

Commentary to Quarterly Report SAB - QSr 3/2004 for the third 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.

The Group reported cumulative net profit of PLN 321.8 million for the nine months ended 30 September 2004, which is an increase of PLN 96.8 million (i.e. 43.0%) in comparison with the same period of 2003, while net profit for the third quarter 2004 amounted to PLN 97.0 million in comparison with the net profit of PLN 128.6 million for the same period in the prior year.

Cumulative gross profit (i.e. for the period of January to September) amounted to PLN 389.0 million and exceeded by PLN 91.1 million (i.e. 30.6%) the gross profit for the same period in year 2003. Gross profit in the third quarter of 2004 amounted to PLN 129.2 (PLN 162.3 million in the third quarter of 2003).

The main reasons for the increase in gross profit of the Group for the period of January to September 2004 in comparison with the same period in the prior year were the increase in profit on banking activity and other operating income by PLN 37.7 million and the decrease in net movement in provisions and revaluation of financial assets by PLN 170.2 million, while expenses, consisting of other operating expenses, general expenses and depreciation and amortisation, increased by PLN 116.8 million.

Financial accounting principles

General information

The consolidated 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 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 third 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 30 September 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 the third quarter of 2003 has been adjusted following the adoption of the rules for recording sell-buy-back and buy-sell-back transactions, introduced in the first half of 2004 and outlined in the consolidated semi-annual report for 2004. The financial data referring to other periods has not been adjusted and is consistent with the data published in the consolidated semi-annual report for 2004.

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 30/09/03
	Third quarter 2003
Total assets	
As previously reported	30 971 233
Effect of change	169 028
As adjusted	31 140 261
Net profit (loss)	
As previously reported	205 389
Effect of change	19 636
As adjusted	225 025
Shareholders' equity	
As previously reported	5 906 223
Effect of change	(82)
As adjusted	5 906 141

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 revaluation reserve, 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.

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.

Non-financial subsidiary 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).

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	23.86	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 Q3 of 2004

In the third quarter of 2004, the structure of the Group as well as the structure of the joint subsidiaries and associated entities remained unchanged.

Selected financial data

Selected financial data presented at the beginning of the consolidated quarterly report are 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 September 2004 was PLN 4.3832 and as of 30 September 2003 was PLN 4.6435;
- 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 third quarter of 2004, cumulatively, was PLN 4.6214; and for the third quarter of 2003, cumulatively, was PLN 4.3618;
- 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 September 2004 and 30 September 2003, which were PLN 4.6421 and PLN 4.2697, respectively.

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

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

1. Corporate and Investment Bank

- *Corporate finance*

In the third quarter of 2004, the Bank continued its efforts to maintain the leading position as a supplier of advanced financial services.

In July 2004, the Bank signed an agreement with a power sector company for developing a PLN 600 million short-term bonds issuance programme to finance the construction of a power unit. The Bank led the structuring of the transaction and acts as one of the three main authorised arrangers.

In September 2004, the Bank participated in a syndicate extending a guarantee to a bank to secure the repayment of a loan incurred by a telecommunication company, amounting to EUR 157 million.

Also in the third quarter of 2004, the Bank finalised a 5-year loan agreement for a telecommunication company in the amount of EUR 550 million. The Bank acts as the lead arranger and agent for the group of 14 participating banks.

In September 2004, the Bank signed annexes to the agreements for debt securities issuance programmes for a group of motor industry companies, thus increasing their indebtedness limit to PLN 2 billion. Under the programme, the Bank acts as the lead manager, payment agent, depository and dealer.

As of the end of September 2004, the Bank held a leading share of 23.36% in the market for the issuance of short-term debt securities.

