INTRODUCTION

1. Bank's operations

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

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

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

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

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

- accepting deposits payable on request or on a given date and account operation for such deposits,
- operation of other bank accounts,
- performing cash settlements in all forms accepted in domestic and international banking relations,
- extending loans and cash advances in Poland and abroad, as well as consumer loans and credits as defined in the provisions of a separate Act,
- conducting operations which involve cheques and bills of exchange,
- issuing and confirming sureties,
- issuing and confirming bank guarantees and open letters of credit,
- performing FX operations,
- provision of agency services in money transfers abroad by residents and settlements with non-residents in Poland,
- issuing of banking securities,
- commissioned operations related to issue of securities,
- safe-keeping of valuable objects and securities and safe-box services,
- issuing of payment cards and processing of operations executed with use of such cards,
- purchase and sale of receivables,
- processing of forward transactions.

The Bank may also:

– take up or purchase shares and rights attached to shares, shares of other legal entities and investment fund units,
– organise and service financial lease projects,
– render factoring services,
– trade in securities on its own account and act as an agency in securities trading,
– operate securities accounts,
– render financial consulting and advisory services,
– undertake commitments relating to the issue of securities,
– perform the function of a representative bank within the meaning of the Bonds Act,
– purchase and sale of real estate,
– perform settlements for trading in securities, property rights and derivative financial instruments,
– exchange debt for assets belonging to the debtor, on terms agreed on with such a debtor,
– purchase and sell derivative financial instruments at the Bank's own account and act as an agency in trading therein,
– accept orders to purchase, sell or subscribe for participation units and investment certificates of investment funds,
– render insurance agency services,
– act as a depository for pension funds,
– act as a depository for investment funds.

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

2. Time limits for the operation of the Bank

The operation of the Bank is not limited in time.

3. Financial data presentation periods

These semi-annual financial statements are compiled for the period from 1 January 2004 to 30 June 2004. The comparable financial data of the Bank and the statement of changes in shareholders' equity of the Bank are presented for the period from 1 January 2003 to 31 December 2003 and from 1 January 2003 to 30 June 2003. The comparable data of the profit and loss account and of the cash flow statement are presented for the period from 1 January 2003 to 30 June 2003.

4. Bank's Management Board and Supervisory Board

As of 30 June 2004, the Management Board of the Bank consisted of the following members:s

Sławomir Sikora	President of the Bank's Management Board,
Philip Vincent King	Vice-President of the Bank's Management Board,
David J. Smith	Vice-President of the Bank's Management Board,
Sunil Sreenivasan	Vice-President of the Bank's Management Board,
Lidia Jabłonowska-Luba	Member of the Bank's Management Board,
Michał H. Mrożek	Member of the Bank's Management Board.

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

- resigned on:

30 March 2004	Wiesław Kalinowski,

- appointed on:

25 May 2004	Michał H. Mrożek

As of 30 June 2004, the Supervisory Board consisted of the following members:

Stanisław Sołtysiński	President,
Jean Paul Votron	Vice-President,
Shirish Apte	Member,
Atif Aslam Bajwa	Member,
Göran Collert	Member,
Susan Helena Dean	Member,
Mirosław Gryszka	Member,
Edward Kuczera	Member,
Jarosław Myjak	Member,
Andrzej Olechowski	Member,
Aneta M. Popławska	Member,
Carlos Urrutia	Member.

In the first half of 2004, the following changes in the Supervisory Board took place:

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

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

In the letter dated 3 May 2004 Mr Krzysztof Opawski offered to the President of the Supervisory Board of the Bank his resignation from the function of the Member of the Bank's Supervisory Board. The Bank was informed about the resignation of Mr Krzysztof Opawski on 25 May 2004.

- appointed on:

24 June 2004	Atif Aslam Bajwa,
24 June 2004	Susan Helena Dean,
24 June 2004	Jarosław Myjak,
24 June 2004	Aneta M. Popławska.

As of the date of signing of the semi-annual financial statements of the Bank for 2004, the Supervisory Board members changed as a result of the resignation of Mr Jean Paul Votron from the function of a Member of the Supervisory Board of the Bank. on 4 August 2004.

