

## **Commentary to Quarterly Report SAB - QSr 4/2004 for the fourth 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 its subsidiaries. The list of subsidiaries from the Group and other affiliated entities (joint subsidiaries and associated entities), with the valuation methods applied, is presented later in this Commentary.

The Group reported cumulative net profit of PLN 420.2 million for 2004, which is an increase of PLN 123.6 million (i.e. 41.7%), in comparison with net profit for 2003, while net profit for the fourth quarter of 2004 amounted to PLN 98.3 million in comparison with net profit of PLN 71.5 million for the same period in the previous year.

Cumulative gross profit (i.e. for the period from January to December) amounted to PLN 502.5 million and exceeded by PLN 43.4 million (i.e. 9.5%) gross profit for the same period in 2003, while gross profit in the fourth quarter of 2004 amounted to PLN 113.5 million (PLN 161.2 million in the fourth quarter of 2003).

The main reasons for the increase in gross profit of the Group for the period from January to December 2004, in comparison with the same period in prior year, were an increase in profit on banking activity and other operating income by PLN 7.9 million and a decrease in net movement in provisions and revaluation of financial assets by PLN 172.1 million, as compared with the previous year, while expenses, consisting of other operating expenses, general expenses and depreciation & amortisation, increased by PLN 136.6 million.

### **Financial accounting principles**

#### *General information*

The consolidated report for the fourth 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 11 August 2004 concerning specific requirements that should be met in offering prospectuses and short form offering prospectuses (Journal of Laws No 186, Item 1921);

and in accordance with the regulations specified in:

- Accounting 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 fourth quarter of 2004 are consistent with the accounting principles adopted and described in the consolidated semi-annual report for 2004.

The financial data was prepared using valuation principles for assets and liabilities and recognition of net financial profit or loss, as of 31 December 2004, taking into account adjustments for provisions, deferred income tax assets and provisions, and asset revaluation write-downs made, in accordance with the laws and regulations in force.

*Method of presentation of financial information*

The financial information included in the consolidated quarterly report has been prepared in a manner that ensures the comparability of data for all the presented reporting periods. The presented data referring to reporting periods prior to the fourth quarter of 2004 has not been adjusted and is consistent with the data published in the previous consolidated periodic reports (SAB-QSr 3/2004 and SAB-PS 2004).

**Structure of the Group (subsidiaries)**

<b>No.</b>	<b>Company</b>	<b>Registered office</b>	<b>Business</b>	<b>Share in equity / votes at GMS in %*</b>	<b>Method of consolidation / valuation</b>
1.	Dom Maklerski Banku Handlowego SA	Warsaw	financial	100.00	full consolidation
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 SA	Luxembourg	financial	100.00	accounted for under the Equity method
5.	Handlowy Investments II SAr.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 SA	Warsaw	financial	100.00	accounted for under the Equity method
8.	Bank Rozwoju Cukrownictwa SA	Poznań	financial	100.00	accounted for under the Equity method
9.	Handlowy Zarządzanie Aktywami SA	Warsaw	financial	100.00	accounted for under the Equity method
10.	Towarzystwo Funduszy Inwestycyjnych Banku Handlowego SA	Warsaw	financial	100.00	accounted for under the Equity method

11.	Polskie Pracownicze Towarzystwo Emerytalne DIAMENT SA 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, except for Dom Maklerski Banku Handlowego SA, were excluded from full consolidation under Article 57.1 and Article 58.1 of the Accounting Act of 29 September 1994 (Journal of Laws of 2002, Number 76, Item 694, as amended). Bank Rozwoju Cukrownictwa SA is intended for sale, while Polskie Pracownicze Towarzystwo Emerytalne DIAMENT SA will be liquidated. The financial data of other subsidiaries is insignificant in comparison with the financial data of the Bank and is not material for giving a true and fair view of the Group's financial position, assets and financial result.

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

#### Other affiliates (joint ventures and associated companies)

No.	Company	Registered office	Business	Share in equity / votes at GMS in %*	Consolidation / valuation method
<b>Joint ventures:</b>					
1.	Handlowy Heller SA	Warsaw	financial	50.00	accounted for under the Equity method
<b>Associated companies:</b>					
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 SA	Zabrze	non-financial	34.44	not accounted for under the Equity method
5.	NIF FUND Holdings PCC Ltd.	Guernsey	non-financial	23.86	not accounted for under the Equity method

\* direct and indirect

The above-mentioned non-financial associated companies were excluded from the equity method under Article 57.1 of the Accounting 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 Q4, 2004*

In the fourth quarter of 2004, the structure of the Group, as well as the structure of the joint subsidiaries and associated companies, did not change.

**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 31 December 2004 was PLN 4.0790; and PLN 4.7170 as of 31 December 2003;
- 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 that were in force as of the last day of each full month covered by the quarterly report, which for the fourth quarter of 2004, cumulatively, was PLN 4.5182; and PLN 4.4474 for the fourth quarter of 2003, cumulatively.