- *Trade finance*

Apart from arranging long-term financing, 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 debt purchase. In the third quarter of 2004, the Bank completed a number of important trade finance deals, such as:

1. Extending an export pre-financing loan amounting to PLN 12 million for a machine industry company;
2. Availing the first instalment of a special-purpose (buy back) loan amounting to PLN 30 million (PLN 60 million as a target) for a sugar industry company;
3. Signing a framework agreement for bank guarantee with a construction company, for the amount of PLN 80 million, and extending a EUR 10 million guarantee under that agreement;
4. Activating export pre-financing programmes for a shipbuilding company in the amount of USD 34.2 million for a foreign ship owner in co-operation with Export Credit Insurance Agency (KUKI) and the State Treasury.

- *Global Transaction Services*

In the third quarter of 2004, the Bank reported an increase in term deposits as well as current account deposits by USD 150 million (4.5%) in comparison with the second quarter of 2004.

On 9 September 2004, the Bank signed an agreement with Handlowy Zarządzanie Aktywami S.A. (HanZA), based on which Global Transaction Services and HanZA will be jointly providing asset management services to the corporate sector. The new solution will enable the Bank to increase its range of liquidity management products.

During the third quarter of 2004, the Bank reported a further increase in the volume of UniKasa transactions – the number of such transactions was 11.3% higher than in the second quarter of 2004.

- *Mergers and acquisitions*

The Bank actively offers its consulting services in mergers and acquisitions of companies. As an example, in July 2004, the Bank acted as a financial advisor for the sale of shares of a leading Polish loan broker.

- *Treasury products*

Over the third quarter of 2004, the Bank continued to strengthen its market position in respect of structured products. The Bank concluded 95 market-linked deposit transactions for the total amount of PLN 350 million.

2. Consumer Bank

- *Credit cards*

During September 2004, the portfolio of credit cards exceeded 521 thousand. As of 30 September 2004, the number of credit card accounts increased by 35% year-on-year.

In the third quarter of 2004, as in previous quarters of the year, the increase in the sale of credit cards was driven by the demand for the co-branded MOTO transaction card Motokarta Kredytowa Citibank-BP, issued in cooperation with BP Polska Sp. z o.o. By the end of September 2004, the Bank had issued 66 thousand of such cards.

- *Consumer loans*

The amount of loans extended during the third quarter of 2004 increased by 32% compared to the second quarter (excluding CitiFinancial and CitiBusiness), mainly in relation to a customised loan offering for those segments where the risk of non-payment is lowest. This attractive offering resulted in the acquisition of a new and prospective group of customers. Other sources of increased sales of loans in the third quarter of 2004 were from existing customers, for whom new marketing programmes were developed.

- *Investment products*

During the third quarter of 2004, the Bank reported a near 40% increase in Citifundusze saving plans compared to the second quarter of 2004. During that period, the Bank handled 8 subscriptions of Citibank Investment Deposits (MLD) and 4 subscriptions of Structured Bonds. In September, the Bank organised 7 seminars on investment funds for existing and potential Citigold clients.

- *e-banking*

In September 2004 the number of Citibank Online users exceeded 200 thousand and therefore increased by 52% in comparison with the corresponding period in the prior year. The amount of transactions made via Citibank Online was 67.5% of Consumer Bank's total transactions. E-banking is supported with appropriate pricing and special offers, e.g. premium interest rates on T-Lokata deposit which are only available through the Internet. Processes for acquisition of accounts and credit cards via Internet were introduced, allowing the customer to fill in the appropriate application on the Web. In the third quarter of 2004, the Bank ran several Internet campaigns promoting the products: the "PLN 0 Account" campaign, T-Lokata (Internet deposit) campaign, or the "24h loan" campaign. The Bank also actively promotes the Online Statement service, where it reports an increasing number of users and thus generates substantial savings. Between September 2003 and September 2004, the number of CitiGSM clients increased by 32%.

- *SME Banking (CitiBusiness)*

During the third quarter of 2004, the Bank noted increasing demand for the CitiBusiness offering directed to small and medium-sized enterprises with annual sales not exceeding PLN 8 million, 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. 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.

- *CitiFinancial*

The third quarter of 2004 was another period of growth of CitiFinancial sales. The offering includes cash loans and consolidation loans; the former enables individual customers to borrow funds for any purpose, and the latter allows them to convert loans from other financial institutions into one CitiFinancial product.