5. Internal organisational units of the Bank

The Bank's semi-annual financial statements for 2004 and comparable financial data for the reporting periods of 2003 contain the financial data of all of its organisational units through which operations are performed. As of 30 June 2004, these included the Head Office in Warsaw, 54 branches and 109 establishments servicing clients in Poland. None of the units prepare separate financial statements.

6. Related parties

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

7. Business combinations

In the first half of 2004 and in the presented reporting periods of 2003 no business combinations occurred.

8. Going concern

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

9. Reclassification and presentation of financial data for 2003

In order to maintain comparability of financial data with the disclosures for the current period, the data presented for the reporting periods of 2003 were subject to adjustment with respect to the previously published data in periodic reports. These adjustments arise from the introduction of a change in principle of recording repo and reverse repo transactions of the sell-buy-back ("SBB") and buy-sell-back ("BSB") type on securities and the changes in the presentation of financial data in explanatory Notes to balance sheet no 16A.

The list of differences arising from the reclassification made and financial effects of the changes introduced in the principles of recording repo and reverse repo transactions on securities introduced into the financial statements for the first half of 2004 have been presented in Additional Explanatory Notes (see: Additional Explanatory Notes, sections 32 and 33).

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

The Bank's financial statements as of 30 June 2003 were reviewed and no qualifications were made in the report on the review performed by the chartered auditor KPMG Audyt Sp. z o.o. (until 9 May 2004 named KPMG Polska Audyt Sp. z o.o.). The Bank's financial statements as of 31 December 2003 were audited by the chartered auditor KPMG Polska Audyt Sp. z o.o. which issued an unqualified opinion.

11. Accounting principles

General information

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

– Regulation of the Council of Ministers dated 16 October 2001 concerning current and periodical information reported by issuers of securities (Journal of Laws No. 139, item 1569, as amended),
– Regulation of the Council of Ministers dated 16 October 2001 concerning specific principles that should be met by issuers of securities (Journal of Laws No 139, item 1568, as amended),

and with the provisions of:

– the Accounting Act of 29 September 1994 (Journal of Laws of 2002, No. 76, item 694, as amended),
– Regulation of the Ministry of Finance dated 10 December 2001on specific accounting principles for banks (Journal of Laws No. 149, item 1673, as amended),
– Regulation of the Ministry of Finance dated 12 December 2001 on specific principles for recognition, valuation and presentation of financial instruments (Journal of Laws No. 149, item 1674),
– Regulation of the Ministry of Finance dated 10 December 2003 on the principles of creating provisions for the risks related to the operations of banks (Journal of Laws No. 218, item 2147).

Tangible and intangible fixed assets

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

Annual depreciation rates employed by the Bank are as follows:

Buildings and structures	1.5 %	-	4.5 %
Motor vehicles	14.0 %	-	20.0 %
Computers		34.0 %	
Office equipment		20.0 %	
Other tangible fixed assets	7.0 %	-	20.0 %

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

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

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

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

Foreign currencies

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

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

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

in PLN

		30 June 2004	**31 December 2003**	**30 June 2003**
1	USD	3.7470	3.7405	3.8966
1	GBP	6.7749	6.6686	6.4240
1	EUR	4.5422	4.7170	4.4570

Computer software and licenses (except main operating system which is depreciated at the rate of 20%)	34.0 %
Goodwill	5.0%
Other intangible fixed assets	20.0%

Equity investments – interests in subordinated undertakings

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

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

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

Equity investments – interests in other entities

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

Outstanding loans and other receivables

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

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

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

Normal (only consumer loans) and watch loans	1.5 %

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

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

Debt securities

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

Substandard loans
Doubtful loans
Lost loans

Debt securities classified in the trading portfolio or available for sale are recorded in the balance sheet at their fair value. Changes in the fair value of debt securities held in the trading portfolio are recognised as income or expense on financial operations. Changes in the fair value of debt securities available for sale are recognised in a revaluation reserve. They are recognised in the profit and loss account only when realised.

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

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

Repo/reverse repo transactions

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

Repossessed assets in lieu of bad debts

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

Provisions, write-downs for permanent diminution in value

Specific provisions and write-downs for permanent diminution in value are established in accordance with the principles set out in the Accounting Act, the Regulation of the Minister of Finance of 10 December 2001 on the particular accounting principles of banks, and the Regulation of the Minister of Finance of 10 December 2003 on the principles of creating provisions for the risks related to the operations of banks.