**Brief description of the Group's activities in the fourth quarter of 2004**

- **Bank Handlowy w Warszawie SA - parent entity**

1. Corporate and Investment Bank

- *Corporate Finance*

The Bank proactively supports the development of the largest corporations in Poland as an independent funding provider, as a lead arranger or a syndicate member and as an arranger of funding in capital markets. In the fourth quarter of 2004, the largest transactions included:

1. A 2.5-year loan of PLN 400 million for an aircraft company. The transaction was arranged by five banks and the Bank is the lead arranger and agent of the credit facility.
2. An agreement with a transportation company for a 10-year syndicated loan of EUR 130 million. The Bank will be the lead arranger and agent of the credit facility.
3. A debt securities issuance programme for an automotive company with a debt limit of PLN 500 million. The Bank is the arranger, issue agent, payment agent, depository and dealer of the programme.

As of 31 December 2004, the Bank held a leading share of 20.28% in the market for the issuance of short-term debt securities.

The Bank, in co-operation with Dom Maklerski Banku Handlowego SA (brokerage house), was a financial adviser to MOL Rt. and Pekaes SA in charge of their IPOs in Poland. The issued shares were introduced to trading on the Warsaw Stock Exchange.

- *Trade Finance*

Taking into account the changing needs of its customers, the Bank is continuously developing new products. For example, the Bank launched the "Trade Revolving Loan", secured by assignment of receivables from selected debtors, to finance current operations of customers. An innovative feature is the weekly adjustment of funding to presented invoices. In addition, the product processing is highly automated on the CitiConnect electronic platform.

The Bank is also active in supporting its clients in the area of financing their current assets, offering them guarantees, collections, letters of credit, and repurchase of receivables. In the fourth quarter of 2004, the Bank completed a number of important trade finance deals, such as:

1. Activating an export pre-financing programme for a shipbuilding company in the amount of USD 87 million, as member of a bank syndicate, to enable the construction of 10 container ships in 3 years.
2. Extending a short-term financing facility with a limit of PLN 34 million for a tyre distribution network (more than 80 distributors) on the basis of the Paylink Cards solution (which give access to trade receivables the day after the invoice issue or payment date with an option to grant an automatic credit to the debtor).
3. Enhancing the supplier funding program arranged for a construction-sector company by PLN 10 million for 8 new suppliers.
4. Issuing a payment guarantee of USD 96 million, as member of a bank syndicate, on behalf of a fuel company, to secure its contractual liabilities to suppliers.
5. Issuing a letter of credit of EUR 37.5 million, on behalf of a fuel company, to secure its contractual liabilities in connection with a capex program.

- *Global Transaction Services (GTS)*

The Bank constantly enhances and improves offered products to meet rapidly changing customer needs. One of the examples is a recently launched new product, Escrow Accounts. This is a new solution that secures transactions between the Bank's clients and their contractors.

In cooperation with an Italian bank, the Bank established the "Italian Desk" – a project to attract customers that deal with Italian partners and to promote the Bank's products and services among them. Another objective of the project is to support small and medium businesses from Poland and Italy that make attempts to enter into international markets.

The Prepaid Card is another sophisticated innovation in the Bank's product range with rapidly growing sales. Active sales, for example a promotion during the Loyal Customer Programme Congress in Jabłonna in the autumn of 2004, significantly contributed to the expansion of this product. By the end of 2004, the Bank issued over 130,000 cards for more than 100 companies within the framework of loyal-customer, promotional and incentive programmes.

- *Treasury Products*

Over the fourth quarter of 2004, the Bank continued to strengthen its market position in respect of structured products, which combine various simple solutions in packages that are tailored to the specific needs of a customer. In addition, the Bank, as an intermediary, achieved a greater share in T-bills & bonds trading in the secondary market (nearly 20% as of 31 December 2004).

- *Commercial Bank*

In the fourth quarter of 2004, the first stage of the Commercial Bank press campaign commenced in prestigious and opinion-forming magazines. It took several weeks and its aim was to promote the image of Citibank Handlowy as a financial institution that offers a unique mixture of local knowledge, long-term experience in Poland's market, expertise of a professional team with the global scale of operations, pioneering products and world-class technologies.

- *Restructuring*

The primary goal of Restructuring is to work out solutions that will re-establish the customer's ability to repay its debts to the Bank.

In December 2004, the Bank signed a restructuring agreement with a customer, the leading company from a group. The majority shareholder of the customer has also accessed the debt. As a consequence, the Bank recovered a loan of PLN 19.8 million. The balance of the debt will be paid back by the guarantor.

In the fourth quarter of 2004, the Bank, as member of a syndicate formed by Polish banks, completed the restructuring of debts of FSO. The debts were sold to a foreign investor.

## 2. Consumer Bank

- *Credit Cards*

As of 31 December 2004, the portfolio of credit cards reached 516,000. The number of credit card accounts increased by 14% (year-on-year). Despite the continuing increase in competition in the credit card market, the Bank maintained its leading position as the largest credit card issuer in Poland.

