

ADDITIONAL EXPLANATORY NOTES

1. Concentration of exposure

Information on concentration of credit exposure of the Bank Group is presented on the basis of the rules and conditions for setting concentration limits in accordance with the Banking Act of 29 August 1997 (Journal of Laws of 2002 No. 71, item 665, as later amended) and delegated legislation issued on its basis by the Commission for Banking Supervision. The adopted method of calculation of consolidated shareholder's equity is consistent with the rules defined in the Resolution No. 6/2001 of the Commission for Banking Supervision dated 12 December 2001 regarding specific rules for calculating shareholders' equity of banks (...) (NBP Official Journal No. 22, item 44).

Concentration of credit exposure of the Bank Group is presented in reference to the policy pursued by the Bank, which in accordance with the provisions of the Banking Act must establish and periodically revise the debt concentration limits with respect to one entity or related entities and in individual economy sectors, while retaining the standards and limits laid down by this Act.

Concentration limits

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

As of 30 June 2004, the Bank had an exposure to a related party from the banking sector exceeding the statutory loan concentration limits. The excess exposure was related to debt arising from transactions in derivative instruments. Due to the fact that the concentration limit had been exceeded, an additional capital requirement for excess exposure was factored into the calculation of the Bank's capital adequacy ratio as of 30 June 2004.

The Bank sets out to limit its exposure to individual clients. In the presented reporting periods the Bank's exposure did not exceed the statutory limits in respect of banking portfolio exposure to a single entity or a group of entities related by equity or organisationally and did not exceed other concentration limits set by the Banking Law Act. As of 30 June 2004, the Bank's exposure in banking portfolio transactions with customers, which exceeded 10% of the Bank's consolidated equity, amounted to PLN 691,646 thousand, i.e. 16.5% of these funds (31 December 2003: PLN 762,565 thousand, i.e. 16.4%; 30 June 2003: PLN 831,606 thousand, i.e. 18.1%).

Concentration of exposure in individual economy sectors

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

Corporate and Commercial Banking Divisions and with respect to small and medium-sized enterprises within the SME Banking Division.

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

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

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

A/ industries excluded in view of their incompatibility with the characteristics of small and medium enterprises,

B/ industries excluded in view of their sensitivity to market factors and earnings volatility,

C/ industries excluded in view of their declining trends in performance.

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

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

<i>Sector of the economy according to Polish Classification of Economic Activity (PKD)</i>	<i>30 June 2004 in %</i>	<i>31 December 2003 in %</i>	<i>30 June 2003 in %</i>
Wholesale trade and sales on commission excluding motor vehicles and motorcycles	20.87	20.84	20.49
Financial intermediary excluding insurance and pension funds	8.87	7.41	11.17
Generation and distribution of electrical energy, gas, steam, and hot water	7.55	6.80	5.29
Production of food and beverages	6.61	7.25	6.09
Manufacture of machines and equipment not classified elsewhere	4.26	3.67	3.30
Production of chemicals	4.10	3.80	4.01
Construction	3.54	4.07	4.77
Production of motor vehicles, trailers, and semi-trailers	3.15	2.70	3.77
Sale, service, and repair of mechanical vehicles and motorcycles, retail sale of fuel for motor vehicles	3.09	3.61	3.11
Production of other means of transport	2.90	3.29	1.54
Top 10 economy sectors	64.94	63.44	63.54
Retail sale excluding motor vehicles and motorcycles; repair of household items and consumer products	2.51	2.23	2.07
Post office and telecommunications	2.32	3.03	2.80
Other economic activities	2.24	2.39	2.24
Production of rubber and plastic products	2.22	2.36	2.07
Production of radio, television, and communication hardware and equipment	2.15	1.70	1.55
Production of electronic machines and equipment not classified elsewhere	2.09	2.36	1.63
Production of coke and refining products of crude oil and nuclear fuels	1.80	1.64	1.69
Manufacture of metal finished products except for machines and equipment	1.61	1.75	1.77
Manufacture of products from other non-metal raw materials	1.58	1.75	1.73
Production of furniture; manufacturing activities not classified elsewhere	1.55	1.70	1.64
Top 20 economy sectors	85.01	84.35	82.73
Other sectors	14.99	15.65	17.27
Total Bank	100.00	100.00	100.00

2. Sources and uses of funds

Source of funds	in PLN thousand		
	30 June 2004	31 December 2003	30 June 2003
Funds from banks	2,937,859	1,868,837	1,968,511
Funds of customers and public sector	20,290,570	20,505,765	18,463,031
Other external funds	6,075,573	5,712,852	6,404,170
Own funds and net profit	5,835,202	5,947,523	5,812,302
Total source of funds	35,139,204	34,034,977	32,648,014

Use of funds	in PLN thousand		
	30 June 2004	31 December 2003	30 June 2003
Bank placements*	4,064,726	7,283,176	3,644,221
Amounts due from customers and public sector	13,700,244	14,472,046	15,556,871
Securities, shares, and other financial assets	13,320,445	7,837,443	9,019,395
Other uses	4,053,789	4,442,312	4,427,527
Total use of funds	35,139,204	34,034,977	32,648,014

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

Set out below are consolidated amounts due to and from customers and the public sector as at 30 June 2004 related to operations carried out mostly by the Bank branches, presented by Regions created in the first half of 2004, within which the Bank branches are grouped.

Name of region / Geographic operating area by provinces – districts	Amounts due to customers and public sector	in PLN thousand Amounts due from customers and public sector
<u>NORTHERN Region</u> provinces: Kujawsko – Pomorskie, Pomorskie, Warmińsko – Mazurskie and districts of the Zachodnio – Pomorskie Province: sławieński, koszaliński, kołobrzeski, białogardzki, świdwiński, szczecinecki, drawski, grodzki Koszalin.	831,852	1,637,184
<u>SOUTHERN Region</u> provinces: Śląskie, Opolskie, Małopolskie, Podkarpackie, Świętokrzyskie	1,466,968	1,939,164
<u>WESTERN Region</u> provinces: Lubuskie, Wielkopolskie, Dolnośląskie, Zachodnio – Pomorskie without districts allocated to the Northern Region	1,360,248	2,063,852
<u>CENTRAL-EASTERN Region</u> city of Warsaw, provinces: Mazowieckie, Lubelskie, Łódzkie, Podlaskie	10,572,697	6,570,845
Consumer Bank – CITIBANK HANDLOWY	6,058,805	1,489,199
<u>TOTAL</u>	20,290,570	13,700,244

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

Name of region / Geographic operating area by provinces – districts	Amounts due to customers and public sector	in PLN thousand Amounts due from customers and public sector
<u>NORTHERN Region</u> provinces: Kujawsko – Pomorskie, Pomorskie, Warmińsko – Mazurskie and districts of the Zachodnio – Pomorskie Province: sławieński, koszaliński, kołobrzeski, białogardzki, świdwiński, szczecinecki, drawski, grodzki Koszalin.	825,853	1,619,226
<u>SOUTHERN Region</u> provinces: Śląskie, Opolskie, Małopolskie, Podkarpackie, Świętokrzyskie	1,397,428	2,084,312
<u>WESTERN Region</u> provinces: Lubuskie, Wielkopolskie, Dolnośląskie, Zachodnio – Pomorskie without districts allocated to the Northern Region	1,613,975	2,595,867
<u>CENTRAL-EASTERN Region</u> city of Warsaw, provinces: Mazowieckie, Lubelskie, Łódzkie, Podlaskie	10,616,314	6,839,564
Consumer Bank – CITIBANK HANDLOWY	6,052,195	1,333,077
<u>TOTAL</u>	20,505,765	14,472,046

Set out below are amounts due to and from customers and the public sector as at 30 June 2003 related to operations carried out by the Bank branches, presented by Regions created in the first half of 2004, within which the Bank branches are grouped.

Name of region / Geographic operating area by provinces – districts	in PLN thousand	
	Amounts due to customers and public sector	Amounts due from customers and public sector
<u>NORTHERN Region</u>	673,248	1,620,455
provinces: Kujawsko – Pomorskie, Pomorskie, Warmińsko – Mazurskie and districts of the Zachodnio – Pomorskie Province: sławieński, koszaliński, kołobrzeski, białogardzki, świdwiński, szczecinecki, drawski, grodzki Koszalin.		
<u>SOUTHERN Region</u>	1,463,527	2,579,344
provinces: Śląskie, Opolskie, Małopolskie, Podkarpackie, Świętokrzyskie		
<u>WESTERN Region</u>	1,212,967	2,775,136
provinces: Lubuskie, Wielkopolskie, Dolnośląskie, Zachodnio – Pomorskie without districts allocated to the Northern Region		
<u>CENTRAL-EASTERN Region</u>	9,150,687	7,414,365
city of Warsaw, provinces: Mazowieckie, Lubelskie, Łódzkie, Podlaskie		
Consumer Bank – CITIBANK HANDLOWY	5,962,602	1,167,571
<u>TOTAL</u>	18,463,031	15,556,871

3. Subsidy to foreign branches

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

4. Financial instruments of the Bank Group

4.1. Financial instruments by categories of financial assets and liabilities

	in PLN thousand		
	30 June 2004	31 December 2003	30 June 2003
Financial assets for trading purposes	5,596,196	4,745,314	5,711,974
Financial liabilities for trading purposes	3,321,489	3,651,195	3,913,172
Loans granted and own receivables	18,650,590	22,262,489	19,481,461
Financial assets held until maturity	67,559	70,159	66,292
Financial assets available for sale	6,993,526	2,747,108	2,910,764
Total financial instruments	34,629,360	33,476,265	32,083,663

