable to Citibank and Citigroup. The Bank uses IT systems developed and used by other members of Citigroup. Certain operational questions that arise in the context of relations with strategic investors and the outsourcing of data processing are not always addressed with sufficient clarity in Polish law. This gives rise to legal risk, which the Bank mitigates by conducting detailed legal analyses.

2.9 *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 bankruptcy or financial distress of one of the participating institutions, it might prove necessary for the Bank and other participants in the Bank Guarantee Fund to make large payments to the Fund, in proportion to the sums held within the individual deposit protection funds established at a given institutions. This could have negative repercussions for the Bank's earnings.

V. Prospects for the business development of Bank Handlowy w Warszawie SA

1. General objectives of the Bank's development

The Bank's objective is to increase systematically shareholder value by ensuring an appropriate return on equity and increasing the Bank's share in key market segments. In the past year, the Bank increased its customer base, inter alia owing to the development of services for small enterprises and of 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 with sales revenues ranging from $ 50 million to $ 250 million (the so-called commercial banking customers segment).

In the medium term, the Bank will be striving for a double-digit market share, as measured by its share in the net income from banking activity generated by the banking sector. In the first half of 2004, this share amounted to 6.7%. This increase in the market share is to be attained by maintaining the Bank's leading position in corporate banking and services for the high net worth individuals. Business areas with high growth potential, e.g. services for large and medium-sized domestic enterprises (Commercial Banking Sector), services for small enterprises (CitiBusiness product offering), and loans to private individuals (CitiFinancial), will be significantly developed.

At the same time, the Bank will place special emphasis on efficient cost management policy. In the first six months of 2004, the Bank's share of general expenses of the banking sector was 7.7% in comparison with 7% as at the end of 2003. In the coming years, the Bank plans to implement strict cost discipline, so that the cost/income ratio would remain below 2.0 in a durable manner. The Bank's share in the net financial result of the banking sector in the first half of 2004 amounted to 5.9%.

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

1.1 *Corporate banking*

The Bank is the corporate banking leader in Poland. As of 30 June 2004, its share of the corporate lending market (private and state-owned companies and cooperatives) was 8.7% compared to 9.1% at the end of 2003, whereas the share in the corporate deposits market amounted to 13.6% compared to 15.3% in 2003. The Bank's share of the corporate debt origination market, measured by indebtedness size, was 16.4% at the end of June 2004 compared to 23.5% at the end of 2003.

In the first half of 2004, the Bank operated on the basis of a newly-implemented, more effective 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 extended. The largest customers of the Bank customers were provided with a fully customized service.

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 will be able to accommodate the financial needs of these customers by offering unique services that blend its own knowledge of the domestic business environment with the international experience and global reach of Citigroup.

The 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 factor 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.

1.2 *Consumer banking*

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

The Bank's share in total lending to private individuals totalled 2.1% at the end of June 2004, compared to 2.0% at the end of 2003, whereas the market share of deposits as at the end of June 2004 did not change from 3.0% as at the end of 2003.

The Bank plans to significantly increase its market share in the consumer banking sector from the current 4% to 6% by 2009. The Bank will aspire to achieve a two-digit market share as a target. The Bank is primarily interested in acquiring customers with medium and high income, living in cities with over 100,000 inhabitants. The Bank's product offering is tailored to suit the needs and expectations of this customer profile.

The Bank's share in the credit card market remains at a stable level of around 40% in terms of debt. 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 enlarged.

The Bank has a very strong position in servicing wealthy customers. Services offered to these customers are of global coverage, which distinguishes the Bank from its competitors.

In 2004 the Bank gradually strengthened its position in this market segment thanks to the *CitiGold Wealth Management* service addressed to customers who possess investment means in excess of PLN 100,000. The most important highlight of the wealth management service is the savings and investment plan including investment, insurance and banking products. The products available under *CitiGold Wealth Management* package include current accounts, term deposits, investment deposits and dual-currency deposits, investment funds, treasury bills and bonds. Customer funds management is to be based on personalized investment portfolio creation according to individual customer's needs and preferences. Poland is the first European country where Citigroup introduced its *CitiGold Wealth Management* service.

Moreover, the offer addressed to medium-income customers holding *CitiOne* or *CitiKonto* accounts is being expanded. 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 ways of depositing 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. Sales of life insurance with an investment fund will be actively pursued, based on cooperation with CitiInsurance Towarszystwo Ubezpieczeń na Życie S.A..

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 significant development of this activity.

The bank actively acquires customers from the segment of small enterprises with annual sales revenue not exceeding $ 2 million, which operates within the consumer banking structure under the CitiBusiness logo. The CitiBusiness concept offers solutions that support the development of customers from the moment they create their own companies and at each stage thereafter. 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 account, which provides an unprecedented access to retail products for entrepreneurs.

1.3 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 - citibank handlowy. 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 31 branches.

The planned rationalization 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 serviced 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 provision 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 then 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.

2. *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. Specialised 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. Expertise in this area will be provided by Handlowy Zarządzanie Aktywami, supported by the Treasury Department in Poland and overseas.

3. *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.

Signatures of all members of the Management Board

Date	Name	Position	Signature
23.09.2004	Sławomir Sikora	President	
23.09.2004	Sunil Sreenivasan	Vice-President	
23.09.2004	Philip Vincent King	Vice-President	
23.09.2004	David J. Smith	Vice-President	
23.09.2004	Lidia Jabłonowska-Luba	Member	
23.09.2004	Michał Mrożek	Member	