In the fourth quarter of 2004, the increase in the sale of credit cards was driven by a high demand for the Citibank Visa Silver card. The total portfolio of credit cards shows a growing trend, especially in terms of turnover, which, in turn, improves profitability. The fourth quarter of 2004 also saw a very successful promotion of instalment repayment plans, "Komfort", which recorded the highest growth of sales.

- *Consumer Loans*

The amount of loans extended during the fourth quarter of 2004 increased as compared with the third quarter – as a result, 29% of all the loans granted in 2004 were extended in the fourth quarter (excluding CitiFinancial). The key factor that boosted sales was a further development of the product range for selected customer segments. The consolidation option, introduced in the first six months of 2004 as part of the credit offer, was also well received by clients. In the fourth quarter of 2004, sales significantly grew as a result of the advertising campaign of the consolidation option in September 2004. In addition, the Bank carried on other campaigns addressed to existing customers.

In the area of mortgage loans, the Bank continued co-operation with GE Bank Mieszkaniowy (now GE Money Bank SA) and Nykredit Bank Hipoteczny S.A. In the fourth quarter of 2004, the Bank extended the number of branches at which customers may obtain detailed information or submit loan applications.

- *Investment Products*

During the fourth quarter of 2004, the Bank reported a 58% increase in sales of Citifundusze Saving Plans as compared with the third quarter of 2004. In that period, the Bank completed 13 subscriptions of Citibank Investment Deposits (MLD) and 5 subscriptions of Structured Bonds. In October 2004, the Bank started to distribute (as agent of Towarzystwa Funduszy Inwestycyjnych Banku Handlowego SA) the Individual Pension Account with Citifunds, which allows investing in selected funds. The Individual Pension Account enables customers to invest in both secure and higher-risk funds – the latter usually generate significantly better returns in a longer investment horizon.

In the fourth quarter of 2004, Consumer Bank organised 22 seminars on investment products for existing and prospective Citigold clients.

- *e-banking*

At the end of the fourth quarter of 2004, the number of Citibank Online users exceeded 230,000 representing an increase of 52% as compared with the prior year. In December, the volume of transactions made via Citibank Online was 72.7% of Consumer Bank's total transactions. The development of e-banking is supported with appropriate pricing and special offers, e.g. premium interest rates on T-Lokata deposits, available only through the Internet.

In the fourth quarter of 2004, the Bank ran several Internet campaigns to promote retail banking products: 24h loan, T-Lokata (Internet deposit) and investment products.

In addition, the Bank actively promotes the Online Statement service, where it reports an increasing number of users and, thus, generates substantial savings. As of 31 December 2004, the number of users exceeded 22,000. Between December 2003 and December 2004, the number of CitiGSM clients, who receive their balances in SMSs, increased by 32%.

- *Insurance Products*

Insurance products are one of the most important components of the product range of leading consumer banks and may be adapted to meet the needs of demanding customers. In the fourth quarter of 2004, the Bank included a new insurance product to its offer in co-operation with CitiInsurance – Life Insurance with Guarantee Policy. As of 31 December 2004, 72% of the consumer loans granted included an optional insurance product (31% as of 31 October 2004).

- *CitiBusiness (SME Banking)*

During the fourth quarter of 2004, the Bank noted an increasing demand for the CitiBusiness offering, which is directed to small and medium-sized enterprises with annual sales not exceeding USD 2 million. The CitiBusiness offer is based on the concept of selling products and services in the form of four Products Packages. Owing to their diversity, these product packages aim to meet all the requirements of customers in the target market. A pioneering feature 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 and cost reductions through, for example, free-of-charge money transfers between the personal account and the corporate account.

In the fourth quarter of 2004, CitiBusiness extended its offer by the inclusion of trade finance products: documentary letters of credit, documentary collections, discounts of receivables from documentary letters of credit and bank guarantees. In December 2004, it started its website: [www.citibusiness.pl](http://www.citibusiness.pl) which provides details of the offer, applications forms and contacts.

- *CitiFinancial*

There was further growth in sales of cash loans in the fourth quarter of 2004. It was also the time of continuous development of the branch network – 6 newly-opened branches raised the total number of operational outlets to 39.

In the fourth quarter of 2004, CitiFinancial organized various actions to promote its products, in particular micromarketing campaigns, as well as the sponsorship of different social events for local communities.

### 3. Reorganisation of the Branch Network

In the fourth quarter of 2004, the Bank continued the reorganisation of its branch network in order to optimise the cost structure and improve branch accessibility for retail and corporate customers. The branch network consisted of 168 outlets:

1. 43 Corporate Bank's branches, out of which 28 may also serve retail clients;
2. 86 Consumer Bank's branches (including 11 dedicated to CitiGold Wealth Management's clients), of which 10 may also serve Corporate Bank's customers;
3. 39 CitiFinancial's branches located in shopping centres and near housing estates.