4.1.1. Financial assets for trading purposes

Financial assets for trading purposes by particular group of assets:

	in PLN thousand		
	30 June 2004	31 December 2003	30 June 2003
Debt securities	2,613,989	1,118,834	1,681,135
Assets in non-subordinated undertakings	811	1,570	576
Investment certificates	15	15	15
Derivative rights	102	-	-
Amounts receivable from revaluation of derivative instruments	2,981,279	3,624,895	4,030,248
Total financial assets for trading purposes	5,596,196	4,745,314	5,711,974

Change of financial assets for trading purposes:

	in PLN thousand		
	1st half of 2004	2003	1st half of 2003
Opening balance	4,745,314	6,082,840	6,082,840
- change in accounting principles	-	160,804	160,804
Opening balance after restatement to conform with current year presentation	4,745,314	6,243,644	6,243,644
increases	61,141,063	104,379,534	52,580,773
- purchases	61,135,315	104,347,086	52,549,328
- FX differences	743	1	-
- revaluation	935	438	218
- other (settlement of discount, premium, interest)	4,070	32,009	31,227
decreases	(60,290,181)	(105,877,864)	(53,112,443)
- sale	(59,646,175)	(104,948,316)	(52,615,847)
- revaluation	(643,657)	(900,456)	(495,092)
- other (settlement of discount, premium, interest)	(349)	(29,092)	(1,504)
Balance of financial assets for trading purposes as of the end of the period	5,596,196	4,745,314	5,711,974

Debt securities for trading purposes

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

Shares in non-subordinated undertakings, investment certificates

Shares in non-subordinated undertakings, investment certificates included in the category of financial assets for trading purposes are valued at their fair value, and the valuation effect is included in financial revenues or financial expenses, respectively.

Amounts receivable from valuation of derivative instruments

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

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

As of 30 June 2004, the Bank placed deposits at other institutions as collateral against derivative transactions amounting in total to PLN 26,341 thousand (31 December 2003: PLN 8,117 thousand; 30 June 2003: PLN 40,525 thousand), and for derivative transactions, the Bank received collateral totalling PLN 14,451 thousand (31 December 2003 PLN 4,270 thousand; 30 June 2003: PLN 4,745 thousand).

Forward and swap FX contracts

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

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

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

Currency option contracts

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

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

Interest rate contracts

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

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

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

Interest rate contracts are accounted for and recognised at their market value in the profit and loss account. They are calculated using the discounted cash flow valuation model. Unrealised revaluation gains and losses

are recognised in the balance sheet in 'Other securities and other financial assets' or in 'Other liabilities arising on financial instruments' in their gross value, i.e. without netting.

Interest rate option contracts

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

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

Securities contracts

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

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

Share options

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

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

Characteristics of derivative instruments

INSTRUMENT	FX forward	FX swap	Currency option contracts	IRS	CIRS	FRA	Securities contracts	Share options	Interest rate options
Instrument description	Sale/purchase of a currency at a specified date at the exchange rate fixed for the date of transaction.	Concurrent and immediate purchase / sale of the currency and its forward repurchase/ resale at a forward rate fixed at the spot date.	Purchase by the option contract purchaser of a right (but not an obligation) to buy or sell the currency at a fixed rate at a specified date.	Exchange of interest payments in the same currency, based on different interest rates.	Exchange of interest payments in different currencies. This instrument can also encompass the spot and/or forward currency exchange.	Depositing / acceptance of a hypothetical deposit contract for a specific date in the future. Settled by the amount of the discounted interest accrued for the contract period on the basis of the contract rate and the interest accrued on the basis of so-called reference rate which is most often the interbank money market rate.	Forward sale or purchase of securities at the price fixed for the transaction date.	Purchase by the option contract purchaser of a right (but not an obligation) to receive the difference between the share price fixed in the contract and the value of the instrument as of the date of exercise of the option.	Purchase by the option contract purchaser of a right (but not an obligation) to exchange the amount of interest accrued on transaction amount on the basis of the reference rate
Valuation methods applied	discounted cash flow model	discounted cash flow model	option valuation model (Garman - Kohlhagen)	discounted cash flow model	discounted cash flow model	discounted cash flow model	discounted cash flow model	option valuation model (Black Scholes)	option valuation model (Black 76)
Purpose of contract	for trade	for trade	for trade	for trade	for trade	for trade	for trade	for trade	for trade
Number of transactions before maturity	1,619	351	7,755	1,733	55	283	169	50	24
Future revenue/ payments	variable	variable	variable	variable	variable	variable	variable	variable	variable
Maturity	2004/07/01 – 2007/09/28	2004/07/01 – 2007/05/31	2004/07/01 – 2005/10/27	2004/07/01 – 2018/09/04	2004/07/04 – 2013/05/27	2004/07/01 – 2005/03/31	2004/07/01 – 2004/07/13	2004/09/30 – 2008/10/16	2005/02/28 – 2013/10/24
Possibility to exchange to another asset / liability	none	none	none	none	none	none	none	none	none

INSTRUMENT	FX forward	FX swap	Currency options	IRS	CIRS	FRA	Securities contracts	Share options	Interest rate options
Fixed rates / amounts of revenue and payment dates	variable	variable	variable	variable	variable	variable	variable	variable	variable
Other conditions	none	none	none	none	none	none	none	none	none
Type of risk	currency, liquidity, contractor and interest rate	interest rate, currency, liquidity, contractor	currency, liquidity, price variability (vega), contractor – for bought options	interest rate, contractor, currency for fx transactions	currency, interest rate, liquidity, contractor	interest rate, contractor, currency for fx transactions	interest rate, liquidity, contractor	interest rate, issuer, market price, price variability (vega)	interest rate, liquidity, contractor, price variability (vega)

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

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

Times to maturity of derivative instruments as of 30 June 2004

in PLN thousand

Instrument type	Nominal value											
	As of 30.06.2004									As of 31.12.2003		
	Time to maturity								Total			Total
	Up to 3 months		3 months - 1 year		1 - 5 years		Above 5 years					
	Banks	Other	Banks	Other	Banks	Other	Banks	Other		Banks	Other	
Interest rate instruments	4,072,510	30,775	64,421,833	523,155	63,570,621	4,524,080	12,389,106	1,921,881	151,453,961	119,135,918	4,737,724	123,873,642
- FRA – purchase	450,000	-	24,261,500	5,000	-	-	-	-	24,716,500	21,184,000	70,280	21,254,280
- FRA – sale	100,000	-	25,822,500	-	-	-	-	-	25,922,500	20,769,000	-	20,769,000
- interest rate swaps (IRS)	3,383,459	4,500	13,336,598	144,574	61,323,341	2,063,157	11,410,193	1,171,881	92,837,703	72,528,587	1,571,041	74,099,628
- currency-interest rate swaps (CIRS)	139,051	26,275	789,235	173,581	1,495,445	1,717,088	228,913	-	4,569,588	3,630,459	2,092,531	5,722,990
- interest rate options purchased	-	-	106,000	100,000	492,239	255,596	-	750,000	1,703,835	690,000	323,872	1,013,872
- interest rate options sold	-	-	106,000	100,000	259,596	488,239	750,000	-	1,703,835	333,872	680,000	1,013,872
Currency instruments	29,475,591	3,084,239	10,008,861	2,907,240	362,482	527,234	-	-	46,365,647	35,310,908	6,719,596	42,030,504
- FX forward	4,569,271	1,154,521	511,781	1,521,475	-	181,499	-	-	7,938,547	1,744,218	2,823,888	4,568,106
- FX swap	22,609,911	380,017	7,636,206	25,039	103,988	78,717	-	-	30,833,878	29,833,055	1,050,646	30,883,701
- currency options purchased	1,118,742	749,626	1,071,371	504,045	239,872	19,954	-	-	3,703,610	2,062,472	1,202,924	3,265,396
- currency options sold	1,127,943	750,351	789,503	856,681	18,622	247,064	-	-	3,790,164	1,668,729	1,639,704	3,308,433
- other	49,724	49,724	-	-	-	-	-	-	99,448	2,434	2,434	4,868

Instrument type	Nominal value											
	As of 30.06.2004									As of 31.12.2003		
	Time to maturity								Total			Total
	Up to 3 months		3 months - 1 year		1 - 5 years		Above 5 years					
	Banks	Other	Banks	Other	Banks	Other	Banks	Other		Banks	Other	
Securities contracts	376,678	479,208	171,129	171,129	63,918	63,918	-	-	1,325,980	666,618	391,757	1,058,375
- share options purchased	18,700	115	170,073	1,056	63,918	-	-	-	253,862	351,709	33,733	385,442
- share options sold	115	18,700	1,056	170,073	-	63,918	-	-	253,862	33,733	351,709	385,442
- securities purchased pending delivery	105,730	234,629	-	-	-	-	-	-	340,359	148,275	4,835	153,110
- securities sold pending delivery	252,133	225,764	-	-	-	-	-	-	477,897	132,901	1,480	134,381
Total derivative instruments	33,924,779	3,594,222	74,601,823	3,601,524	63,997,021	5,115,232	12,389,106	1,921,881	199,145,588	155,113,444	11,849,077	166,962,521