Customers may also take advantage of the insurance package. An additional advantage is the continuous development of the network of branches in convenient locations.

3. Branch network reorganisation

In the third quarter of 2004, the Bank continued reorganisation of its branch network in order to optimise costs and improve branch accessibility to retail and corporate customer. The network of 162 branches included:

1. 43 Corporate Bank's branches, out of which 28 may handle retail clients;
2. 86 Consumer Bank's branches (including 11 branches dedicated to CitiGold Wealth Management's clients), out of which 10 are combined branches of Consumer Bank and Corporate Bank, aimed at providing optimum access to products and services for customers of both divisions;
3. 33 CitiFinancial branches located close to retail clients in shopping centres and near housing estates.

Moreover, as many as 110 branches of the combined Consumer and Corporate network are able to service CitiBusiness customers.

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

In the third 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 3,474.5 million in the period, which was lower than in the second quarter of 2004, when the value of the stock market turnover settled through DM BH was PLN 3,899.4 million, and lower by 32% than in the third quarter of 2003. The decrease in turnover settled by DM BH in the third quarter of 2004 was caused by a general slump in the stock market turnover on the Warsaw Stock Exchange. In the third quarter of 2004, DM BH remained a leader in terms of stock market turnover in comparison with other brokerage houses, having a share of 18% in the share market.

In the third quarter of 2004, in addition to the activities on the secondary market of shares, DM BH also provided services on the primary market. DM BH submitted five applications for public issuance of shares with issue prospectus to the Securities and Exchange Commission. These concerned the following companies: Elektrobudowa S.A., MATRIX.PL S.A., PEKAES S.A., IVAX Corporation and MOL Rt. In addition, DM BH completed three transactions in the non-public market.

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

On 31 July 2004, Bank Handlowy w Warszawie SA signed a channel finance agreement, the purpose of which was to provide financing to wholesale distributors of a leading fuel sector company. The value of the agreement exceeds PLN 50 million. Overall, during the third quarter of 2004, as part of the ABF Transportation Program, Handlowy-Leasing S.A. signed leasing contracts for over PLN 56 million, which was a record achievement.

▪ Handlowy Zarządzanie Aktywami S.A. ("HanZA") – subsidiary

As of 30 September 2004, the value of assets under management of HanZA amounted to PLN 1,402.3 million. The decrease in comparison with the previous quarter was caused by temporary outflow of funds from the CitiPłynnościowy SFIO fund.

In the third quarter of 2004, the portfolios managed by HanZA reported results close to the respective reference rates. The highest rate of return was obtained by portfolios investing into Polish shares: selective portfolios obtained 4.44%, and correlated portfolios obtained 4.46%. Corporate portfolios based on investments into debt securities achieved a return of 2.27%, and money market portfolios 1.51%.

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

As of 30 September 2004, the value of assets under management of TFI BH was PLN 870.9 million. The largest fund with respect to assets under management was CitiSenior Specjalistyczny Fundusz Inwestycyjny Otwarty. Its assets increased by 17.9% in Q3 2004 and reached PLN 214.1 million as of the

end of September 2004, which represented 24.6% of the total assets of CitiFundusze. The funds which also recorded an increase in their assets in the third quarter of 2004 were CitiZrównoważony FIO (increase by 21.8%), CitiAkcji FIO (increase by 16.3%), Fundusz Własności Pracowniczej PKP SFIO (increase by 2.9%) and CitiPięniężny FIO (increase by 0.5%).

All of the funds managed by TFI BH brought profits to their investors in the third quarter. CitiAkcji FIO provided an increase of 2.99%; CitiZrównoważony FIO 2.11%, CitiSenior SFIO 2.02%, CitiObligacji FIO 1.82%, CitiPłynnościowy SFIO 1.40%, CitiPięniężny FIO 1.07% and Fundusz Własności Pracowniczej PKP SFIO 1.74%.

