

Commentary to Quarterly Report SAB - QSr 2/2004 for the second quarter of 2004.

Summary of financial results

The consolidated quarterly report presents the financial results of the Bank Handlowy w Warszawie SA Group ("the Group"), which includes Bank Handlowy w Warszawie SA ("the Bank"), as the parent entity, and subsidiary entities. The list of subsidiaries constituting the Group as well as other subsidiaries (joint subsidiaries and associated entities), and the valuation methods applied, are presented later in this Commentary.

In the second quarter of 2004, the Group reported net profit of PLN 159.4 million, which is an increase of PLN 79.4 million (i.e. 99.2%) in comparison with the second quarter of 2003, and cumulative net profit (i.e. for the period of January to June) was higher by PLN 128.3 million (i.e. 133.0%).

Gross profit for the second quarter of 2004 amounted to PLN 170.3 million, which is an increase of PLN 76.8 million (i.e. 82.2%) in comparison with the second quarter of 2003, and cumulative gross profit (i.e. for the period of January to June) was higher by PLN 124.3 million (i.e. 91.7%).

Revenue, consisting of profit on banking activity and other operating income, increased in the second quarter of 2004 by PLN 27.2 million (i.e. 5.8%) over the second quarter of 2003, while expenses, consisting of other operating expenses, general expenses and depreciation and amortisation, decreased by PLN 34.9 million (i.e. 9.7%) in comparison with the second quarter of 2003.

In the second quarter of 2004, net movement in provisions and revaluation of financial assets decreased by PLN 14.7 million (i.e. 90.2%) in comparison with the second quarter of 2003.

Financial accounting principles

General information

The consolidated report for the second quarter of 2004 was prepared on the following basis:

- Regulation of the Council of Ministers dated 16 October 2001 concerning current and periodic information reported by issuers of securities (Journal of Laws No. 139, Item 1569, as amended);
- Regulation of the Council of Ministers dated 16 October 2001 concerning specific requirements that should be met in offering prospectuses and short form offering prospectuses (Journal of Laws No 139, Item 1568, as amended).

and in accordance with the regulations specified in:

- Accountancy Act of 29 September 1994 (Journal of Laws of 2002, Number 76, Item 694, as amended);
- Regulation of the Minister of Finance dated 10 December 2001 concerning specific accounting principles for banks (Journal of Laws No. 149, Item 1673, as amended);
- Regulation of the Minister of Finance dated 12 December 2001 concerning principles for preparing consolidated financial reports of banks and consolidated financial reports of a financial holding company (Journal of Laws No. 152, Item 1728);
- Regulation of the Minister of Finance dated 12 December 2001 concerning specific accounting principles for recognition, valuation, scope of disclosure, and presentation of financial instruments (Journal of Laws No. 149, Item 1674, as amended);
- Regulation of the Minister of Finance dated 10 December 2003 concerning principles for creating provisions for risks related to operations of banks (Journal of Laws No. 218, Item 2147).

The principles adopted in the consolidated report for the second quarter of 2004 are consistent with the accounting principles adopted and described in the consolidated annual report for 2003, except for the changes described below:

- rules for creating specific provisions for credit risk

Effective 1 January 2004, changes in the rules for creating provisions for risks related to the activity of banks were introduced in accordance with the new Regulation of the Minister of Finance concerning principles of classification of credit exposures. In particular, the period after which loans are classified as non-performing was prolonged, collateral could be recognised in the classification stage of credit exposures, and the list of acceptable collateral was broadened;

- rules for recognising the interest on receivables due to the bank and classified as watch receivables

Effective 1 January 2004, new rules were introduced in accordance with the amendment to the Regulation of the Minister of Finance concerning specific accounting principles for banks. In particular, interest income and discount on receivables classified as watch category are recognised in the profit and loss account on an accrual basis. Prior to 1 January 2004, this interest was treated as deferred income until its receipt;

- rules for recording sell-buy-back (“SBB”) and buy-sell-back (“BSB”) transactions

In accordance with the amendment to the Regulation of the Minister of Finance concerning specific accounting principles for recognition, measurement, disclosure and presentation of financial instruments and the provisions of IAS 39, the Bank’s liabilities or receivables arising from SBB and BSB transactions are presented in the financial statements as a deposit or as a placement, respectively. Prior to the change, these transactions had been reported as outright purchase or sale transactions. This change has been applied retrospectively to retain comparability with the data presented for previous reporting periods. The cumulative effect of the change introduced has been reported in the Bank’s financial statements as the correction of the opening balance of consolidated equity as of 1 January 2003.

The financial data was prepared using valuation principles for assets and liabilities and recognition of net financial profit or loss, as of 30 June 2004, taking into account adjustments for provisions, deferred income tax assets and provisions, and asset revaluation write-downs made, in accordance with the regulations in force.

Method of presentation of financial information

In order to maintain comparability of the financial information reported for the current period, the data previously published in consolidated periodic reports for reporting periods earlier than the second quarter of 2004 has been adjusted. These adjustments arise from the adoption of the rules for recording sell-buy-back (“SBB”) and buy-sell-back (“BSB”) transactions outlined above.