Market values of derivative instruments before maturity as of 30 June 2004 are as follows:

in PLN thousand

Instrument type	Positive market value			Negative market value			Credit equivalents**		
	As of 30.06.2004		As of 31.12.2003	As of 30.06.2004		As of 31.12.2003	As of 30.06.2004		As of 31.12.2003
	Banks	Other		Banks	Other		Banks	Other	
Interest rate instruments									
	2,055,026	201,094	2,708,464	2,063,428	234,066	2,509,489	525,557	164,629	1,176,392
- FRA	36,342	3	38,636	45,562	-	35,120	7,052	1	27,527
- interest rate swaps (IRS)	1,937,845	119,430	2,451,121	1,878,657	141,871	2,184,826	482,222	74,713	940,035
- currency-interest rate swaps (CIRS)	78,644	28,023	212,983	86,184	90,000	284,429	35,755	57,905	202,023
- interest rate options purchased*	2,195	53,476	5,317	52	-	297	528	32,010	6,807
- interest rate options sold*	-	162	407	52,973	2,195	4,817	-	-	-
Currency instruments									
	587,896	88,810	870,755	568,807	139 828	802,104	82,431	49,745	345,529
- FX forward	22,056	42,016	103,003	28,386	103,582	117,185	3,898	21,322	88,282
- FX swap	502,914	2,693	654,828	476,219	5,436	581,130	67,549	2,959	198,348
- currency options purchased*	42,685	30,539	105,663	16,062	697	9,143	9,990	17,982	58,802
- currency options sold*	20,241	3,570	7,084	38,148	30,113	94,469	-	-	-
- other	-	9,992	177	9,992	-	177	994	7,482	97

Instrument type	Positive market value			Negative market value			Credit equivalents **		
	As of 30.06.2004		As of 31.12.2003	As of 30.06.2004		As of 31.12.2003	As of 30.06.2004		As of 31.12.2003
	Banks	Other		Banks	Other		Banks	Other	
Securities contracts	2,221	10,435	12,947	11,048	1,243	12,330	-	8,684	15,372
- share options purchased	858	-	1,512	9,683	-	10,729	-	8,684	15,372
- share options sold	-	9,683	10,729	-	858	1,512	-	-	-
forward contracts	1 363	752	706	1,365	385	89	-	-	-
Total derivative instruments	2 645 143	300,339	3,592,166	2,643 283	375,137	3,323,923	607,988	223,058	1,537,293

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

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

4.1.2. Financial liabilities for trading purposes

Financial liabilities available for trading purposes by category:

	in PLN thousand		
	30 June 2004	31 December 2003	30 June 2003
Liabilities arising on valuation of derivative transactions	3,064,402	3,362,332	3,904,377
Liabilities arising from short sale of securities	257,087	288,863	8,795
Total financial liabilities available for trading purposes	3,321,489	3,651,195	3,913,172

Change in financial liabilities available for trading purposes:

	in PLN thousand		
	1st half of 2004	2003	1st half of 2003
Opening balance	3,651,195	4,182,578	4,182,578
increases	31,776	288,863	8,795
- sale of securities	31,776	288,863	8,795
- revaluation	-	-	-
decreases	(361,482)	(820,246)	(278,201)
- purchase of securities	-	-	-
- decrease in value of negative valuation of derivative instruments	(361,482)	(820,246)	(278,201)
Closing balance of financial liabilities available for trading purpose	3,321,489	3,651,195	3,913,172

The item "Liabilities arising on valuation of derivative transactions" represents negative valuation of derivative instruments.

The different types of derivative transactions concluded by the Bank and their valuation principles are described in section 4.1.1.

4.1.3. Loans granted and own receivables

Loans granted and own receivables by category:

	in PLN thousand		
	30 June 2004	31 December 2003	30 June 2003
Loans and advances	17,344,049	21,240,230	19,375,197
Deposits in other banks	1,562,793	1,339,290	566,294
Purchased receivables	327,800	267,456	415,359
Drawn guarantees	70,164	74,646	63,248
Receivables from securities purchased	372,831	288,386	16,038
Interest receivable	760,481	673,467	665,095
Total loans granted and own receivables – gross	20,438,118	23,883,475	21,101,231
Provision created	(1,787,528)	(1,620,986)	(1,619,770)
Total loans granted and own receivables – net	18,650,590	22,262,489	19,481,461

Change in loans granted and own receivables:

	in PLN thousand		
	1st half of 2004	2003	1st half of 2003
Opening balance	23,883,475	20,398,604	20,398,604
increases	14,521,021	28,731,824	14,788,133
- new contracts *	14,434,007	28,658,010	14,722,691
- interest receivable	87,014	73,814	65,442
decreases	(17,966,378)	(25,246,953)	(14,085,506)
- repayment *	(17,966,378)	(25,246,953)	(14,085,506)
Closing balance of loans granted and own receivables	20,438,118	23,883,475	21,101,231

* including short term revolving loans

Change in provision for loans and own receivables:

	in PLN thousand		
	1st half of 2004	2003	1st half of 2003
Opening balance	1,620,986	1,516,853	1,516,853
increases	467,161	824,084	512,762
- charges to provision	464,126	824,001	512,703
- FX differences	-	83	59
- reclassification from other category of assets	-	-	-
- other	3,035	-	-
decreases	(300,619)	(719,951)	(409,845)
- release of provision	(295,301)	(659,906)	(384,288)
- write-offs against provision	(5,318)	(54,755)	(25,017)
- reclassifications to other category of assets	-	(5,233)	-
- FX differences	-	(57)	(540)
Closing balance of provision for loans and own receivables	1,787,528	1,620,986	1,619,770

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

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

4.1.4. Financial assets held until maturity

Financial assets held until maturity – by category:

	in PLN thousand		
	30 June 2004	31 December 2003	30 June 2003
Debt securities	67,559	70,159	66,292
Total financial assets held until maturity	67,559	70,159	66,292

Change in financial assets held until maturity:

	in PLN thousand		
	1st half of 2004	2003	1st half of 2003
Opening balance	70,159	305,707	305,707
increases	-	10,364	6,497
- purchases	-	-	-
- FX differences	-	10,364	6,497
- revaluation	-	-	-
decreases	(2,600)	(245,912)	(245,912)
- sale	-	(244,443)	(244,443)
- FX differences	(2,600)	-	-
- revaluation	-	-	-
- other (settlement of discount, premium, interest)	-	(1,469)	(1,469)
Closing balance of financial assets held until maturity	67,559	70,159	66,292

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

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

4.1.5. Financial assets available for sale

Financial assets available for sale – by category:

	in PLN thousand		
	30 June 2004	31 December 2003	30 June 2003
Debt securities	6,965,773	2,723,471	2,879,991
Shares in non-subordinated undertakings	27,753	23,637	30,773
Total financial assets available for sale	6,993,526	2,747,108	2,910,764

Change in financial assets available for sale:

	in PLN thousand		
	1st half of 2004	2003	1st half of 2003
Opening balance	2,747,108	2,520,163	2,520,163
- change in adopted accounting principles	-	60,097	60,097
Opening balance after restatement to conform with current year presentation	2,747,108	2,580,260	2,580,260
increases	31,751,278	19,778,277	5,397,600
- purchases	31,696,358	19,600,950	5,333,293
- FX differences	-	96,021	25,391
- revaluation	-	9,593	9,553
- settlement of discount, premium and interest	23,227	63,872	25,258
- other (reclassification of an entity)	31,693	7,841	4,105
decreases	(27,504,860)	(19,611,429)	(5,067,096)
- sale	(27,210,710)	(19,477,019)	(5,022,129)
- revaluation	(161,622)	(47,467)	(11,240)
- FX differences	(105,392)	-	-
- settlement of discount, premium and interest	(158)	(86,652)	(33,727)
- transfer from another category	(26,978)	(291)	-
Closing balance of financial assets available for sale	6,993,526	2,747,108	2,910,764

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

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

in PLN thousand

Category of assets / interest income	30 June 2004	31 December 2003	30 June 2003
Loans granted and own receivables			
accrued realised interest	558,843	1,103,571	567,786
accrued unrealised interest, of which:	760,480	673,467	665,095
interest receivable	199,114	177,015	77,511
interest overdue	561,366	496,452	587,584
Financial assets for trading purposes*			
accrued realised interest	52,654	85,765	38,400
accrued unrealised interest	10,541	7,139	9,455
Financial assets held until maturity*			
accrued realised interest	-	2,724	2,724
accrued unrealised interest	-	-	-
Financial assets available for sale*			
accrued realised interest	120,963	164,682	84,888
accrued unrealised interest	104,722	67,985	63,623

* Debt securities

4.1.7. Risk management

Market risk management

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

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

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

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

Liquidity risk management

Measurement and setting limits for liquidity risk

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

Pricing risk management

Scope of risk

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

Measurement of pricing risk of banking portfolios

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

- Interest Rate Exposure method,
- Value at Close method.

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

Pricing risk measurement for trading portfolios

The fundamental operating method for pricing risk for trading portfolios at the organisational unit level and the Bank level, is the ratio of sensitivity of financial result changes to market risk factor changes (interest rates, exchange rates, share prices, credit risk margins of debt securities). With the application of sensitivity ratios and adoption of a risk factor change unit (change of the general level of interest rates and credit risk margin by 1 base point, change of exchange rates and share prices by 1 per cent), the Bank sets limits for risk

positions broken down by currencies and organisational units. For interest rate risk, additional thresholds for risk limits on individual curve sections of interest rates and base risk, are applied. Risk limits are set for positions at the end of the day and monitored daily.