Description of factors and events that had an effect on the financial results achieved by the Group in Q3 2004

In the third quarter of 2004, the Group reported a cumulative net profit of PLN 321,835 thousand, which was an increase of PLN 96,810 thousand (i.e. 43.0%) in comparison with the end of the third quarter of 2003, while net profit for the third quarter of 2004 was PLN 97,019 thousand in comparison with PLN 128,556 thousand achieved for the same period in the prior year.

Cumulative gross profit (i.e. for the period between January and September) amounted to PLN 388,992 thousand, which was an increase of PLN 91,124 thousand (i.e. 30.6%) in comparison with the third quarter of 2003, while gross profit for the third quarter of 2004 was PLN 129,184 thousand in comparison with gross profit of PLN 162,336 thousand achieved for the same period in the prior year.

The result on banking activity in the third quarter of 2004 was lower by PLN 19,130 thousand (i.e. 3.7%) in comparison with the corresponding period of the previous year, as a combined result of the following:

- increase in net interest income of PLN 60,424 thousand (i.e. 31.7%), mainly as a result of considerable growth in the securities portfolio;
- increase in net commission income of PLN 7,261 thousand (i.e. 5.1%), mainly due to commissions on insurance products, cash management commissions, and fees for the issue and use of charge cards and credit cards;
- decrease in the result on foreign exchange operations of PLN 73,858 thousand (i.e. 54.3%) caused by negative impact of exchange rate differences (revaluation);
- decrease in net profit on financial operations of PLN 9,260 thousand (i.e. 24.0%), mainly due to lower trading result on debt securities.

In the third quarter of 2004, operating expenses increased by PLN 56,504 thousand (i.e. 21.2%) in comparison with the third quarter of 2003. This increase mainly resulted from an increase in salary expenses due to expansion in the Consumer Bank sector and costs of IT and consultancy services provided by entities owned by the strategic shareholder relating to a continuation of agreements conducted in prior periods.

In the third quarter of 2004, net write-offs to provisions and revaluation of financial assets decreased by PLN 36,728 thousand (i.e. 111.1%) in comparison with the third quarter of 2003.

In the third quarter of 2004, reversals of net write-offs to provisions for problem receivables and contingent liabilities amounted to PLN 3,667 thousand, whereas the write-offs for the corresponding period of 2003 amounted to PLN 33,061 thousand.

The bad debt ratio dropped from 29.8% at the end of December 2003 to 29.1% as of 30 September 2004. The nominal value of such receivables decreased as well. The Bank is in the process of changing its accounting policy regarding the possibility of writing-off, under specific circumstances, loans deemed to be lost against previously created specific provisions. This will result in an improvement in the index of loan portfolio quality.

In the third quarter of 2004, there were no write-downs for revaluation of financial assets; the write-downs for the corresponding period of 2003 amounted to PLN 8,610 thousand.

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

After 30 September 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 against the forecast for 2004

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

Information about the Shareholders

As of the 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 the date of the last consolidated quarterly report.

Information on pending proceedings

In the third 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 third 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 1,231,238 thousand.

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

The substantial majority of the 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 aforementioned 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.

Moreover, 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 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 the 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 30,953,000	In March 2004, the court declared the debtor bankrupt.	The Bank reported the receivable for arrangement. Case pending (loan receivable).

In the third 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

In the third quarter of 2004, neither the Bank nor its subsidiary companies concluded any significant transactions with related entities.

Information on significant surety or guarantee agreements

As of 30 September 2004, the total value of sureties and guarantees extended 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 third quarter of 2004

On 4 August 2004, Mr Jean Paul Votron resigned 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 Jean Paul Votron as a member of the Supervisory Board expired on that date.