The effects of the changes on selected items of the consolidated balance sheet and the consolidated profit and loss account are presented below:

Selected consolidated financial data

	in PLN thousand		
	As of 31/03/04 First quarter 2004	As of 30/06/03 Second quarter 2003	As of 31/03/03 First quarter 2003
Total assets			
As previously reported	33 452 029	32 592 989	33 698 379
Effect of change	544 494	46 230	141 479
As adjusted	33 996 523	32 639 219	33 839 858
Net profit (loss)			
As previously reported	79 444	90 510	11 900
Effect of change	(14 045)	5 959	4 558
As adjusted	65 399	96 469	16 458
Shareholders' equity			
As previously reported	6 038 134	5 812 320	5 938 959
Effect of change	(145)	(18)	(67)
As adjusted	6 037 989	5 812 302	5 938 892

The financial effect of the changes in the rules for recording sell-buy-back and buy-sell-back transactions resulted in the reclassification of the economic results of those transactions from the income statement to equity, which had a significant impact on the current period consolidated financial result, but a negligible impact on shareholders' equity.

Structure of the Group (subsidiaries)

No.	Enterprise name	Registered office	Type of business	Share in equity / votes at GMS in %*	Method of consolidation / valuation
1.	Dom Maklerski Banku Handlowego S.A.	Warsaw	financial	100.00	full method
2.	Handlowy Inwestycje Sp. z o.o.	Warsaw	financial	100.00	accounted for under the equity method
3.	Handlowy Inwestycje II Sp. z o.o.	Warsaw	financial	100.00	accounted for under the equity method
4.	Handlowy Investments S.A.	Luxembourg	financial	100.00	accounted for under the equity method
5.	Handlowy Investments II S.a.r.l.	Luxembourg	financial	100.00	accounted for under the equity method
6.	Citileasing Sp. z o.o.	Warsaw	financial	100.00	accounted for under the equity method
7.	Handlowy Leasing S.A.	Warsaw	financial	100.00	accounted for under the equity method
8.	Bank Rozwoju Cukrownictwa S.A.	Poznań	financial	100.00	accounted for under the equity method
9.	Handlowy Zarządzanie Aktywami S.A.	Warsaw	financial	100.00	accounted for under the equity method
10.	Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A.	Warsaw	financial	100.00	accounted for under the equity method
11.	Polskie Pracownicze Towarzystwo Emerytalne DIAMENT S.A. w likwidacji (under liquidation)	Warsaw	financial	79.27	accounted for under the equity method
12.	PPH Spomasz Sp. z o.o. w likwidacji (under liquidation)	Warsaw	non-financial	100.00	not accounted for under the equity method

* direct and indirect

The above-mentioned financial subsidiaries, excluding subsidiary Dom Maklerski Banku Handlowego S.A., were excluded from full consolidation under Article 57.1 and Article 58.1 of the Accountancy Act of 29 September 1994 (Journal of Laws of 2002, Number 76, Item 694, as amended).

Bank Rozwoju Cukrownictwa S.A. is intended for sale, while Polskie Pracownicze Towarzystwo Emerytalne DIAMENT S.A. will be liquidated.

PPH Spomasz Sp. z o.o., under liquidation, was excluded from the equity method of accounting under Article 57.1 of the Accountancy Act of 29 September 1994 (Journal of Laws of 2002, Number 76, Item 694, as amended).

The financial data of other subsidiaries are insignificant in comparison with the financial data of the Bank and are not material for giving a true and fair view of the Group's financial position and its financial result.

Changes in the structure of the Group in the second quarter of 2004

In the second quarter of 2004, the structure of the Group remained unchanged.

Other affiliated enterprises (joint subsidiaries and associated entities)

No.	Enterprise name	Registered office	Type of business	Share in equity / votes at GMS in %*	Method of consolidation/ valuation
Joint subsidiaries:					
1.	Handlowy Heller S.A.	Warsaw	financial	50.00	accounted for under the equity method
Associated entities:					
2.	KP Konsorcjum Sp. z o.o.	Warsaw	financial	49.99	accounted for under the equity method
3.	Creditreform PL. Sp. z o.o.	Warsaw	non-financial	49.03	not accounted for under the equity method
4.	Mostostal Zabrze Holding S.A.	Zabrze	non-financial	34.44	not accounted for under the equity method
5.	NIF FUND Holdings PCC Ltd.	Guernsey	non-financial	20.31	not accounted for under the equity method

* direct and indirect

The above-mentioned non-financial associated entities were excluded from the equity method of accounting under Article 57.1 of the Accountancy Act of 29 September 1994 (Journal of Laws of 2002, Number 76, Item 694, as amended).