CitiBusiness customers are served at all 129 non – CitiFinancial outlets.

The above organizational structure of the branch network covers diversified solutions to allow optimised access to services for all the existing and future customers of the Bank.

- **Dom Maklerski Banku Handlowego SA (“DM BH”) – subsidiary**

In the fourth quarter of 2004, DM BH strengthened its leadership position in the market of brokerage services. The value of equity turnover on the Warsaw Stock Exchange settled through DM BH reached

PLN 8,391.9 million in the period reaching a new high – well above PLN 3,474.5 in the third quarter of 2004. The increase in turnover settled by DM BH in the fourth quarter of 2004 resulted from growing trade in equities on the Warsaw Stock Exchange, as well as a larger market share captured by DM BH. Again, DM BH was the leader of the brokerage houses with the largest share in equity turnover (21% as of 31 December 2004). Its very strong market position is evidenced by the advantage over the second placed brokerage house, whose share was below 14%.

In the fourth quarter of 2004, DM BH offered services in the primary market in addition to proactive initiatives in the secondary equity market. DM BH closed three successful IPOs for Pekaes SA, IVAX Corporation and MOL Rt. IVAX Corporation (the first U.S. corporation listed on the Warsaw Stock Exchange).

In addition, DM BH carried out the first call in the history of the Warsaw Stock Exchange to exchange shares of Polfa Kutno for shares of IVAX Corporation.

▪ **Handlowy-Leasing SA / Citileasing SA – subsidiaries**

The fourth quarter of 2004 was a period of intensified efforts to extend the product range. The acquisition campaign continued as part of the re-activated program of funding of printing equipment. As a result, 6 leases were signed for about PLN 12 million (net).

Furthermore, Handlowy-Leasing SA committed to sign first lease agreements with customers, that applied for the EU Structural Funds financial aid, which may be provided to small and medium-sized enterprises within the framework of the Sector Operating Program – Enterprise Competitiveness Improvement.

▪ **Handlowy Zarządzanie Aktywami SA (“HanZA”) – subsidiary**

As of 31 December 2004, the value of assets under management of HanZA amounted to PLN 2,438 million. An increase by more than 70%, as compared with 31 September 2004, resulted from several contracts that were signed with insurance companies. The insurance sector holds assets with a relatively long investment horizon and, therefore, is a natural partner of asset management companies. An increase in the asset value was also generated by individual customers, who, traditionally, are more active close to the year end. As of 31 December 2004, the portfolios of individuals increased by nearly 5%, as compared with 30 September 2004. In addition, individual customers started to accept higher risk levels and, consequently, shifted their focus to products with high investment risk.

▪ **Towarzystwo Funduszy Inwestycyjnych Banku Handlowego SA (“TFI BH”) – subsidiary**

As of 31 December 2004, the value of assets under management of TFI BH was PLN 1,002.5, or 15% higher as compared with 30 September 2004. In terms of assets under management, the largest fund was CitiSenior Specjalistyczny Fundusz Inwestycyjny Otwarty (CitiSenior Specialist Open-ended Investment Fund). Its assets increased by 16% in Q4 2004 and reached PLN 252.2 million as of 31 December 2004. In the fourth quarter of 2004, CitiZrównoważony Środkowoeuropejski FIO (CitiZrównoważony Central European FIO) recorded the highest growth of assets, by more than 50%, to PLN 231.5 million. This demonstrates that investors in Poland enthusiastically received changes of the investment strategy of that fund, which enhanced its investment spectrum by the equities markets in Central Europe. The following funds also recorded increases in their assets in the reporting period: CitiAkcji FIO (18%), CitiObligacji FIO (2.4%), CitiPłynnościowy SFIO (10.7%) and Fundusz Własności Pracowniczej PKP SFIO (Employee Equity Fund)(6.3%).

All the open-ended funds managed by TFI BH generated gains for their investors in the fourth quarter of 2004: CitiAkcji FIO – an increase by 4.57%; CitiZrównoważony Środkowoeuropejski FIO – 6.24%, CitiSenior SFIO – 3.24%, CitiObligacji FIO – 3.13%, CitiPłynnościowy SFIO – 1.62%, CitiPieniężny FIO – 1.46% and Fundusz Własności Pracowniczej PKP SFIO – 6.3%.



### **Description of factors and events that had an effect on the financial results achieved by the Group in Q4, 2004**

In the fourth quarter of 2004, the Group reported a cumulative net profit of PLN 420,160 thousand, which was an increase by PLN 123,601 thousand (i.e. 41.7%), as compared with the four quarters of 2003, while net profit for the fourth quarter of 2004 was PLN 98,325 thousand in comparison with PLN 71,534 thousand in the fourth quarter of 2003.

Cumulative gross profit for the year amounted to PLN 502,510 thousand, which was an increase by PLN 43,399 thousand (i.e. 9.5%), as compared with the four quarters of 2003, while gross profit for the fourth quarter of 2004 was PLN 113,518 thousand in comparison with PLN 161,243 thousand in the fourth quarter of 2003.