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

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

In compliance with the Banking Act dated 29 August 1997 (Journal of Laws of 2002, No. 72, item 665, as amended), the Bank has established a general risk provision to cover potential risk inherent in banking activity. The general risk provision is created by a charge against earnings and carried on the balance sheet as "Other provisions" in liabilities.

Prepayments and accruals

Expenses are recognised and accounted for by the Bank on an accrual basis. In particular, this includes the general expenses of the Bank.

Equity

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

Derivative instruments

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

To date, the Bank has not adopted hedge accounting.

Calculating the net result

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

Interest income and expense

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

Fee and commission income and expense

Fees and commissions are mainly comprised of fees for maintenance of current accounts, banking operations and servicing credit cards and other amounts other than interest income on loans, guarantees and letters of credit.
Bank fees and commissions not related to single closed transactions are amortised on a straight-line basis to the profit and loss account for the period of the transaction they are related to.

Bonuses, retirement and Jubilee Awards

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

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

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

Other operating income/expenses

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

Corporate income tax

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

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

In relation to the Act on the European Union Guarantee Fund which came into effect on 16 April 2004 (Journal of Laws No. 121, item 1262) introducing Article 38a to the Act on Corporate Income Tax, the Bank recognised in the Balance Sheet and in the Profit and Loss Account the receivable from the State Budget arising from the right to reduce the tax liability in the years 2007 to 2009, thereby reducing the charge to the net profit (loss) as of 30 June 2004.

12. EUR/Zloty rates

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

in PLN

	30 June 2004	**31 December 2003**	**30 June 2003**
Exchange rate as at the reporting date	4.5422	4.7170	4.4570
Average rate, computed as the arithmetical mean of the rates in force on the last day of each month in the reporting period	4.7311	4.4474	4.3110
Average rate, computed as the arithmetical mean of the rates in force on the last day of each month of subsequent 12 months preceding the reporting date	4.6574	4.4474	4.1739
The highest rate for the last day in the month in the period	4.8746	4.7170	4.4570
The lowest rate for the last day in the month in the period	4.5422	4.1286	4.1286

13. Major items of the balance sheet, profit and loss statement and cash flow statement

converted into EUR terms

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

The major items of the profit and loss account, net profit per ordinary share and diluted profit per ordinary share are converted into EUR at rates being the arithmetical mean of the average zloty/EUR rates of exchange announced by the National Bank of Poland, in force on the last day of each month of the respective periods presented.

Net profit per ordinary share and diluted profit per ordinary share are converted into EUR at rates being the arithmetical mean of the average zloty/EUR rates of exchange announced by the National Bank of Poland, in force on the last day of each month of subsequent 12 months preceding the reporting date.

BALANCE SHEET **in EUR thousand**

	30 June 2004	31 December 2003	30 June 2003
Cash and due from Central Bank	178,104	251,540	253,991
Due from financial sector	1,274,817	1,849,647	1,156,378
Due from non-financial sector	2,750,898	2,809,597	3,216,833
Due from budget sector	107	664	1,511
Receivables subject to securities sale and repurchase agreements	82,098	61,183	3,599
Debt securities	2,123,881	829,431	1,038,133
Equity investments and other securities and financial assets	745,060	848,941	1,002,366
Tangible and intangible fixed assets	438,901	436,540	474,110
Other assets	137,376	126,409	177,436
Total assets	**7,731,243**	**7,213,953**	**7,324,357**

in EUR thousand

BALANCE SHEET	30 June 2004	31 December 2003	30 June 2003
Due to the Central Bank	373	8,723	18,764
Due to financial sector	1,053,393	811,126	786,850
Due to non-financial sector	3,926,508	3,824,308	3,665,030
Due to budget sector	130,101	98,610	113,092
Liabilities in respect of securities subject to sale and repurchase agreements	122,858	99,810	10,376
Liabilities arising on financial instruments	731,251	774,050	877,983
Other liabilities	421,320	241,748	448,139
Provisions	61,590	94,834	98,628
Equity	1,283,849	1,260,744	1,305,495
Total liabilities	**7,731,243**	**7,213,953**	**7,324,357**