Changes in the structure of joint subsidiaries and associated entities in Q2 of 2004

In the second quarter of 2004, the structure of entities associated with the Bank changed as a result of:

- sale by the subsidiary Handlowy Investments S.A. of all its shares held in Polimex Cekop S.A. representing a 36.64% share in capital and the same share in votes at the general meeting of shareholders of this entity;

- redemption of some of the shares in capital of the associated entity NIF Fund Holdings PCC Ltd. The shares redeemed represented 2.37% of the entity's capital. As a result of this transaction, the Bank holds, through its subsidiary Handlowy Investments S.A., a 20.31% share in capital and the same share in votes at the general meeting of shareholders of this entity;
- sale by the Bank of some of its shares held in the Bank's associated entity Pia Piasecki S.A. The shareholding sold represented a 17.40% share in the capital of this entity. As a result of this transaction, the Bank holds a 19.12% share in capital and the same share in votes at the general meeting of shareholders of this entity;
- sale by the Bank of some of its shares held in the Bank's associated entity IPC JV Sp. z o.o. The shareholding sold represented an 11.12% share in the capital of this entity. As a result of this transaction, the Bank holds a 19.88% share in capital and the same share in votes at the general meeting of shareholders of this entity;
- sale by the Bank of some of its shares held in the Bank's associated entity Elektromontaż Poznań S.A. The shareholding sold represented a 5.42% share in the capital of this entity. As a result of this transaction, the Bank holds a 19.88% share in capital and the same share in votes at the general meeting of shareholders of this entity.

Selected financial data

Selected financial data presented at the beginning of the consolidated quarterly report is expressed in two currencies – in zlotys and in euros. The principles of translation from zlotys into euros are as follows:

- assets and liabilities are translated into euros on the basis of the average exchange rate in force as of the balance sheet date, announced by the National Bank of Poland, which as of 30 June 2004 was PLN 4.5422 and as of 30 June 2003 was PLN 4.4570;
- profit and loss account items are translated into euros on the basis of the arithmetic mean of the average exchange rates announced by the National Bank of Poland, in force as of the last day of each complete month covered by the quarterly report, which for the second quarter of 2004, cumulatively, was PLN 4.7311; and for the second quarter of 2003, cumulatively, was PLN 4.3110;
- earnings per one ordinary share and diluted earnings per one ordinary share are translated into euros on the basis of the arithmetic mean of the average exchange rates announced by the National Bank of Poland, in force as of the last day of each complete month over the 12 month periods ended 30 June 2004 and 30 June 2003, which were PLN 4.6574 and 4.1739, respectively.

Brief description of the Group's activities in the second quarter of 2004

Bank Handlowy w Warszawie SA - parent entity

1. Corporate and Investment Bank

- *Global Transaction Services*

In May 2004, Bank Handlowy w Warszawie SA entered into an agreement with Handlowy-Heller S.A., a factoring company related to the Bank. This cooperation enables the Bank to refer its customers to the products offered by Handlowy-Heller S.A., for the benefit of Handlowy-Heller S.A. The subject matter and scope of cooperation defined in the agreement represents both an alternative as well as a supplementary range of products associated with trade financing offered by the Bank.

In the second quarter of 2004, responding to the requirements of foreign customers operating outside Poland, the Bank developed and implemented the SpeedCollect Plus platform for servicing mass payments for these customers. The platform makes it possible both to rapidly process the data received (incoming payments) as well as to deliver the data in the format defined by the customers taking into account their financial and accounting needs.

- *Corporate finance*

In the first and second quarters of 2004, the Bank acted as financial advisor to PKN ORLEN S.A. in relation to the acquisition of Unipetrol a.s., the leading Czech fuel sector company. The scope of financial advice provided by the Bank related to the analysis of the debt of companies in the Unipetrol group and to the determination of methods for restructuring this debt, and also to the analysis of the effect of the acquisition on the rating classification and terms of financing of PKN ORLEN S.A.

In June 2004, the Bank accessed the programme of issuance of short- and medium-term bonds of Carrefour Polska Sp. z o.o. with the indebtedness limit of PLN 300 million. The Bank plays a role of the dealer in the programme.

As of the end of June 2004, the Bank held a leading share of 16.4% in the market for the issuance of short-term debt securities.

- *Mergers and acquisitions*

In April 2004, Royal & Sun Alliance Insurance Group plc and Bank Przemysłowo-Handlowy PBK S.A. (BPH) sold 100% of shares in Towarzystwo Ubezpieczeń na Życie Royal PBK S.A. (Royal PBK). The Bank acted as financial advisor to Royal & Sun Alliance Insurance Group plc. Within the framework of the work performed, the Bank prepared the offering memorandum and conducted the process of searching for a strategic investor for the Company.

- *Treasury products*

In the second quarter of 2004, the Bank concluded a number of market-linked deposit transactions representing an alternative to traditional deposits, and granted a structured loan on the basis of a fixed interest rate for the amount of PLN 100 million.

The Bank regained its leadership position in the market of short-term debt securities issued by corporations, obtaining a 19% share in this market.

- *Branch network reorganisation*

The Bank continued the reorganisation of its branch network. Two further joint Corporate and Consumer Banking branches were created. In many other locations restructuring work is now in progress enabling the reduction of space occupied and of expenses incurred.

2. Consumer Bank

- *Credit cards*

During May 2004, the portfolio of credit cards serviced exceeded half a million and totalled 507,000 as of 30 June 2004, representing an increase of 19.5% in comparison with the end of June 2003.

In the second quarter of 2004, as in the first quarter of 2004, the increase in the sale of credit cards was driven by the demand for the co-branded Motokarta Kredytowa Citibank-BP issued in cooperation with BP Polska Sp. z o.o

- *Loans and advances*

In the first quarter of 2004 there was a significant increase in the sale of loans and advances in the Consumer Banking Sector. This trend was maintained in the second quarter of 2004 as the number of newly granted loans increased by 10% over the prior quarter (data not including CitiFinancial and CitiBusiness).