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

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

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

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

- the portfolio loss accumulated within one month,
- Aggregate Contracts Limit,
- Maximum Tenor,
- concentration limits for debt and equity securities.

Credit risk management

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

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

The key elements of credit risk management are presented below:

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

Operational risk management

Operational risk includes risk of losses resulting from operational errors and data processing errors arising from mistakes made by Bank employees, incorrect operations of IT systems, and impact of external events. Particular aspects of operational risk are losses resulting from frauds.

The detailed analysis of risk, including operational risk, is an inherent part of each product programme, which includes, inter alia, description of controls implemented in order to minimise identified risks. Important control functions included in particular product programmes and in operational procedures are reflected on control lists in particular organisational units of the Bank. All organisational units of the Bank perform initial, current and subsequent control functions on a daily, weekly, monthly, quarterly, half-yearly, or yearly basis, depending on requirements. Performing of control functions is confirmed by appropriate documentation or by signatures on control functions lists. Control functions in the field of operational risk are performed by specialised control units of the Bank.

A self-assessment system is a substantial component of the operational risk management process. Self-assessment is aimed at regular verification of quality and adequacy of control processes, risk identification and monitoring, and monitoring of corrective action plans implemented in high risk areas. The process of quarterly self-assessment is supervised by a Committee comprised of members of the Bank's Management Board.

The Bank implemented procedures defining the principles and methods of addressing operational losses, which describe in detail the authorisation process, accounting treatment and reporting of operational losses.

The Bank reduces operational risk by control processes, emergency plans, insurance, and risk transfer.

4.1.8. Hedge accounting

Up to now, the Bank Group entities have not applied hedge accounting.

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

As of 30 June 2004 and in the presented reporting periods of 2003, the Bank Group entities did not enter into any subscription option contracts or ordinary share sales contracts.

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

Assets being used as a pledge against the Bank Group's own obligations or third party obligations as of 30 June 2004 and in the presented reporting periods of 2003 are shown in explanatory Notes to balance sheet no. 1B, 2I, 6C and 17A.

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

Repurchase transactions as of 30 June 2004 and in the presented reporting periods of 2003 have been disclosed in the balance sheet.

8. Financial commitments granted

Financial commitments granted include undrawn credit lines, open import letters of credit and commitments arising on concluded deposit contracts (placements given pending delivery), for which realisation date depends only on the time necessary for the technical preparation of the funds transfer, and other off-balance sheet financial commitments. The data related to financial commitments granted as of 30 June 2004 and in the presented reporting periods of 2003 is shown in Additional Explanatory Note no. 9.

As of 30 June 2004, the Bank's financial commitments granted are irrevocable, except for credit lines which constitute commitments amounting to PLN 13,038 thousand (31 December 2003: PLN 38,013 thousand; 30 June 2004: related entirely to irrevocable granted financial commitments of the Bank).

9. Off-balance sheet commitments**9.1. Off-balance sheet commitments granted**

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

	in PLN thousand		
	30 June 2004	31 December 2003	30 June 2003
L/Cs, including:	147,520	177,306	137,613
to subordinated undertakings, including :	818	4,620	3,286
- consolidated undertakings	-	-	-
- subordinated undertakings accounted for by the equity method	818	4,620	3,286
Guarantees granted, including:	2,864,046	3,020,936	2,662,641
to subordinated undertakings, including:	3,024	60,987	73,242
- consolidated undertakings	1,500	1,500	1,500
- subordinated undertakings accounted for by the equity method	347	48,245	51,746
Credit lines granted, including	7,645,301	8,034,233	6,403,718
to subordinated undertakings, including:	126,184	130,217	155,795
- consolidated undertakings	-	-	-
- subordinated undertakings accounted for by the equity method	126,184	128,667	154,652
Deposits to be issued	38,923	3,179,425	40,106
Other financial liabilities	635,678	646,991	436,468
Total commitments granted	11,331,468	15,058,891	9,680,546

Letters of credit by categories were as follows:

	in PLN thousand		
	30 June 2004	31 December 2003	30 June 2003
Import L/Cs issued, including to:	128,143	160,337	117,036
subordinated undertakings, including to:	818	4,620	3,286
- consolidated undertakings	-	-	-
- subordinated undertakings accounted for by the equity method	818	4,620	3,286
Export L/Cs confirmed	19,377	16,969	20,577
Total L/Cs	147,520	177,306	137,613

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

The Bank makes specific provisions for off-balance sheet commitments pursuant to the Regulation of the Minister of Finance dated 10 December 2003 on the principles of creating provisions for the risks related to the operations of banks. As of 30 June 2004, the specific provisions created for off-balance commitments amounted to PLN 83,068 thousand, including provisions for off-balance sheet commitments granted to subordinated undertakings amounting to PLN 934 thousand (31 December 2003: PLN 145,019 thousand, including off-balance sheet commitments to subordinated undertakings – PLN 8,496 thousand; 30 June 2003: PLN 138,041 thousand, including off-balance sheet commitments to subordinated undertakings – PLN 25,940 thousand).

As of 30 June 2004, the total amount of provisions for off-balance sheet commitments to subordinated undertakings, amounting to PLN 934 thousand, related in total to undertakings not accounted for by the equity method.

As of 31 December 2003, from the total amount of provisions for off-balance sheet commitments to subordinated undertakings, the amount of PLN 7,677 thousand related in total to undertakings accounted for by the equity method, and the remaining amount of PLN 819 thousand related to non-consolidated undertakings and undertakings not accounted for by the equity method.

As of 30 June 2003, from the total amount of provisions for off-balance sheet commitments to subordinated undertakings, the amount of PLN 21,080 thousand related in total to undertakings accounted for by the equity method, and the remaining amount of PLN 4,860 thousand related to non-consolidated undertakings and undertakings not accounted for by the equity method.

9.2. Contingent liabilities received

As of 30 June 2004, total contingent liabilities received amounted to PLN 3,212,128 thousand, of which PLN 3,161,803 thousand related to guarantee contingencies (31 December 2003: PLN 3,297,354 thousand, of which PLN 2,817,354 thousand of guarantee contingencies; 30 June 2003: PLN 3,520,140 thousand, of which PLN 3,120,140 thousand of guarantee contingencies). As of 30 June 2004, the Bank reported guarantee contingent liabilities received from its subsidiaries amounting to PLN 749 thousand (31 December 2003: PLN 13,484 thousand; 30 June 2003: PLN 12,813 thousand).

9.3. Issues underwritten by the Bank

As of 30 June 2004 and for the remaining comparative reporting periods of 2003, issues of securities underwritten by the Bank Group include agreements entered into by the parent company ("the Bank").

The underwriting agreements entered into by the Bank, in force as of 30 June 2004, are shown in the table below:

Name of Issuer and location	Type of agreement	Term of agreement	Bank's remuneration	Type of security	Negotiability of the security	Average original amount promised to be underwritten by the Bank (in PLN thousand)	Guarantee commitment by the Bank existing as of 30.06.2004 (in PLN thousand)
Can Pack SA - Kraków	purchase of bonds	10.07.2002-10.10.2004	commission	bonds	on secondary market, private placement	30,000	30,000
PKN „Orlen” SA - Płock	purchase of bonds	16.01.2004-30.11.2004	commission	bonds	on secondary market, private placement	50,000	46,380
Total							76,380

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

Name of Issuer and location	Type of agreement	Term of agreement	Bank's remuneration	Type of security	Negotiability of the security	Average original amount promised to be underwritten by the Bank (in PLN thousand)	Guarantee commitment by the Bank existing as of 31.12.2003 (in PLN thousand)
Can Pack SA - Kraków	purchase of bonds	10.07.2002-10.10.2004	commission	bonds	on secondary market, private placement	30,000	30,000
Urtica Finanse SA - Wrocław	issue of bonds under the Securitisation Programme	23.01.2001-23.01.2004	commission	bonds	on secondary market, private placement	10,000	10,000
Total							40,000

The underwriting agreements entered into by the Bank, in force as of 30 June 2003, are shown in the table below:

Name of Issuer and location	Type of agreement	Term of agreement	Bank's remuneration	Type of security	Negotiability of the security	Average original amount promised to be underwritten by the Bank (in PLN thousand)	Guarantee commitment by the Bank existing as of 30.06.2003 (in PLN thousand)
Can Pack SA - Kraków	purchase of bonds	10.07.2002-10.07.2003	discount or f/x gains, dealership commission	bonds	on secondary market, private placement	30,000	8,190
Polski Koncern Naftowy Orlen SA – Płock	purchase of bonds	06.07.2001-21.11.2003	discount or f/x gains, dealership commission	bonds	on secondary market, private placement	50,000	8,540
Urtica Finanse SA - Wrocław	issue of bonds under the Securitisation Programme	26.10.2001-21.01.2004	interest coupon, commission	bonds	on secondary market, private placement	10,000	1,800
Total							18,530

10. Dividend payment

In accordance with the Resolution No. 8 of the Ordinary General Meeting of the Bank of 24 June 2004, the profit for 2003 was allocated and the dividend date and the date of dividend payment were determined. From net profit for 2003, the amount of PLN 241,720,260 was allocated for payment of dividend to shareholders, which means that the dividend per one share is 1 zloty 85 grosze. The date of determination of the right to the dividend was designated 26 July 2004 and the date of dividend payment - 1 September 2004.