The result on banking activity in the fourth quarter of 2004 was lower by PLN 40,448 thousand (i.e. 7.5%) in comparison with the corresponding period of the previous year. However excluding the impact of the sale of shares in PKO/Handlowy Powszechny Towarzystwo Emerytalne SA in the fourth quarter of 2003, the result on banking activity showed a growth trend year-on-year .

The main features of this trend were as follows :

- increase in net interest income of PLN 38,937 thousand (i.e.20.6%), mainly due to satisfactory net interest income from the debt securities portfolio, which showed significant growth;
- increase in net commission income of PLN 20,439 thousand (i.e. 13.9%), mainly due to commissions on brokerage services and insurance products, as well as fees for the issue and use of charge and credit cards;
- increase in net profit on financial operations of PLN 55,525 thousand, mainly due to a higher result on trading in debt securities;
- decrease in the result on foreign exchange operations of PLN 95,819 thousand (i.e. 63.4%), primarily due to FX revaluation losses;

In the fourth quarter of 2004, operating expenses increased by PLN 11,919 thousand (i.e. 3.7%), as compared with the fourth quarter of 2003. Operating expenses in the current reporting period were affected by the staff reduction in Corporate and Investment Bank, the restructuring of the branch network and an increase in headcount in Consumer Bank, as a result of its rapid growth. An additional factor was an increase in fees for services provided by Citigroup Inc. to the Bank (IT support and advisory services). Simultaneously, the Bank, as part of cross-services between members of Citigroup Inc., receives fees for data processing services rendered by the Bank to such companies. These services are delivered to continue the performance of contracts with members of Citigroup Inc., which were signed in prior reporting periods.

In the fourth quarter of 2004, net write-offs to provisions and revaluation of financial assets decreased by PLN 1,894 thousand (i.e. 11.9%), as compared with the fourth quarter of 2003.

In the current reporting period, net write-offs to provisions for problem receivables and contingent liabilities amounted to PLN 16,672 thousand, whereas the write-offs for the corresponding period of 2003 amounted to PLN 15,881 thousand.

The bad debt ratio dropped from 29.8% as of 31 December 2003 to 27.0% as of 31 December 2004. The nominal value of such receivables also decreased by 30.9%.

In the current reporting period, reversals of write-downs for revaluation of financial assets amounted to PLN 2,685 thousand (there were no reversals in the fourth quarter of 2003).

### **Significant subsequent events that occurred after the balance sheet date and are not included in the Financial Statements**

On 20 January 2005, the Bank and its wholly owned subsidiary, Handlowy Inwestycje II Sp. z o.o. ("Inwestycje II"), signed an agreement for the acquisition of shares in the raised share capital of that company. The shares were acquired in exchange for a contribution in kind – 24.60% of shares in Mostostal-Zabrze Holding SA ("MZH"). The contribution in kind to Inwestycje II was valued at PLN 467,400.00. After the registration of the increased share capital, on 4 February 2005, the share capital of Inwestycje is PLN 471,400.00 and consists of 4,714 shares (nominal value of PLN 100.00 each). Each share gives one vote at the General Meeting of Shareholder. Before the sales of the shares held by the Bank, it had 34.44% of the share capital of MZH and 34.44% of total voting rights at the General Meeting of Shareholders. As a result of the transaction, the Bank now owns 9.84% of shares in MZH and the same number of votes at the General Meeting of Shareholders.

#### **Achievement of the forecast results for 2004**

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

#### **Information about the Shareholders**

The structure of major shareholdings has changed since the previous quarterly report.

As of 31 December 2004, the following shareholders of the Bank held, directly or indirectly through subsidiaries, at least 5% of votes at the General Meeting of Shareholders of Bank Handlowy w Warszawie SA:

1) Citibank Overseas Investment Corporation (COIC), a subsidiary of Citibank N.A., held 75% of votes at the General Meeting of Shareholders of Bank Handlowy w Warszawie SA and 97,994,700 shares, i.e. 75% of the authorised share capital of the Bank.

2) International Finance Associates (IFA), a subsidiary of COIC, held 14.3% of votes at the General Meeting of Shareholders of Bank Handlowy w Warszawie SA, or 18,722,874 votes, which represented 14.3% of total votes at the General Meeting of Shareholders of the Bank.

The changes of the structure of major shareholdings, as compared with the previous quarterly report, resulted from a decrease in the percentage interest of COIC in the share capital of the Bank from 89.3 % to 75% and an increase in the interest of IFA in the share capital of the Bank to 14.3% by acquisition of 18,722,874 shares.

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

As of the submission date of the consolidated quarterly report, to the best knowledge of the Bank, persons holding management and supervisory positions held 752 shares of the Bank. These shares are held exclusively by supervising persons.

The number of Bank shares held by managing and supervising persons has not changed since the previous consolidated quarterly report.