The users of the Citibank Credit Card have the ability to convert their debt arising from a credit card purchase into an instalment loan. In each consecutive month in the second quarter of 2004 the number of loans obtained in this manner reached record levels.

In May 2004, the telephone customer service CitiPhone became a distribution channel for unsecured overdrafts, whereby a customer is able to obtain a credit line for an unsecured overdraft without a visit to a Bank branch.

- *e-banking*

During the second quarter of 2004 e-banking users obtained further service improvements, including access to the particulars of persons making payments to their account, more information concerning transactions, and express payments. In addition, for convenience and in order to optimise costs, the electronic statement service was made available. The Bank's efforts to develop a modern and safe platform for e-banking products contributed to the significant increase in the number of customers using the above-described distribution channel. As of 30 June 2004, the Bank had 65% of customers more than as of 30 June 2003. The number of users of the CitiGSM service, which enables customers to obtain account balance information by SMS, increased in the same period by 38%.

- *SME Banking*

In May 2004, the Bank's product range was increased by the CitiBusiness offer for small and medium-sized enterprises with annual sales volume not exceeding PLN 8 million, based on the concept of the sale of products and services in the form of six product packages. Owing to their diversity, these product packages aim to meet all the requirements of customers in the target market. The novelty in the Bank's offer is the possibility to establish a link between the personal account and the corporate account enabling the management of funds on the corporate account through the personal account. In addition, this makes it possible to limit costs, for example through the use of free-of-charge money transfers between the personal account and the corporate account.

Dom Maklerski Banku Handlowego w Warszawie S.A. ("DM BH") – subsidiary

In the second quarter of 2004, DM BH maintained its leadership position in the market of brokerage services. The value of the stock market turnover on the Warsaw Stock Exchange settled through DM BH reached PLN 3,899.4 million in the period, which was lower than in the first quarter of 2004, when the value of the stock market turnover settled through DM BH was PLN 4,535.6 million, but higher by 70.5% than in the second quarter of 2003. DM BH's share of stock market turnover in the second quarter of 2004 was 16.5% (first place in the rankings).

The decrease in turnover settled by DM BH in the second quarter of 2004 was driven by market conditions. From mid-April the market was in a correction phase reflected in the reduction of the WIG 20 index. A drop in the value of turnover accompanied the drop in the level of the index.

In the second quarter of 2004, in addition to the activities on the secondary market of shares, DM BH also provided services on the primary market. In May 2004, DM BH handled the successful subscription for shares of JC Auto S.A. that made its debut on the Warsaw Stock Exchange. In the second quarter of 2004, DM BH also was actively developing its primary market business, which resulted in participation in several significant transactions expected to complete in the second half of 2004. In addition, DM BH completed three significant transactions in the non-public market.

Handlowy-Leasing S.A. / Citileasing S.A. – subsidiary

As of 30 June 2004, the total market share of Handlowy-Leasing S.A. and Citileasing S.A. was 3.9%.

In the second quarter of 2004, responding to market needs, the product offer was enlarged by the introduction of the programme for financing of plastics processing machines. In addition, work on implementation of an integrated financial and accounting system was in progress and is designed to provide a first class solution for information security and product service.

Handlowy Zarządzanie Aktywami S.A. (“HanZA”) – subsidiary

As of 30 June 2004, the value of assets under management of HanZA amounted to PLN 1,551.7 million. The value of individual customer portfolios using asset management services amounted to PLN 623.3 million. The assets of corporate customers amounted to PLN 928.4 million, including PLN 565.7 million of CitiFundusze's assets, PLN 310.3 million originates from an insurance company and other financial institutions, and PLN 52.4 million originates from other corporate customers.

In the second quarter of 2004, the majority of portfolios managed by HanZA reported results better than the respective reference rates. The highest rate of return was obtained by portfolios investing into Polish shares: selective portfolios obtained 8.20% and correlated portfolios obtained 3.51%. Portfolios based on investments into debt securities obtained 0.33%, and money risk portfolios 1.34%.

Towarzystwo Funduszy Inwestycyjnych Banku Handlowego w Warszawie S.A. (“TFI BH”) – subsidiary

As of 30 June 2004 the value of assets under management of TFI BH was PLN 1,046.2 million. The largest fund with respect to assets under management was CitiPłynnościowy Specjalistyczny Fundusz Inwestycyjny Otwarty, a fund intended for institutional customers seeking an alternative for short-term deposits. Its assets increased in Q2 by 37.24% and as of 30 June 2004 amounted to PLN 331.0 million, which represented 31.64% of assets of CitiFundusze. The funds, which also recorded an increase in their assets in the second quarter of 2004, were CitiZrównoważony FIO (increase by 3.80%), CitiAkcji FIO (increase by 23.18%), CitiSenior SFIO (19.85%) and Fundusz Własności Pracowniczej PKP SFIO (increase by 3.33%). As of 30 June 2004 the value of assets under management gave TFI BH tenth position with a market share of 3%.