The Bank did not issue preferred shares.

11. Liabilities arising on approved dividend payable

As of 30 June 2004, the Bank had a liability arising from the approved dividend payment from allocation of profit for 2003, the date of payment of which was agreed to be 1 September 2004.

The Bank does not have any liability from the dividend approved for payment and arising from the allocation of profit for the previous years.

12. Amounts due to the Budget or local authorities

As of 30 June 2004 and in the presented periods of 2003, the Bank and the Bank Group entities did not have any amounts due to the Budget or local authorities due to obtaining the ownership right to buildings and structures.

13. Abandoned business

In the first half of 2004, the Bank Group entities did not abandon any form of business and does not envisage the abandonment of any form of economic activity in the foreseeable future, except for subsidiary enterprises Polskie Towarzystwo Emerytalne DIAMENT S.A. under liquidation since 23 June 2003 and PPH Spomasz Sp. z o.o. under liquidation since 3 November 2000.

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

In the first half of 2004 and in the presented reporting periods of 2003, the Bank Group entities did not incur any expenses relating to projects in progress, fixed assets and development costs.

15. Incurred and planned capital expenditures

Capital expenditure incurred in the Bank Group under projects in progress and intangible assets as of 30 June 2004 amounted to PLN 26,845 thousand (31 December 2003: PLN 18,489 thousand; 30 June 2003: PLN 10,394 thousand). Capital expenditure in the next 12 months are planned at PLN 61,323 thousand and include mainly investments in information technology and expenditure on building improvements.

16. Transactions with related parties**16.1. Transactions with shareholders of the Bank holding at least 10% of votes at the General Meeting of Shareholders**

As of 30 June 2004, there was only one shareholder of the Bank holding, directly or indirectly through subsidiaries, at least 20% of votes at the General Meeting of Shareholders, namely Citibank Overseas Investment Corporation (COIC), a subsidiary of Citibank N.A., holder of 89.33% of votes at the Bank's General Meeting of Shareholders. COIC held 116,717,574 shares, which corresponded to 89.33% of the Bank's authorised share capital. The number of votes resulting from shares held by COIC was 116,717,574, which corresponded to 89.33% of the total number of votes at the General Meeting of Shareholders of the Bank.

In 2003, the ownership structure of substantial shareholdings changed. By way of decision dated 16 June 2003, the Court registered an increase in the Bank's authorised share capital from PLN 500,902,400 to PLN 522,638,400 following the conversion by Powszechny Zakład Ubezpieczeń S.A. of subsequent convertible bonds of series I to 5,434,000 shares of the Bank with the nominal value of PLN 4 each and total value of PLN 21,736,000. Following the increase in the authorised share capital, the share of COIC in the authorised share capital of the Bank fell from 93.2% to 89.33% of the total number of shares in the Bank's authorised share capital.

COIC and other entities of Citigroup Inc. enter into a number of transactions with the Bank.

The balances of accounts receivable and payable and off-balance sheet commitments towards Citigroup Inc. companies are as follows:

	in PLN thousand		
	30 June 2004	31 December 2003	30 June 2003
Receivables, including:	699,395	5,502,307	1,741,387
Placements	637,893	5,485,579	1,724,171
Liabilities, including:	707,590	491,818	818,305
Deposits	490,411	275,704	599,845
Loans received	217,179	216,114	218,460
Off-balance sheet guarantee liabilities granted	119,937	3,258,637	54,846
Off-balance sheet guarantee liabilities received	959,106	555,471	688,796
Derivative transactions	116,550,316	97,279,361	70,971,947
Interest and commission income *	28,846	48,487	21,898
Interest and commission expense *	12,350	24,672	12,255

* not including Derivative transactions

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

The costs arising and accrued in the first half of 2004 from the agreements concluded in these periods amounted to PLN 36,078 thousand. Information about agreements concluded in the first half of 2004 is shown in Additional Explanatory Note no. 29.

In the first half of 2004, the Bank continued the performance of agreements concluded in prior periods with Citigroup Inc. entities, the costs of which amounted to PLN 30,995 thousand and related in particular to the maintenance of the Bank's information systems, and income from which, in the amount of PLN 20,221 thousand, arose from the provision of data processing services to the Citigroup Inc.

16.2. Transactions with subordinated undertakings**16.2.1. Transactions with a subordinated undertaking consolidated in full**

As of 30 June 2004, the Bank had amounts due from its subordinated undertaking Dom Maklerski Banku Handlowego SA, of PLN 3 thousand (as of 31 December 2003 and 30 June 2003, the Bank did not have any amounts due from DM BH), and amounts due to DM BH of PLN 110 263 thousand (31 December 2003: PLN 100,258 thousand; 30 June 2003: PLN 98,946 thousand). As a result of common operations, the Bank obtained in the first half of 2004 interest income amounting to PLN 64 thousand (31 December 2003: PLN 26 thousand; 30 June 2003: PLN 6 thousand), and interest expense to DM BH amounted in the first half of 2004 to PLN 2,581 thousand (31 December 2003: PLN 5,108 thousand; 30 June 2003: 2,560 thousand). The above common balances and transactions were eliminated in the consolidated balance sheets, in consolidated profit and loss accounts, and in consolidated cash flow statements.

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

As of 30 June 2004, balance sheet amounts due from and revenues received from subordinated undertakings accounted for by the equity method were as follows:

	in PLN thousand			
	Subsidiary	Joint ventures	Associated	Total
Amounts due from (net):				
<i>financial entities – in respect of:</i>				
-current accounts	585,290	86,685	-	671,975
-loans granted	68,951	-	-	68,951
-subordinated loans*	79,887	-	-	79,887
-bonds convertible into shares	67,559	-	-	67,559
<i>other undertakings – in respect of</i>				
-loans granted	-	-	-	-
Total receivables	801,687	86,685	-	888,372
Interest and commission income	9,816	1,144	1	10,961

As of 30 June 2004, the specific provisions for receivables from subordinated undertakings accounted for by the equity method was PLN 67,861 thousand, including the amount of PLN 67,860 thousand of provisions for subordinated loans.

As of 30 June 2004, amounts due (without interest) to the Bank and expense paid to subordinated undertakings accounted for by the equity method were as follows:

	in PLN thousand			
	Subsidiary	Joint ventures	Associated	Total
Amounts due to:				
<i>financial entities – in respect of:</i>				
-current accounts	325,752	-	-	325,752
-deposits taken	45,508	-	-	45,508
<i>other undertakings – in respect of</i>				
-current accounts	-	-	-	-
-deposits taken	-	-	-	-
Total payable	371,260	-	-	371,260
Interest and commission expense	3,648	4	-	3,652

As of 31 December 2003, balance sheet amounts due from and revenues received from subordinated undertakings accounted for by the equity method were as follows:

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

As of 31 December 2003, the specific provisions for receivables from subordinated undertakings accounted for by the equity method was PLN 102,860 thousand, and in total related to provisions for subordinated loans.

As of 31 December 2003, amounts due to the Bank and expense paid to subordinated undertakings accounted for by the equity method were as follows:

	in PLN thousand			
	Subsidiary	Joint ventures	Associated	Total
Amounts due to:				
<i>financial entities – in respect of:</i>				
-current accounts	169,129	74	17	169,220
-deposits taken	44,839	-	-	44,839
<i>other undertakings – in respect of</i>				
-current accounts	-	-	5 124	5 124
-deposits taken	-	-	5 536	5 536
Total payable	213,968	74	10,677	224,719
Interest and commission expense	8,111	15	95	8,221

As of 30 June 2003, balance sheet amounts due from and revenues received from subordinated undertakings accounted for by the equity method were as follows:

	in PLN thousand			
	Subsidiary	Joint ventures	Associated	Total
Amounts due from (net):				
<i>financial entities – in respect of:</i>				
-current accounts	644,626	2,258	-	646,884
-loans granted	141,367	-	-	141,367
-subordinated loans*	27,491	-	-	27,491
-bonds convertible into shares	66,292	-	-	66,292
<i>other undertakings – in respect of</i>				
-loans granted	-	-	13,026	13,026
Total receivables	879,776	2,258	13,026	895,060
Interest and commission income	16,033	147	601	16,781

As of 30 June 2003, the specific provisions for receivables from subordinated undertakings accounted for by the equity method was PLN 116,557 thousand, including the amount PLN 112,860 thousand of provisions for subordinated loans.

As of 30 June 2003, amounts due to the Bank and expense paid to subordinated undertakings accounted for by the equity method were as follows:

	in PLN thousand			
	Subsidiary	Joint ventures	Associated	Total
Amounts due to:				
<i>financial entities – in respect of:</i>				
-current accounts	115,287	1,048	41	116,376
-deposits taken	80,360,	22	-	80,382
<i>other undertakings – in respect of</i>				
-current accounts	-	-	321	321
-deposits taken	-	-	5,396	5,396
Total payable	195,647	1,070,	5,758	202,475
Interest and commission expense	4,880	9	47	4,936

* The amount of subordinated loans relates to loans granted to subsidiary undertakings Handlowy Investments S.A. and Handlowy Investments II S.a.r.l., intended for funding of fixed assets investments made by these entities. As of 30 June 2004, the nominal value of loans granted was PLN 112,860 thousand (31 December 2003: PLN 112,860 thousand; 30 June 2003: PLN 112,860 thousand), amount of provisions created for them – PLN 67,860 thousand (31 December 2003: PLN 112,860 thousand; 30 June 2003: PLN 112,860 thousand). Interest on subordinated loans are disclosed in the individual profit and loss account of the Bank at the moment of its payment. In the first half of 2004, the Bank did not have any income from such interest. In 2003, the respective interest income amounted to PLN 5,441 thousand (in the first half of 2003: PLN 5,441 thousand). In the consolidated profit and loss account, the interest on such loans was subject to consolidation eliminations.