#### **Information on pending proceedings**

In the fourth 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 shareholders' equity of the Bank, were pending before any court, administrative authority or an arbitration court.

In the fourth 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 shareholders' equity of the Bank and amounted to PLN 1,190,607 thousand.

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

The substantial majority of the receivables of the Bank and its subsidiaries has arisen from the high number of composition 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 executory titles, especially in the Consumer Bank Sector. The aforementioned proceedings resulted from a deteriorated financial standing of the Bank's customers, especially borrowers or lessees of the Bank's subsidiary leasing companies and also customers of the Bank's Consumer Bank Sector.

Moreover, it should be pointed out that the litigations described above, especially composition and bankruptcy proceedings, are characterised by excessive duration and lengthy judicial procedures.

As a result of the aforementioned procedural lengthiness there are few composition 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 conclusion). The Bank's report covers some proceedings, which commenced several years earlier.

Under the laws and regulations in force, Bank Handlowy w Warszawie SA is obliged to create provisions for non-performing assets (receivables) as soon as 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 composition or bankruptcy proceedings the provision for the 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 executory title come to an end, the Bank recovers at least part of the payment due and is then able to release relevant provisions in whole or in part. The same happens in the case of concluded composition proceedings, where after the debt has been reduced, the debtor repays that part of its liabilities towards the Bank that was not written off.

The table below presents the most significant legal actions that are pending in relation to the receivables:

Parties to the proceedings	Litigation value	Proceedings commencement 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 submitted a receivable. The Bank's receivable is in category VI and 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 was issued on 8 September 2003. The defendant has raised objections to the 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 submitted its receivables to the proceedings.
Plaintiff: Bank Handlowy w Warszawie SA	PLN 13,375,000	Suit for payment under a bill of exchange.	On 25 August 2000, the Bank obtained the writ for payment for its whole claim. The writ is not legally binding, and the defendant has raised objections.
Creditor: Bank Handlowy w Warszawie SA	PLN 30,953,000	In March 2004, the court declared the debtor bankrupt.	The Bank submitted the receivable to repay it from the bankrupt's assets for

			arrangement. Case pending (loan receivable).
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In the fourth 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 3 December 2004, the Bank received a notice from Citibank Overseas Investments Corporation ("COIC"), principal office in New Castle, Delaware, USA that it had disposed of a significant lot of shares of the Bank to International Finance Associates B.V. ("IFA"), principal office in Amsterdam, the Netherlands, which is wholly-owned by COIC. COIC sold the shares of the Bank on 30 November 2004 outside a regulated market and without public call, pursuant to Article 89.1.b of the Act on public trading in securities. In accordance with the notice, COIC now holds 97,994,700 shares of the Bank, which represent 75% of the share capital of the Bank and give COIC 97,994,700 votes, i.e. 75% of total votes at the General Meeting of Shareholders of the Bank. As a result of the transaction, IFA currently owns 18,722,874 shares of the Bank, which represent 14.3% of the share capital of the Bank and give IFA 18,722,874 votes, i.e. 14.3% of total votes at the General Meeting of Shareholders of the Bank.

The sale of the Bank's shares by COIC to IFA is connected with the implementation of the requirement to lower Citigroup's interest in the share capital of the Bank to 75%. COIC sold the shares in connection with an issue by Citibank N.A. of bonds ("the Bonds") that are convertible into shares of the Bank. Each bondholder will be entitled to determine how the voting rights from the shares are to be exercised, i.e. from a number of shares that the bondholder would have received after exercising the right to convert the Bonds into shares.

On 29 December 2004, the Bank and Creditreform Frankfurt Emil Vogt KG (Frankfurt am Main, Germany) signed an agreement under which the Bank sold 3,285 shares (nominal value of PLN 100.00 each) ("the Shares"), representing 49.03% of the share capital and votes at the General Meeting of Shareholders of Creditreform Polska Sp. z o.o. ("Creditreform") for PLN 380,000.00.

The agreement provides that net income of Creditreform for 2004 that is allocated to the Shares sold by the Bank will be paid out within two months from the date on which the General Meeting of Shareholders of Creditreform will pass a resolution to distribute dividends. As a result of the agreement, the Bank sold all its shares in Creditreform, which represented 49.03% of the share capital and voting rights at the General Meeting of Shareholders of Creditreform. Pursuant to the agreement, the ownership title to the shares was transferred upon payment of the full price for the shares by the buyer in January 2005.

On 31 December 2004, the Bank entered into a transaction ("the Offset Agreement") with its subsidiary, Handlowy Investments SA ("Handlowy Investments"). Under the agreement the parties offset certain mutual receivables. The Bank currently holds 99.99% of the share capital and votes at the General Meeting of Shareholders of Handlowy Investments.