The majority of funds managed by TFI BH brought profits to their investors. CitiAkcji FIO provided an increase of 1.88%, CitiZrównoważony FIO – 1.24%, CitiSenior SFIO – 0.67%, CitiPłynnościowy SFIO – 1.26%, CitiPieniężny FIO – 0.94%, and Fundusz Własności Pracowniczej PKP SFIO – 0.70%.

Handlowy-Heller S.A. – subsidiary

The company signed an agreement to cooperate with Bank Handlowy w Warszawie SA in relation to the sale of factoring services. In addition, the implementation of the new factoring IT system Faktorlink was completed.

Description of factors and events that had an effect on the financial results achieved by the Group in Q2 2004

In the second quarter of 2004, the Group reported net profit of PLN 159,417 thousand which is an increase of PLN 79,406 thousand (i.e. 99.2%) in comparison with the second quarter of 2003, and cumulative net profit (i.e. for the period between January to June) was higher by PLN 128,347 thousand (i.e. 133.0%).

Gross profit for the second quarter of 2004 amounted to PLN 170,344 thousand which is an increase of PLN 76,840 thousand (i.e. 82.2%) in comparison with the second quarter of 2003, and cumulative gross profit (i.e. for the period between January to June) was higher by PLN 124,276 thousand (i.e. 91.7%).

The result on banking activity in the second quarter of 2004 was higher by PLN 26,725 thousand (i.e. 5.9%) in comparison with the corresponding period of the previous year, as a result of the following:

- increase in net interest income of PLN 45,940 thousand (i.e. 25.0%), mainly as a result of considerable growth in the securities portfolio;
- increase in net commission income of PLN 27,510 thousand (i.e. 20.6%), mainly relating to commissions on insurance products, cash management commissions, and fees for the issue and use of charge cards and credit cards;
- increase in the result on foreign exchange operations by PLN 34,146 thousand (i.e. 44.5%), mainly relating to the FX result on financial instruments;
- decrease in net profit on financial operations of PLN 95,897 thousand, mainly relating to a lower trading result on debt securities issued by central government institutions, in particular on Polish Treasury bonds, due to the effect of increases in interest rates.

In the second quarter of 2004, operating expenses decreased by PLN 26,022 thousand (i.e. 8.9%) in comparison with the second quarter of 2003. This decrease mainly resulted from the reduction of provisions established in the first quarter for future payments of management options, due to changes in the price of Citigroup stock as well as personnel changes concerning employees owning the rights to these shares.

In the second quarter of 2004, net write-offs to provisions and revaluation of financial assets decreased by PLN 14,714 thousand (i.e. 90.2%) in comparison with the second quarter of 2003.

Net write-offs to provisions for non-performing debts and contingent liabilities amounted to PLN 108,100 thousand in the second quarter of 2004 and were higher by PLN 107,085 thousand in comparison with the second quarter of the previous year. This resulted from a comprehensive review of the entire corporate credit portfolio and the value of collateral supporting classified exposures. Specific provisions were increased where it was considered necessary.

As a result of the above review and the increase in specific provisions, it was also decided to reduce the general provision by PLN 105,000 thousand. The remaining amount of the general provision is PLN 195,000 thousand and is considered adequate to cover the credit risk relating to the consumer portfolio and the credit exposures from watch category.

The share of problem loans in the gross credit portfolio increased slightly from 29.8% at the end of December 2003 to 30.1% at the end of June 2004 while at the same time the nominal value of problem loans decreased.

In the second quarter of 2004 there was a reversal of write-downs from revaluation of financial assets amounting to PLN 1,500 thousand, while for the same period of 2003, such write-downs amounted to PLN 15,299 thousand.

The income tax charge on the result for the second quarter of 2004 amounted to PLN 32,283 thousand, which includes a credit of PLN 10,742 thousand following amendments to the Corporate Income Tax Act in relation to the EU Guarantees Fund, introduced by the Act on 16 April 2004. The Bank has recognised a receivable in relation to the settlements of income tax, which fall due in 2007-2009. This receivable was established as 8% of specific provisions for loans and guarantees as of 31 December 2002 not classified as deductible expenses.

Important events after the balance sheet date not included in the Financial Statements

After 30 June 2004, no events that could have a significant impact on the results of the Group have occurred without being included in this report.

Comparison of results to the forecast for 2004

The Bank has not announced publicly its results forecast for 2004.

Information about the Shareholders

As of date of the report, the only shareholder of the Bank which held directly or indirectly, through subsidiaries, at least 5% of votes at the General Meeting of Shareholders of Bank Handlowy w Warszawie SA was Citibank Overseas Investment Corporation ("COIC"), a subsidiary of Citibank N.A., that held 89.33% of the votes at the General Meeting of Shareholders of Bank Handlowy w Warszawie SA. The number of shares held by COIC amounted to 116,717,574, which represented 89.33% of the authorised share capital of the Bank. The number of votes associated with the shares held by COIC was 116,717,574, which represented 89.33% of the total number of votes at the General Meeting of Shareholders of the Bank.

The ownership structure in relation to the major shareholders has not changed during the period since the date of the last consolidated quarterly report.