16.2.3. Transactions with non-consolidated subordinated undertakings and subordinated undertakings not accounted for by the equity method

As of 30 June 2004, balance sheet amounts due from and revenues received from non-consolidated subordinated undertakings and subordinated undertakings not accounted for by the equity method were as follows:

	in PLN thousand			
	Subsidiary	Joint ventures	Associated	Total
Amounts due from (net):				
<i>other undertakings – in respect of</i>				
-current accounts	-	-	1,633	1,633
-loans granted	-	-	2,405	2,405
Total receivables	-	-	4,038	4,038
Interest and commission income	-	-	11	11

As of 30 June 2004, the specific provisions for receivables from non-consolidated subordinated undertakings and subordinated undertakings not accounted for by the equity method amounted to PLN 11,344 thousand.

As of 30 June 2004, amounts due and expense paid to non-consolidated subordinated undertakings and subordinated undertakings not accounted for by the equity method were as follows:

in PLN thousand				
	Subsidiary	Joint ventures	Associated	Total
Amounts due to:				
<i>other undertakings – in respect of</i>				
-current accounts	-	-	171	171
-deposits taken	-	-	-	-
Total payable	-	-	171	171
Interest and commission expense	-	-	-	-

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

in PLN thousand				
	Subsidiary	Joint ventures	Associated	Total
Amounts due from (net):				
<i>other undertakings – in respect of</i>				
-current accounts	-	-	4,481	4,481
-loans granted	-	-	11,431	11,431
-other term receivables	-	-	161	161
Total receivables	-	-	16,073	16,073
Interest and commission income	-	-	736	736

As of 31 December 2003, the specific provisions for receivables from non-consolidated subordinated undertakings and subordinated undertakings not accounted for by the equity method amounted to PLN 38,593 thousand.

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

in PLN thousand				
	Subsidiary	Joint ventures	Associated	Total
Amounts due to:				
<i>other undertakings – in respect of</i>				
-current accounts	-	-	4,465	4,465
-deposits taken	-	-	10,829	10,829
Total payable	-	-	15,294	15,294
Interest and commission expense	-	-	1,508	1,508

As of 30 June 2003, balance sheet amounts due from and revenues received from non-consolidated subordinated undertakings and subordinated undertakings not accounted for by the equity method were as follows:

	in PLN thousand			
	Subsidiary	Joint ventures	Associated	Total
Amounts due from (net):				
<i>other undertakings – in respect of</i>				
-current accounts	-	-	4,580	4,580
-loans granted	-	-	11,645	11,645
Total receivables	-	-	16,225	16,225
Interest and commission income	-	-	487	487

As of 30 June 2003, the specific provisions for receivables from non-consolidated subordinated undertakings and subordinated undertakings not accounted for by the equity method amounted to PLN 38,045 thousand.

As of 30 June 2003, amounts due and expense paid to non-consolidated subordinated undertakings and subordinated undertakings not accounted for by the equity method were as follows:

	in PLN thousand			
	Subsidiary	Joint ventures	Associated	Total
Amounts due to:				
<i>other undertakings – in respect of</i>				
-current accounts	-	-	874	874
-deposits taken	-	-	13,287	13,287
Total payable	-	-	14,161	14,161
Interest and commission expense	-	-	1,192	1,192

16.2.4. Events related to transactions with subordinated undertakings

The following transactions with subordinated undertakings were executed in the first half of 2004:

- sale by the subsidiary Handlowy Investments S.A. of its whole shareholding in Polimex Cekop S.A. representing a 36.64% stake in capital and the same number of votes at the general meeting of shareholders of this enterprise,
- redemption of some of the shares in the capital of the associated undertaking NIF Fund Holdings PCC Ltd. The redeemed shares represented a 2.37% stake in the capital of the entity. As a result of this transaction, the Bank holds, through its subsidiary Handlowy Investments S.A., a 20.31% stake in capital and the same number of votes at the general meeting of shareholders of this enterprise,
- redemption of some of the shares in the capital of the associated undertaking NIF Fund Holdings PCC Ltd. The redeemed shares represented a 2.37% The Bank's stake in the capital of the entity and the number of votes at the general meeting of shareholders of this enterprise does not change and amounted to 23.86%,
- sale of some of the shares of the associated undertaking Pia Piasecki S.A. The shareholding sold represented a 17.40% stake in the capital of the entity. As a result of this transaction, the Bank holds a 19.12% stake in capital and the same number of votes at the general meeting of shareholders of this enterprise,
- sale of some of the shares of the associated undertaking IPC JV Sp. z o.o. The shareholding sold represented a 11.12% stake in the capital of the entity. As a result of this transaction, the Bank holds a 19.88% stake in capital and the same number of votes at the general meeting of shareholders of this enterprise,

- sale of some of the shares of the associated undertaking Elektromontaż Poznań S.A. The shareholding sold represented a 5.42% stake in the capital of the entity. As a result of this transaction, the Bank holds a 19.88% stake in capital and the same number of votes at the general meeting of shareholders of this enterprise,
- on 4 June 2004, the Bank entered with Handlowy Investments S.A., Luxembourg, a subsidiary in which the Bank holds a 99.99% share in its authorised share capital, an agreement on assignment of receivables for payment of the purchase price arising from the specific agreements on the sale of shares by Handlowy Investments S.A. to the Bank, for the purpose of collection of these receivables by the Bank. The value of the receivables assigned is the zloty equivalent of USD 9,891,638.26 translated on the basis of the average foreign exchange rate fixed by the National Bank of Poland, in force as of 4 June 2004. In accordance with this agreement, the Bank shall be obliged to transfer to Handlowy Investments S.A. the receivables obtained by the Bank as a result of collection of the receivables assigned. The parties shall agree the Bank's fee for collection of the receivables assigned under a separate agreement.

The following transactions with subsidiaries were executed in 2003:

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

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

As of 30 June 2004, the percentage share of transactions with related parties was as in the following table:

in PLN thousand

Transaction categories	Transactions with Citigroup Inc. companies	Transactions with subordinated undertakings	Total transactions with related parties	Share in %
Receivables	699,395	824,854	1,524,249	8.17
Debt securities	-	67,559	67,559	0.70
Liabilities	707,590	481,694	1,189,284	5.00
Off-balance sheet liabilities granted	119,937	130,026	249,963	2.21
Off-balance sheet liabilities received	959,106	749	959,855	29.88
Derivative transactions	116,550,316	-	116,550,316	58.50

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

in PLN thousand

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

As of 30 June 2003, the percentage share of transactions with related parties was as in the following table:

in PLN thousand

Transaction categories	Transactions with Citigroup Inc. companies	Transactions with subordinated undertakings	Total transactions with related parties	Share in %
Receivables	1,741,387	844,993	2,586,380	13.25
Debt securities	-	66,292	66,292	1.43
Liabilities	818,305	315,582	1,133,887	5.57
Off-balance sheet liabilities granted	54,846	232,323	287,169	2.97
Off-balance sheet liabilities received	688,796	12,813	701,609	19.93
Derivative transactions	70,971,947	-	70,971,947	55.60

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

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

17. Joint ventures excluded from the consolidation in full or by the equity method

In the first half of 2004 and in the presented reporting periods of 2003, the Bank did not participate in joint ventures with related entities.

18. Income and expenses related to brokerage activity

The Bank does not engage in brokerage activity within its structure. Brokerage activity is carried out via the Bank's wholly owned subsidiary, Dom Maklerski Banku Handlowego S.A. As of 30 June 2004 and in the presented reporting periods of 2003, the financial statements of Dom Maklerski Banku Handlowego SA is included by the full method to the consolidated financial statements of the Bank.

19. Write-offs of bad debts

As of 30 June 2004, bad debts written off against provisions created amounted to PLN 8,390 thousand (31 December 2003: PLN 55,032 thousand; 30 June 2003: PLN 25,020 thousand).

As of 31 December 2003, bad debts written off against other operating expenses amounted to PLN 7 thousand.

20. Provisions for employee payments

As of 30 June 2004, provision for future payments to employees amounted to PLN 100,598 thousand (31 December 2003: PLN 101,577 thousand; 30 June 2003: PLN 67,399 thousand), including:

- provision for remunerations and charges to remunerations amounting to PLN 68,271 thousand ((31 December 2003: PLN 76,577 thousand; 30 June 2003: PLN 30,382 thousand),
- provision for personnel restructuring expense amounting to PLN 7,327 thousand (31 December 2003: did not exist; 30 June 2003: PLN 12,017 thousand),
- provision for employees' retirement and jubilee payments amounting to PLN 25,000 thousand (31 December 2003: PLN 25,000 thousand; 30 June 2003: PLN 25,000 thousand).