Prior to signing the Offset Agreement, the Bank held convertible bonds ("the Bonds"), maturity on 20 August 2004, issued by Handlowy Investments on 20 August 1999. The Bonds gave the Bank a claim towards Handlowy Investments for payment of the repurchase price totalling EUR 14,873,611.49 ("the Bank's Claim"). For the purposes of the Offset Agreement, the parties translated the Bank's Claim to PLN at the average EUR/PLN rate that was announced in Table A of the Average Rates of the NBP as of 31 December 2004, i.e. PLN 4.0794. Consequently, the Bank's Claim amounted to PLN 60,675,410.71.

In turn, pursuant to an assignment agreement of 4 June 2004 between the Bank and Handlowy Investments ("the Assignment Agreement"), under which Handlowy Investments effected, on behalf of the Bank, a depositary assignment of the Bank's claims resulting from the agreements of 4 June 2004 for sales of shares in Polimex-Cekop SA, in particular the claim to receive the purchase price, Handlowy Investments had receivables from the Bank totalling USD 9,881,638 ("Handlowy Investments's Claim"). For the purposes of the Offset Agreement, the parties translated Handlowy Investments's Claim to PLN at the average USD/PLN rate that was announced in Table A of the Average Rates of the NBP as of the date of the Assignment Agreement.

Under the Offset Agreement, the parties offset both claims and, accordingly, Handlowy Investments's Claim was fully amortised, while the resulting balance of the Bank's Claim was PLN 23,033,287.08 PLN.

On 31 December 2004, the Bank and Handlowy Investments carried out another transaction that was closely linked with the above Offset Agreement. Handlowy Investments agreed to repay the borrowing of PLN 23,033,287.08, which was granted to amortise the liability of Handlowy Investments to the Bank that arose out of the Offset Agreement.

For the borrowing, the Bank is entitled to charge variable interest, which is calculated as the sum of: a) 3-month WIBOR for deposits in PLN, which is fixed during particular quarters, and b) a margin of 0.5 % p.a. in the entire term of the borrowing. The Bank will receive the borrowing together with accrued interest by 30 September 2005.

### **Information on significant surety or guarantee agreements**

As of 31 December 2004, the total value of sureties and guarantees extended by the Bank or its subsidiaries to a single entity did not exceed 10% of the shareholders' equity of the Bank.

### **Other important information**

#### *Personnel changes in the Bank's authorities in the fourth quarter of 2004*

On 25 November 2004, Mr. Atif Bajwa and Mr. Carlos Urrutia resigned from the function of Members of the Bank's Supervisory Board and their mandates as Members of the Supervisory Board expired on that date.

On 7 December 2004, the Extraordinary General Meeting of Shareholders passed resolutions to appoint Mr. Stephen H. Long, Mr. Rupert Hubbard and Mr. Frederick F. Seegers as Members of the Bank's Supervisory Board.

As a result of the changes in the Bank authorities in 2004, the composition of the Bank's Management Board and Supervisory Board as of 31 December 2004 was as follows:

#### Management Board

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

#### Supervisory Board

Stanisław Sołtysiński	Chairman of the Supervisory Board
Shirish Apte	Deputy Chairman of the Supervisory Board
Göran Collert	Member of the Supervisory Board
Susan Helena Dean	Member of the Supervisory Board
Mirosław Gryszka	Member of the Supervisory Board
Rupert Hubbard	Member of the Supervisory Board
Edward Kuczera	Member of the Supervisory Board
Stephen H. Long	Member of the Supervisory Board
Jarosław Myjak	Member of the Supervisory Board

Andrzej Olechowski	Member of the Supervisory Board
Aneta Popławska	Member of the Supervisory Board
Frederick F. Seegers	Member of the Supervisory Board

On 7 December 2004, the Supervisory Board appointed Mr. Reza Ghaffari as Vice-President of the Bank's Management Board. The resolutions came into force on 3 February 2005, after obtaining the required labour permit by Mr. Reza Ghaffari.

On 3 February 2005, the Chairman of the Supervisory Board received the resignation of Mr. David J. Smith from the function of the Vice-President of the Bank's Management Board and his mandate as Member of the Bank's Management Board expired on that date.

#### *Other information*

On 23 November 2004, Citigroup Inc. informed that Citibank, N.A. had announced and completed successfully an offering of 3-year convertible bonds of USD 436.5 million ("the Bonds"), which may be exchanged for about 14.3% of the issued and outstanding shares of the Bank. The Bonds will entitle their holders to exchange them for shares of the Bank. Each bondholder will have the right to instruct the exercising of the voting rights from such number of shares of the Bank that are convertible from the Bonds held by such bondholder.

According to Citigroup Inc., the offering was based on the following terms and conditions: (i) issue price: 100%; (ii) coupon - paid semi-annually: 2.875%; (iii) conversion price, i.e. a price at which the bondholders will be entitled to exchange the Bonds for shares of the Bank: PLN 75.00 PLN or USD 23.3209 USD (PLN/USD f/x rate: 3.2160)); (iv) spread between the conversion price and the current price of shares of Bank Handlowy: 25%; (v) buy-back price: 100%; (vi) maturity: 8 December 200. The issuer, Citibank, N.A., has an option to buy back the Bonds from December 2005 on, provided that the price of the Bank's shares will exceed 115% of the conversion price.