Changes in ownership of the Issuer's shares by managing and supervising persons

As of the quarterly report submittal date, to the best knowledge of the Bank, managing and supervising persons held 752 shares of Bank Handlowy w Warszawie SA. These shares are held exclusively by supervising persons. The number of Bank shares held by managing and supervising persons has not changed during the period since date of the last consolidated quarterly report.

Information on pending proceedings

In the second quarter of 2004, no proceedings relating to the liabilities or receivables of the Bank or its subsidiaries, the value of which would constitute at least 10% of the Bank's shareholders' equity, were pending before any court, administrative authority or a body competent for arbitration.

In the second quarter of 2004, the total value of all pending legal actions related to receivables, with participation of the Bank and its subsidiaries, exceeded 10% of the Bank's shareholders' equity and amounted to PLN 1,355,475,000.

The Bank's position regarding this matter is explained below:

The substantial majority of the increased amounts of receivables of the Bank and its subsidiaries have arisen from the high number of arrangement and bankruptcy proceedings in which Bank Handlowy w Warszawie SA or its subsidiaries participate as a creditor, as well as proceedings for appending the enforcement clause to bank enforcement titles, especially in the Consumer Banking Sector. The

forementioned proceedings result from the deteriorated financial standing of the Bank's counterparties, especially borrowers or lessees of the Bank's subsidiary leasing companies and also customers of the Bank's Consumer Banking Sector.

In addition, it should be pointed out that the litigations described above, especially the arrangement proceedings and bankruptcy proceedings, are characterised by excessive duration and lengthy judicial procedures. As a result of the aforementioned procedural lengthiness there are few arrangement proceedings and bankruptcy proceedings that end in valid court adjudication within a period shorter than two years (and many of them take four or even more years to be concluded). The Bank's report covers some proceedings, which commenced several years earlier.

Under the legal regulations in force, Bank Handlowy w Warszawie SA is obliged to create provisions for non-performing receivables already at the stage when the risk level related to the economic performance of a given receivable increases (in the case of bank loans, relevant regulations make the creation of provisions dependent on the timeliness of loan instalment repayments), and therefore in practice as of the date of commencement of arrangement or bankruptcy proceedings the provision for the given receivable has already been created for the relevant amount. Simultaneously, as a rule, when bankruptcy proceedings or proceedings for appending an enforcement clause to bank enforcement title come to an end, the Bank recovers at least part of the payment due and is then able to dissolve the created provisions in whole or in part. The same happens in the case of concluded arrangement proceedings, where after the debt has been reduced, the debtor pays the remaining part of its liabilities towards the Bank.

The table below provides a description of the major pending legal actions in relation to receivables:

Parties to the proceedings	Litigation value	Proceedings initiation date	Description of the case
Creditor: Bank Handlowy w Warszawie SA	PLN 158,534,000 (loan-related receivable)	8 August 1997 – declaration of bankruptcy.	Case pending.
Creditor: Bank Handlowy w Warszawie SA	PLN 65,947,000 (loan-related receivable)	In 2000, the court declared the borrower bankrupt.	Within the framework of the pending proceedings, the Bank reported a receivable. The Bank's receivable in category VI may remain unpaid.
Plaintiff: Bank Handlowy w Warszawie SA	PLN 33,976,000 (loan-related receivable)	Suit for payment under loan liability.	Case pending. The writ of payment issued on 8 September 2003. The defendant has raised objections to the issued writ for payment.
Creditor: Bank Handlowy w Warszawie SA	PLN 40,586,000 (loan- and guarantee-related receivable)	On 30 June 2003 the court declared the debtor bankrupt.	Case pending. The Bank reported its receivables in proceedings.
Plaintiff: Bank Handlowy w Warszawie SA	PLN 13,375,000	Suit for payment under a bill of exchange.	On 25.08.2000, the Bank obtained the writ for payment for the whole claim of the Bank. The writ is not final, and the defendant submitted

			its objections.
Creditor: Bank Handlowy w Warszawie SA	PLN 7,533,000	In September 2003, decision to open arrangement proceedings.	The Bank reported the receivable for arrangement. Case pending (loan receivable).

In the second quarter of 2004, the total value of litigations with the participation of the Bank and its subsidiaries, related to liabilities of the Bank and its subsidiaries, did not exceed 10% of the shareholders' equity of the Bank.

Information on significant transactions with related entities

On 26 April 2004, the Bank executed with Citibank N.A., the sole shareholder in COIC, which is a majority shareholder of the Bank, the CitiDirect service level agreement. Based on the agreement 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 represents a continuation of the cooperation between the parties.

On 27 April 2004, the Bank executed a service agreement 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. and related entities to Citibank N.A., the sole shareholder in COIC, which is a majority shareholder of the Bank. Based on the agreement, the above mentioned entities (as service providers) will provide for the benefit of the Bank (as the recipient of services) services related to advisory support to the current activity of the Bank, including consultancy and advice in the areas of management, finance, accounting, audit and assessment of compliance, law and taxes, marketing and public matters, employee matters, administrative issues, analysis and risk assessment.