21. Financing Employee Pension Plans

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

The current Plan, which is a continuation of PPE Polskie Towarzystwo Emerytalne "Diament", has been implemented from 19 March 2004 under an agreement with CitiSenior SFIO ("PPE CitiSenior") managed by TFI BH.

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

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

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

22. Custody services for securities

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

On 30 June 2004, the Bank operated 6,667 securities accounts. The Bank also acted as a depository for seven Open-End Pension Funds: Commercial Union OFE BPH CU WBK, AIG OFE, SAMPO OFE, OFE Pocztylion, Pekao OFE, Generali OFE, ING Nationale Nederlanden Polska OFE and for Pracowniczy Fundusz Emerytalny Telekomunikacji Polskiej S.A. Furthermore, the Bank acted as a depository for nineteen investment funds managed by the following investment fund companies: SKARBIEC TFI S.A., BZ WBK AIB TFI S.A., SEB TFI S.A., PIONEER PEKAO TFI S.A., DWS Polska TFI S.A.

23. Asset securitisation

As of 30 June 2004 and in the presented reporting periods of 2003, the Bank Group entities had no securitised receivables.

24. Employment

In the first half of 2004, the average number of employees in the Bank Group (defined as the Bank and its subsidiary undertakings) was 5,314 positions, including 144 blue-collar positions (in 2003: 4,964 positions, including 44 blue-collar positions; in the first half of 2003: 4,901 positions, including 42 blue-collar positions).

25. Salaries and awards (in cash and in kind), including bonuses from retained profit of the Management Board and supervisory bodies

The total remuneration of members of the Bank's Management Board and Managing Directors, including the former members of the Bank's Management Board, who did not fulfil the position as of 30 June 2004, amounted in the first half of 2004 to PLN 15,391 thousand (in 2003: PLN 23,542 thousand, in the first half of 2003: PLN 9,158 thousand).

The total remuneration of members of the Bank's Management Board in the first half of 2004 included PLN 3,018 thousand in base salaries, PLN 640 thousand in awards and bonuses, PLN 102 thousand in insurance premiums paid, PLN 5,037 thousand in payable benefits including severance payments, indemnifications, and accrued managerial options and PLN 5,365 thousand in base future the Bank's liabilities in granted options.

The total remuneration of members of the Bank's Management Board in 2003 included PLN 4,114 thousand in base salaries, PLN 1,368 thousand in awards and bonuses, PLN 577 thousand in insurance premiums paid, and PLN 15,608 thousand in payable benefits including severance payments, indemnifications, and accrued managerial options.

The total remuneration of members of the Bank's Management Board in the first half of 2003 included PLN 1,952 thousand in base salaries, PLN 585 thousand in awards and bonuses, PLN 174 thousand in insurance premiums paid, and PLN 6,228 thousand in payable benefits including severance payments, indemnifications, and accrued managerial options.

Remuneration paid to persons managing the Bank for their positions held in the governing bodies of subsidiaries, joint ventures and associated undertakings of the Bank in the first half of 2004 amounted in total to

PLN 19 thousand (in 2003: PLN 8 thousand; in the first half of 2003: persons managing the Bank did not receive any remuneration for their positions held in the governing bodies of subsidiaries, joint ventures and associated undertakings of the Bank).

Remuneration paid to persons having supervisory functions in the Bank in the first half of 2004 amounted to PLN 237 thousand (in 2003: PLN 426 thousand, in the first half of 2003: PLN 190 thousand). In the above periods persons having supervisory functions in the Bank did not receive any remuneration for their positions held in the governing bodies of subsidiaries, joint ventures and associated undertakings of the Bank.

Remuneration paid to persons managing subordinated entities in the first half of 2004 amounted to PLN 4,289 thousand (in 2003: PLN 9,143 thousand; in the first half of 2003: PLN 4,928 thousand).

Remuneration paid to persons having supervisory functions in subordinated entities in the first half of 2004 amounted to PLN 2 185 thousand (in 2003: PLN 834 thousand; in the first half of 2003: PLN 802 thousand).

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

As of 30 June 2004, the Bank's exposures arising from advances, loans and guarantees granted to employees, members of the Management Board and supervisory bodies of the Bank were as follows:

	in PLN thousand			
	Advances	Guarantees	Bank loans *	Loans granted from the Company Social Fund
Employees	153	1,264	68,539	43,236
Members of the Management Board	1	308	972	-
Members of the Supervisory Board	-	-	677	-
Relatives of the persons managing or supervising the entity	-	-	-	-
Total:	154	1,572	70,188	43,236

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

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

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

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

As of 30 June 2003, the Bank's exposures arising from advances, loans and guarantees granted to employees, members of the Management Board and supervisory bodies of the Bank were as follows:

	in PLN thousand			
	Advances	Guarantees	Bank loans *	Loans granted from the Company Social Fund
Employees	135	1,941	63,211	44,391
Members of the Management Board	-	293	499	-
Members of the Supervisory Board	-	160	-	-
Relatives of the persons managing or supervising the entity	-	-	-	-
Total:	135	2,394	63,710	44,391

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

As of 30 June 2004 and in the presented reporting periods of 2003, none of the employees, the Management Board and the Supervisory Board members of the Bank or relatives of the persons managing or supervising the Bank benefited from advances, loans and guarantees granted by subordinated undertakings.

As of 30 June 2004, the amount of loans granted by subordinated undertakings to their employees amounted to PLN 51 thousand and related to loans from the Company Social Benefit Fund. Subordinated undertakings did not grant any advances, loans and guarantees to members of their managing and supervising bodies.

As of 31 December 2003, subordinated undertakings did not grant any advances, loans and guarantees to their employees and members of their managing and supervising bodies.

As of 30 June 2003, the amount of loans granted by subordinated undertakings to their employees amounted to PLN 19 thousand and related to loans from the Company Social Benefit Fund. Subordinated undertakings did not grant any advances, loans and guarantees to members of their managing and supervising bodies.

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

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

28. Significant post balance sheet events excluded from the consolidated financial statements for the first half of 2004

After 30 June 2004, no events excluded from the consolidated financial statements for the first half of 2004 occurred, which would have a material impact on the Bank Group's results.

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

The Management Board of the Bank planned that between 1 April and 31 December 2004 the Bank would terminate employment contracts of up to 630 employees following the reorganisation of individual areas and introduction of new technological and organisational solutions. The Bank expects that this will lead to an improvement in quality and effectiveness of customer service. On 23 March 2004, the Bank entered with trade unions an agreement defining the procedures for dealing with employees laid off in the above period, and in particular defining the level of severance benefits payable to them. However as a result of activities undertaken to adjust the status and structure of employment to changes in strategies and methods of operation of the Bank a significant number of employees designated for reduction were employed in the dynamically developing Consumer Sector of the Bank.

On 26 April 2004, the Bank concluded with Citibank N.A., the sole shareholder of Citibank Overseas Investment Corporation, which is a majority shareholder of the Bank, the agreement on the basis of which Citibank N.A. (as the service provider) agrees to provide for the benefit of the Bank (the service user) the CitiDirect Internet transaction service for the use of the Bank and its customers. This agreement is a continuation of the existing cooperation between the parties.

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

On 29 April 2004, the Bank concluded with Citibank N.A., the sole shareholder of Citibank Overseas Investment Corporation, which is a majority shareholder of the Bank, an agreement on the basis of which Citibank N.A. (as the service provider) agrees to provide for the benefit of the Bank (the service user) services related to using by the Bank or its customers a number of IT systems for handling the Bank's operations. This agreement is a continuation of the existing cooperation between the Bank and Citibank N.A.

On 4 June 2004, the Bank entered with Handlowy Investments S.A., Luxembourg, a subsidiary in which the Bank holds a 99.99% share in its authorised share capital, an agreement on assignment of receivables for payment of the purchase price arising from the specific agreements on the sale of shares by Handlowy Investments S.A. to the Bank, for the purpose of collection of these receivables by the Bank. The value of the receivables assigned is the zloty equivalent of USD 9,891,638.26 translated on the basis of the average foreign exchange rate fixed by the National Bank of Poland, in force as of 4 June 2004. In accordance with this agreement, the Bank shall be obliged to transfer to Handlowy Investments S.A. the receivables obtained by the Bank as a result of collection of the receivables assigned. The parties shall agree the Bank's fee for collection of the receivables assigned under a separate agreement.

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

The Ordinary General Meeting of Shareholders resolved to:

- 1) distribute the 2003 profit of PLN 242,510,335.70 as follows:
 - a) dividend for shareholders: PLN 241,720,260, the amount of dividend per share being PLN 1.85,
 - b) write-off for reserve capital: PLN 790,075.70;
- 2) set the dividend date at 26 July 2004;
- 3) set the dividend payment date at 1 September 2004

30. Information on the Bank's relationship with its legal predecessor

The Bank has no legal predecessor.

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

The financial data reported in these financial statements has not been adjusted for inflation. Over the twelve months ended 30 June of 2004, 2003 and 2002, the inflation rate as measured using the index of increase in goods and services consumer prices (June do June) did not exceed 100%, running at 4.4%, 0.8% and 1.6% in the respective periods concerned. The above inflation rates have been taken from the Statistical Bulletin published by the Central Statistical Office.

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

In order to maintain comparability of financial data with the disclosures for the current period, the data presented concerning the reporting periods of 2003 were subject to the respective modifications with respect to the previously published data in consolidated periodic reports. These modifications arise from the introduction of a change in principles of recording repo and reverse repo transactions of the sell-buy-back ("SBB") and buy-sell-back ("BSB") type on securities.