Other information

On 20 October 2004, the Commission for Banking Supervision ("KNB") accepted the general structure of the transaction aimed at reducing Citigroup's share in the authorised initial capital of Bank Handlowy w Warszawie SA. The share is to be brought down to 75% of the total shares of the Bank, with 75% of votes at the General Meeting of Shareholders of the Bank. According to the information presented by Citigroup to KNB, Citigroup is going to issue convertible debt securities pursuant to the English law ("the Bonds") which will entitle the Bond owners to exchange the Bonds to the Bank's shares under certain conditions. From the day of acquisition of the Bonds by Obligees will limit Citigroup's voting rights by 14.3% by enabling the buyers to decide on exercising the voting rights from such pool of shares. Citigroup's intention is to issue the Bonds until the end of 2004. The exact date of issuance as well as detailed financial terms and conditions, and structure of the deal will be published by Citigroup in a separate offering document related to the issuance of the Bonds. For the avoidance of doubt, the statements included in this report must not be understood as sales offer of the said securities in the United States of America. The securities may not be sold in the U.S. without prior registration or exclusion pursuant to the Securities Act of 1933, as amended.

Moody's rating agency upgraded the rating of financial strength prospects of Bank Handlowy w Warszawie SA from stable to positive. The Bank's ratings for long- and short-term liabilities and financial strength remained unchanged (A2/P-1/D+). According to Moody's, a D+ rating of financial strength and a positive outlook result from benefits from integration with Citigroup, leading position in the credit card market, corporate and investment banking, and wide competence in the equity market and transaction services. The Bank will be using the know-how provided by the parent company during expansion on the mass retail market where the Bank plans to become a leading financial institution acting through its CitiFinancial brand.

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:

- Improved economic conditions and financial situation of the Bank's clients should be reflected in a gradual increase of the demand for banking products and services (in particular loans) and better quality of the loan portfolio;
- Possible increases of interest rates and higher-than-expected inflation in the fourth quarter of 2004 will affect profitability of debt securities; increases of interest rates by the Monetary Policy Council (RPP) may influence the increase of the spread;
- Economic growth and Poland's joining the EU should encourage business entities to take advantage of the Bank's products and services;
- Increased competition among the banks in the retail customer segment in connection with planned expansion of new financial institutions in the Polish market.
- The requirements of EU resolutions for public companies preparing financial statements in accordance with International Accounting Standards from 1 January 2005 and the need to modify current accounting policies may impact the financial statements.

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

Bank's financial results

During the three quarters of 2004, the Bank generated a cumulative net profit of PLN 319,840 thousand, which was an increase by PLN 97,417 thousand (i.e. 43.8%) in comparison with the third quarter of 2003. Net profit for the third quarter of 2004 was 98,661 thousand in comparison with PLN 127,137 thousand reported for the third quarter in the year before.

Cumulative gross profit (i.e. for the period of January to September) amounted to PLN 377,701 thousand and exceeded the cumulative gross profit for that period in the year before by PLN 78,986 thousand (i.e. 26.4%). Gross profit for the third quarter of 2004 was PLN 126,659 thousand compared to PLN 158,461 thousand generated for the same period in 2003.

The main influence on gross profit of the Group for the period of January to September 2004 had the increase in profit on banking activity and other operating income by PLN 25.3 million and the decrease in net movement in provisions and revaluation of financial assets by PLN 169.9 million in comparison with the same period in the year before, while expenses, consisting of other operating expenses, general expenses and depreciation and amortisation, increased by PLN 116.1million.

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 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 report for the third 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 30 September 2004, taking into account adjustments for provisions, deferred income tax assets and provisions, and asset revaluation write-downs, 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 third quarter of 2003 were 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 and buy-sell-back type. The financial data referring to other periods have not been adjusted and are consistent with the data published earlier in the semi-annual report for 2004

The above adjustments of the financial data for the third quarter of 2003 arise from the adoption of the rules for recording sell-buy-back and buy-sell-back transactions, introduced in the first half of 2004 and outlined in the consolidated semi-annual report for 2004.

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 30/09/03
	Third quarter 2003
Total assets	
As previously reported	30 999 566
Effect of change	169 028
As adjusted	31 168 594
Net profit (loss)	
As previously reported	202 787
Effect of change	19 636

As adjusted	222 423
Shareholders' equity	
As previously reported	5 911 092
Effect of change	(82)
As adjusted	5 911 010

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 third 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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