On 29 April 2004, the Bank executed with Citibank N.A., the sole shareholder in COIC, which is a majority shareholder of the Bank, the IT systems service level agreement. Based on the agreement Citibank N.A. (as the service provider) agrees to provide for the benefit of the Bank (as the service recipient) services related to using by the Bank or its customers a number of IT systems for servicing of the Bank's operations. This agreement represents a continuation of the cooperation between the parties.

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.

Information on significant agreements on loan surety or on guarantee granting

As of 30 June 2004, the total value of sureties and guarantees granted by the Bank or its subsidiaries to a single entity does not exceed 10% of the Bank's shareholders' equity.

Other important information

Personnel changes in the Bank's authorities in the second quarter of 2004

On 25 May 2004, the Bank was informed of the resignation of Mr Krzysztof Opawski from the function of Member of the Bank Supervisory Board. The resignation was handed to the President of the Bank Supervisory Board and the mandate of Mr Krzysztof Opawski as a member of the Supervisory Board expired.

On 25 May 2004, the Supervisory Board of the Bank appointed Mr Michał H. Mrozek as a Member of the Bank Management Board, with effect from 25 May 2004.

On 18 June 2004, the Bank Management Board decided to revoke Mr Sarwar Iqbal from the function of the Managing Director of the Bank and the Head of Operations & Technology.

The Ordinary Meeting of Shareholders of the Bank of 24 June 2004 appointed the following persons to the Supervisory Board of the Bank: Mr Atif Aslam Bajwa, Ms Susan Helen Dean, Mr Edward Kuczera, Mr Jarosław Myjak, Ms Aneta M. Popławska, Mr Carlos Urrutia and Mr Jean-Paul Votron.

The Ordinary Meeting of Shareholders of the Bank of 24 June 2004 did not appoint the following persons for the subsequent period of office as members of the Bank Supervisory Board: Mr Allan Hirst, Mr Andrzej Gdul, and Mr Edward Walsh whose mandate as Supervisory Board members expired on the day on which this Ordinary Meeting was held.

As a result of personnel changes in the Bank's Supervisory and Management Boards, which took place in the first and the second quarters of 2004, the following persons were members of the Bank Management Board and the Bank Supervisory Board as of 30 June 2004:

Composition of the Bank Management Board

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

Composition of the Bank Supervisory Board

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

Other information

On 24 June 2004, the Ordinary Meeting of Shareholders of the Bank was held, which within the framework of the resolutions made adopted the resolution concerning the allocation of profit for 2003 and the determination of the date of dividend and the date of payment of the dividend:

The Ordinary Meeting of Shareholders made the following decisions:

- 1) to allocate the profit for 2003, amounting to PLN 242,510,335.70, as follows:
 - a) dividend for shareholders of PLN 241,720,260, as a result of which the amount of dividend corresponding to one share is 1 zloty 85 grosze,
 - b) write down to equity reserves – 790,075 zlotys 70 grosze,
- 2) to designate as the date of dividend 26 July 2004,
- 3) to designate as the date of dividend payment 1 September 2004.

On 25 May 2004, the Supervisory Board of Bank Handlowy w Warszawie SA selected the independent auditor - KPMG Audyt Spółka z o.o., having its registered office in Warsaw at ul. Chłodna 51, to be entered in the list of entities authorised to audit financial statements under number 458, to which the auditing and reviewing of financial statements of the Bank for 2004 will be entrusted.

In the past the Bank has used the services of KPMG Audyt Spółka z o.o. for the audit of the annual and semi-annual financial statements, review of semi-annual financial statements, and advisory services. An agreement is to be concluded with KPMG Audyt Spółka z o.o. for the performance of the audit and review of the financial statements for 2004.

In accordance with the resolution adopted by the Bank Management Board on 24 June 2004, the Bank adopted for use all corporate governance principles contained in “Good Practices in Public Companies”. The declaration concerning the Bank’s compliance with the corporate governance principles was disclosed to the public in the current report on 30 June 2004.

Factors that will influence the future financial results achieved by the Group

The most important factors that will influence the level of the Group’s results in the future include the following:

- Increases of interest rates by the Monetary Policy Council (RPP), which will encourage savings and the resulting increase in deposits, may contribute to a relative reduction in financing expenses;
- Increases of interest rates and higher-than-expected inflation in the second quarter of 2004 will contribute to the reduction in profitability of debt securities;
- An increase in demand for durable goods may contribute to an increased demand for consumer loans.

Commentary to the Abbreviated Financial Statements of Bank Handlowy w Warszawie SA (“the Bank”) for the second quarter of 2004.

The Bank’s financial results

In the second quarter of 2004, the Bank reported net profit of PLN 157,676 thousand which is an increase by PLN 77,355 thousand (i.e. 96.3%) in comparison with the second quarter of 2003, and cumulative net profit (i.e. for the period of January to June) was higher by PLN 125,893 thousand (i.e. 132.1%).

Gross profit for the second quarter of 2004 amounted to PLN 165,745 thousand which is an increase of PLN 72,313 thousand (i.e. 77.4%) in comparison with the second quarter of 2003, and cumulative gross profit (i.e. for the period of January to June) was higher by PLN 110,788 thousand (i.e. 79.0%).