The effect of changes made on selected items of the consolidated financial statements of the Bank is presented in the table below:

	in PLN thousand	
	31 December 2003	30 June 2003
Total assets		
Previously published	33,275,348	32,592,989
Effect of changes	759,629	55,025
Total assets after changes	34,034,977	32,648,014

	31 December 2003	30 June 2003
Net profit (loss)		
Previously published	250,576	90,510
Effect of changes	45,983	5,959
Net profit (loss) after changes	296,559	96,469
Shareholders' equity		
Previously published	5,947,560	5,812,320
Effect of changes	(37)	(18)
Shareholders' equity after changes	5,947,523	5,812,302

The semi-annual consolidated financial statements for 2004 include changes as compared to the previously published consolidated quarterly report for Q2 2004, in the data entered in the balance sheet and the profit and loss account, following verification of the financial data. As a result of the changes, the balance sheet total decreased as of 30 June 2004 by PLN 144,086 thousand, and was increased as of 30 June 2003 by PLN 8,795 thousand.

33. Changes in accounting policy in the first half of 2004

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

- principles of creating specific provisions for credit risk, introduced on 1 January 2004 under the provisions of the new Regulation of the Minister of Finance concerning the rules of creating provisions for risk associated with banking business. These changes include new principles of classification of credit exposures, in particular in the area of time limits for reclassification into individual risk categories, which implies prolongation of periods after which loans are included in the group of non-performing loans, use of collateral at the classification stage, and widening of the list of allowable collateral;
- principles of recognising the interest on receivables classified as watch receivables, payable to the Bank, introduced on 1 January 2004 under the amendment to the provisions of the Regulation of the Minister of Finance concerning the particular principles of accounting of banks. In accordance with the amendment to this Regulation, the income from interest and discount on receivables classified as watch receivables are disclosed in the profit and loss account on the accrual basis. Before 1 January 2004, such interest were classified as income in suspense until received.

The Bank is in the process of changing its accounting policy based on the above cited Regulation regarding the possibility of writing-off, under specific circumstances, receivables deemed to be lost exposures (as described in regulations concerning the creation of reserves to cover banking activity risks) against previously created specific reserves.

- principles of recording repo/reverse repo transactions of the sell-buy-back ("SBB") and buy-sell-back ("BSB") type on securities. In accordance with the amendment to the provisions of the Regulation of the Minister of Finance concerning the particular principles of recognition, valuation methods, scope of disclosure, and method of presentation of financial instruments and the provisions of IAS 39, the Bank's liabilities or receivables arising from SBB and BSB transactions are disclosed in the financial statements as a deposit or placement, respectively. Before the change in recording principles was introduced, such

transactions were recorded as independent purchase or sale transactions. The change in the principles of recording SBB and BSB transactions was applied retrospectively, with maintenance of comparability with the presented data for previous reporting periods. The accumulated effects of the change introduced were disclosed in the financial statements of the Bank as a correction of the opening balance of capitals as of 1 January 2003, reducing such balance by PLN 76 thousand.

The effect of these changes on financial data for the first half of 2004 was an increase in the consolidated balance sheet total by PLN 815,664 thousand and reduction in consolidated shareholders' equity by PLN 106 thousand. The change in shareholders' equity was an effect of a reduction of revaluation capital by PLN 106,987 thousand, an increase in net profit by PLN 71,745 thousand, and disclosure of a positive result on these transactions from previous years amounting to PLN 35,136 thousand.

34. Adjustments of fundamental errors

The Bank did not have to adjust any fundamental errors in the consolidated semi-annual financial statements for 2004.

35. Going concern assumption for the Bank Group entities

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

36. Business combination

In the first half of 2004 and in the presented reporting periods of 2003, no business combinations occurred a party to which would be Bank Group entities.

37. Balance sheet date for development of the financial statements of the entity accounted for in the consolidated financial statements

The financial statements of the (fully) consolidated entity is developed as of the balance sheet date which is the same as the balance sheet date as of which the consolidated financial statements of the Bank is developed.

38. Transformations of the financial statements of the entity accounted for in the consolidated financial statements

The financial statements of the entity accounted for in the consolidated financial statements do not require any transformations arising from the methods and principles of valuation of assets and liabilities applied by such entity. The accounting principles applied by the (fully) consolidated entity are consistent in all material respects with the principles applied by the Bank – parent entity.

39. Exclusions from the obligation to be consolidated or accounted for by the equity method

Information concerning exclusions from the obligation to be consolidated or accounted for by the equity method together with the data characterising the operations of subordinated undertakings have been presented in the Introduction to these financial statements (section 9).

40. Currency structure of assets and liabilities

The currency position was calculated in accordance with the principles specified in Resolution No. 5/2001 of the Commission for Banking Supervision dated 12 December 2001 regarding specific rules for calculating capital requirements for banking risk categories, including capital requirement for exposure exceeding

concentration limits, method and detailed rules for calculation of the bank solvency ratio, (...) (NBP Official Journal No. 22, item 43, as amended).

The currency position for core currencies as of 30 June 2004 was as follows:

in PLN thousand							
Country	Currency	Assets	Liabilities	Off-balance sheet assets	Off-balance sheet liabilities	Indexed assets/ liabilities	Long (short) position
USA	USD	2,495,849	2,992,684	16,293,527	15,622,157	-	174,535
European Union	EUR	4,405,535	3,327,465	6,799,595	7,913,067	-	(35,402)
UK	GBP	184,967	159,797	207,448	228,788	-	3,830
Switzerland	CHF	652,189	178,246	606,821	1,057,101	-	23,663
Sweden	SEK	22,020	16,618	-	4,501	-	901
Denmark	DKK	1,044	2,893	904	136	-	(1,081)
Australia	AUD	1,525	161	1,292	2,585	-	71
Norway	NOK	22,596	3,215	17,328	35,739	-	970
Canada	CAD	13,267	11,491	-	-	-	1,776
Japan	JPY	53,315	4,526	26,218	70,993	-	4,014
Czech Rep.	CZK	111,094	4,636	64,371	170,042	-	787
Hungary	HUF	323	732	48,346	3,248	-	44,689
Slovakia	SKK	752	80	2,276	4,550	-	(1,602)
Estonia	EEK	184	-	-	290	-	(106)
Lithuania	LTL	539	-	-	1,316	-	(777)
Latvia	LVL	3,429	-	-	3,460	-	(31)
Malta	MTL	-	21	-	-	-	(21)
South Africa	ZAR	218	-	-	-	-	218
Total unconvertible currencies		188,311	188,368	-	-	-	(57)
Total		8,157,157	6,890,933	24,068,126	25,117,973	-	
Total currency position							255,454

As of 30 June 2004, the total capital requirement for foreign exchange risk was set at PLN 13,902 thousand.

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

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

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

The currency position for core currencies as of 30 June 2003 was as follows:

							in PLN thousand
Country	Currency	Assets	Liabilities	Off-balance sheet assets	Off-balance sheet liabilities	Indexed assets/liabilities	Long (short) position
USA	USD	4,636,261	3,354,930	18,680,639	19,844,573	-	117,396
European Union	EUR	3,558,492	2,819,111	5,870,343	6,791,465	-	(181,742)
UK	GBP	40,547	153,338	175,425	56,225	-	6,409
Switzerland	CHF	1,082,730	50,001	994,063	2,007,107	-	19,685
Sweden	SEK	27,472	5,901	26,793	48,533	-	(169)
Denmark	DKK	1,070	7,692	5,406	975	-	(2,190)
Australia	AUD	1,959	142	2,603	5,205	-	(786)
Norway	NOK	4,167	3,308	-	862	-	(3)
Canada	CAD	4,141	3,176	-	-	-	965
Japan	JPY	41,328	44,681	36,411	32,801	-	258
Czech Rep.	CZK	173,679	8,281	125,240	294,101	-	(3,463)
Hungary	HUF	313	334	9,852	11,030	-	(1,198)
Slovakia	SKK	744	185	1,073	2,146	-	(514)
South Africa	ZAR	414	-	-	-	-	414
Total unconvertible currencies		197,926	197,986	-	-	-	(60)
Total		9,771,243	6,649,066	25,927,848	29,095,023	-	
Total currency position							(190,126)

As of 30 June 2003, the total capital requirement for foreign exchange risk was set at PLN 7,934 thousand.

In calculating its capital requirement against foreign exchange risk as of 30 June 2004 and in the presented reporting periods of 2003, is applied the standardised method as specified in Resolution No. 5/2001 of the Commission for Bank Supervision dated 12 December 2001.

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

Signatures of all Management Board Members

25.10.2004

.....
Date

Sławomir Sikora

.....
Name

President

.....
Position / function

.....
Signature

25.10.2004

.....
Date

Sunil Sreenivasan

.....
Name

Vice-President

.....
Position / function

.....
Signature

25.10.2004

.....
Date

Philip Vincent King

.....
Name

Vice-President

.....
Position / function

.....
Signature

25.10.2004

.....
Date

David J. Smith

.....
Name

Vice-President

.....
Position / function

.....
Signature

25.10.2004

.....
Date

Lidia Jabłonowska-Luba

.....
Name

Member

.....
Position / function

.....
Signature

25.10.2004

.....
Date

Michał H. Mrozek

.....
Name

Member

.....
Position / function

.....
Signature