in EUR thousand

INCOME STATEMENT	6 months to 30 June	
	2004	**2003**
Net interest income	89,506	86,225
Net fees and commissions income	63,410	57,355
Income from shares, other securities and floating-rate financial instruments	3,282	121
Net gains (losses) on financial operations	(6,080)	22,791
FX gains	51,348	45,064
Profit on banking activity	201,466	211,556
Operating profit	53,062	32,534
Profit before taxation	53,062	32,534
Net profit	**46,750**	**22,103**

in EUR thousand

MAJOR CASH FLOW STATEMENT ITEMS	**6 month to 30 June**	
	2004	**2003**
Net cash flow from operating activities– indirect method	(5,891)	15,460
Net cash flow from investing activities	(7,458)	43,525
Net cash flow from financing activities	(10,841)	687
Net cash flow, total	(24,190)	59,672
Change in net cash	**(24,190)**	**59,672**
Cash at beginning of period	266,800	226,288
Cash at end of period	242,611	285,960

14. Main differences between Polish and International Accounting Standards

From 1 January 2005, the Bank must prepare consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and thus is now engaged in a significant effort to confirm the methodology to be used and implementation of system solutions *inter alia* in valuation of financial instruments with the use of the effective interest rate.

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

- in accordance with IFRS, interest, selected commissions, and the direct acquisition costs of financial instruments should be measured with the use of the effective interest rate. In 2002, the Bank implemented this procedure in one of the IT systems used in the Consumer Banking Sector, which keeps records of consumer loans and credit cards. In the remaining areas, the Bank currently accounts for the commissions and direct costs of instrument acquisition by the straight-line method. The Bank is in the process of implementing a system, which will enable the full application of IFRS-consistent valuation.
- in accordance with IFRS, all entities controlled by the Bank are to be consolidated. So far the Bank has excluded from consolidation some entities due to the fact that the financial data of these entities are immaterial in comparison with the financial data of the Bank – parent entity and insignificant for the true and fair presentation of the financial position and the financial result of the Capital Group. The Bank plans to broaden the scope of consolidation on entities which have not been consolidated so far.
- in the financial statements prepared in accordance with Polish Accounting Standards (PSR), the level of write-down of credit exposure arises from classification of the receivable to the specific risk category specified in the Regulation of the Minister of Finance of 10 December 2003. In accordance with IFRS, specific provisions are recorded based on the difference between the balance sheet value of

credit exposure and the present value of expected future cash flows discounted with the use of the effective interest rate of the specific instrument. The level of the write-down created in accordance with IFRS reflects the probability of recovering both the principal as well as the interest, eliminating the recording of interest in suspense as a separate component of liabilities of the Bank. After revaluation of the financial asset, interest income is recognised on the basis of the effective interest rate applied for the purposes of valuation of the present value of the instrument.

- in accordance with PSR, the Bank created in previous years a provision for general risk intended for coverage of the unidentified risk related to the conduct of banking activity. IFRS does not allow the possibility to create provisions in the situation where no objective evidence for impairment in value or non-recoverability of a financial asset exists.
- in accordance with PSR, the Bank presents goodwill as the difference between the cost of the entity and the net assets acquired and amortises it by the straight-line method. On the other hand, IFRS impose on the Bank the obligation of annual revision of goodwill in order to disclose its potential permanent impairment in value and does not allow amortisation write-downs.
- the Bank is conducting a review of real estate (both owned as well as repossessed) in order to verify it against IAS 40 requirements. In accordance with the Polish standards, real estate classified as tangible assets is disclosed in the balance sheet at cost less depreciation calculated by the straight-line method (except for land which is not depreciated) and by potential permanent impairment write-downs. Real estate repossessed is disclosed at fair value. In light of international standards, for all real estate meeting the conditions described in IAS 40, the Bank should disclose a reliable estimate of the fair value.
- the Bank is also currently in the process of reviewing of long-term assets in light of provisions of IFRS 5 which imposes on the Bank the obligation to estimate the fair value of long-term assets held for sale and meeting the particular conditions of IFRS 5.