Revenue, consisting of profit on banking activity and other operating income, increased in the second quarter of 2004 by PLN 24,930 thousand (i.e. 5.4%) in comparison with the second quarter of 2003, while expenses, consisting of other operating expenses, general expenses and depreciation and amortisation, decreased by PLN 332,826 thousand (i.e. 9.3%) in comparison with the second quarter of 2003.

In the second quarter of 2004, net movement in provisions and revaluation of financial assets decreased by PLN 14,606 thousand (i.e. 90.2%) in comparison with the second quarter of 2003.

Financial accounting principles

General information

The abbreviated quarterly report for the second quarter of 2004 was prepared on the following basis:

- Regulation of the Council of Ministers dated 16 October 2001 concerning current and periodic information reported by issuers of securities (Journal of Laws No. 139, Item 1569, as amended),
- Regulation of the Council of Ministers dated 16 October 2001 concerning specific requirements that should be met in offering prospectuses and short form offering prospectuses (Journal of Laws No 139, Item 1568, as amended),

and in accordance with the regulations specified in:

- Accountancy Act of 29 September 1994 (Journal of Laws of 2002, Number 76, Item 694, as amended),
- Regulation of the Minister of Finance dated 10 December 2001 concerning specific accounting principles for banks (Journal of Laws No. 149, Item 1673, as amended),
- Regulation of the Minister of Finance dated 12 December 2001 concerning specific accounting principles for recognition, valuation, scope of disclosure, and presentation of financial instruments (Journal of Laws No. 149, Item 1674, as amended),
- Regulation of the Minister of Finance dated 10 December 2003 concerning principles for creating provisions for risks related to operations of banks (Journal of Laws No. 218, Item 2147).

The principles adopted in the consolidated report for the second quarter of 2004 are consistent with the accounting principles adopted and described in the consolidated annual report for 2003, except for the changes described below:

- rules for creating specific provisions for credit risk

Effective 1 January 2004, changes in the rules for creating provisions for risks related to the activity of banks were introduced in accordance with the new Regulation of the Minister of Finance, concerning principles of classification of credit exposures. In particular, the period after which loans are classified as non-performing was prolonged, collateral could be recognised in the classification stage of credit exposures, and the list of acceptable collateral was broadened;

- rules for recognising the interest on receivables due to the bank and classified as watch receivables

Effective 1 January 2004, new rules were introduced in accordance with the amendment to the Regulation of the Minister of Finance concerning specific accounting principles for banks. In particular, interest income and discount on receivables classified as watch category are recognised in the profit and loss account on an accrual basis. Prior to 1 January 2004, this interest was treated as deferred income until its receipt;

- rules for recording sell-buy-back ("SBB") and buy-sell-back ("BSB") transactions

In accordance with the amendment to the Regulation of the Minister of Finance concerning specific accounting principles for recognition, measurement, disclosure and presentation of financial instruments and the provisions of IAS 39, the Bank's liabilities or receivables arising from SBB and BSB transactions are presented in the financial statements as a deposit or as a placement, respectively. Prior to the change, these transactions had been reported as outright purchase or sale transactions. This change has been applied retrospectively to retain comparability with the data presented for previous reporting periods. The cumulative effect of the change introduced has been reported in the Bank's financial statements as the correction of the opening balance of consolidated equity as of 1 January 2003.

The financial data was prepared using valuation principles for assets and liabilities and recognition of net financial profit or loss specified as of 30 June 2004, taking into account adjustments for provisions, deferred income tax assets and provisions, and asset revaluation write-downs made, in accordance with the regulations in force.

Method of presentation of financial information

In order to maintain comparability of the financial information with the data reported for the current period, the presented data concerning the reporting periods earlier than the data for the second quarter of 2004 was subject to respective transformations with regard to the data previously published in periodic reports. These changes arise from the introduced changes in the rules for recording repo/reverse repo transactions on securities of the sell-buy-back ("SBB") and buy-sell-back ("BSB") type.

The effects of the changes made to the selected items of the balance sheet and the profit and loss account are presented below:

Selected financial data

	in PLN thousand		
	As of 31/03/04 First quarter 2004	As of 30/06/03 Second quarter 2003	As of 31/03/03 First quarter 2003
Total assets			
As previously reported	33 365 445	32 589 634	33 627 224
Effect of change	544 494	46 230	141 479
As adjusted	33 909 939	32 635 864	33 768 703
Net profit (loss)			
As previously reported	77 548	89 327	10 407
Effect of change	(14 045)	5 959	4 558
As adjusted	63 503	95 286	14 965
Shareholders' equity			
As previously reported	6 035 645	5 818 607	5 966 415
Effect of change	(145)	(18)	(67)
As adjusted	6 035 500	5 818 589	5 966 348

The financial effect of the changes in the rules for recording sell-buy-back and buy-sell-back transactions resulted in the reclassification of the economic results of those transactions from the income statement to equity, which had a significant impact on the current period consolidated financial result, but a negligible impact on shareholders' equity.

The consolidated quarterly report for the second quarter of 2004 will be made accessible on the Web page of Bank Handlowy w Warszawie SA at www.citibankhandlowy.pl

Signature of the Financial Reporting and Control
Department Director
Date and signature

Signature of the Management Board Member
Chief Financial Officer
Date and signature

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