The Bonds were offered to institutional investors in accordance with laws and regulations in force in each country of the offering. The offering was not carried out in the United States of America, was not directed to U.S. persons and was not carried out in the territory of Canada and Japan.

An application was submitted to admit the Bonds to trading on the Stock Exchange in Luxemburg. It is also planned to submit an application to admit the Bonds to trading on the Warsaw Stock Exchange (under the so-called "European Passport" procedure).

The transaction was originated to decrease the interest of Citigroup in the share capital of the Bank to approx. 75% of total shares of the Bank, giving about 75% of total votes at the General Meeting of Shareholders of the Bank. Proceeds from the offering will be used to cover general funding needs of Citibank, N.A.

To avoid any doubt, the statements included in this report should not be interpreted as an offering to sell the securities in the United States. The securities may not be sold in the United States without prior registration or without obtaining prior exemption from the registration obligation under the U.S. Securities Act (1933), as amended.

On 9 February 2005, the Commission for Banking Supervision gave its consent to the purchase by the Bank of an organized part of a banking enterprise that covers operations in the area of maintenance of securities accounts and cash/bank accounts and in the area of depositary services for investment funds from ABN Amro Bank (Polska) S.A. in Warsaw.

#### **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:

- Planned inflow of direct investments may contribute to the enhancement of the customer base;
- Possible decreases of interest rates will produce higher prices of debt securities and may generate more favourable results if the Bank sells debt instruments from its portfolio. Simultaneously,

lower interest rates may lead to the depreciation of the domestic currency and, thus, the improvement of financial standing of export-oriented customers of the Bank;

- Increased competition among the banks in the retail customer market in connection with planned expansion of new financial institutions in Poland's market;
- Stronger competition in the institutional customer market (non-banking financial institutions). Non-banking financial institutions may offer bonds on CeTO, a regulated OTC market, without using banks as intermediaries.
- The EU's requirements for public companies to prepare financial statements in accordance with International Accounting Standards from 1 January 2005 and the need to adapt current accounting policies to IAS may impact financial results and balance sheet items of financial statements.

## **Commentary to the Abbreviated Financial Statements of Bank Handlowy w Warszawie SA ("the Bank") for the fourth quarter of 2004.**

### **Summary of financial results**

During the four quarters of 2004, the Bank generated a cumulative net profit of PLN 416,424 thousand, i.e. higher by PLN 127,931 thousand (or 44.3%), as compared with four quarters of 2003, while net profit for the fourth quarter of 2004 was PLN 96,584 thousand, as compared with net profit of PLN 66,070 thousand in the fourth quarter of 2003.

Cumulative gross profit (i.e. for the period from January to December) amounted to PLN 476,923 thousand and was PLN 26,485 thousand (or 5.9%) higher than cumulative gross profit for the corresponding period in 2003, while gross profit for the fourth quarter of 2004 was PLN 99,222 thousand, as compared with gross profit of PLN 151,723 thousand in the fourth quarter of 2003.

A decrease in profit on banking activity and other operating income by PLN 18,652 thousand was one of the key factors that had a significant impact on gross profit of the Bank in January-December 2004. However, after the deduction of a single revenue of PLN 59,530 thousand from sales of shares in PKO/Handlowy Powszechny Towarzystwo Emerytalne S.A. in the fourth quarter of 2003, the result on banking activity showed a growth trend year-on-year. Additional factors that affected gross profit of the Bank for 2004 were a decrease in net movements in provisions and revaluation of financial assets by PLN 178,706 thousand, as compared with the corresponding period in prior year, and a concurrent increase in expenses, consisting of other operating expenses, general expenses and depreciation & amortisation, by PLN 133,569 thousand.

### **Financial accounting principles**

#### *General information*

The abbreviated quarterly report for the third 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 11 August 2004 concerning specific requirements that should be met in offering prospectuses and short form offering prospectuses (Journal of Laws No 186, Item 1921);

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 report for the fourth quarter of 2004 are consistent with the accounting principles adopted and described in the semi-annual report for 2004.

The financial data was prepared using valuation principles for assets and liabilities and recognition of net financial profit or loss specified as of 31 December 2004, taking into account adjustments for provisions, deferred income tax assets and provisions, and asset revaluation write-downs, in accordance with the laws and regulations in force.

*Method of presentation of financial information*

The financial information included in the abbreviated quarterly report has been prepared in a manner that ensures the comparability of data for all the presented reporting periods. The presented data referring to reporting periods prior to the fourth quarter of 2004 has not been adjusted and is consistent with the data published in the previous periodic reports (SAB-QSr 3/2004 and SAB-P 2004).

The extended consolidated quarterly report for the fourth quarter of 2004 will be published on the website of Bank Handlowy w Warszawie SA: [www.citibankhandlowy.pl](http://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

1 March 2005  
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1 March 2005  
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