citibank handlowy
Bank Handlowy w Warszawie SA

The Semi-Annual Financial Statements of Bank Handlowy w Warszawie SA as of 30 June 2005

September 2005

SELECTED FINANCIAL DATA	in PLN '000		In EUR '000	
	First half of 2005	**First half of 2004**	**First half of 2005**	**First half of 2004**
	period from 01/01/05 to 06/30/05	**period from 01/01/04 to 06/30/04**	**period from 01/01/05 to 06/30/05**	**period from 01/01/04 to 06/30/04**
Interest income	870,504	791,089	213,333	167,210
Fee and commission income	299,918	302,633	73,500	63,967
Profit / (loss) before tax	360,828	289,991	88,427	61,295
Net profit / (loss)	281,466	239,151	68,978	50,549
Increase of net cash	62,572	(109,874)	15,488	(24,190)
Total assets	34,756,965	-	8,602,996	-
Due to central bank	364	-	90	-
Due to financial sector	5,321,076	-	1,317,065	-
Due to non-financial sector	16,271,014	-	4,027,379	-
Shareholders' equity	4,930,680	5,804,364	1,220,435	1,277,875
Share capital	522,638	522,638	129,363	115,063
Number of shares	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN / EUR)	37,74	44,42	9,34	9,78
Capital adequacy ratio (%)	12,66	-	12,66	-
Earning per ordinary share (PLN / EUR)	2,15	1,83	0,53	0,39
Declared or distributed dividends per ordinary share (PLN / EUR)*	11,97	1,85	2,96	0,41

**The presented ratios are related to, respectively: declared dividends from the appropriation of the 2004 profit and from retained earnings as well as from dividends distributed in 2004 from the appropriation of the 2003 profit.*

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Income statement

In thousands of PLN	*Note*	For the period 01.01.-30.06. 2005	01.01.-30.06. 2004
Interest and similar income	*4*	870,504	791,089
Interest expense and similar charges	*4*	(357,263)	(338,103)
Net interest income	*4*	**513,241**	**452,986**
Fee and commission income	*5*	299,918	302,633
Fee and commission expense	*5*	(34,979)	(32,159)
Net fee and commission income	*5*	**264,939**	**270,474**
Dividend income	*6*	2,146	7,984
Net trading income	*7*	11,154	(27,755)
Net gain on disposal of non-trading financial instruments	*8*	102,861	21
Net profit on foreign exchange	*9*	202,379	242,934
Other operating income	*10*	25,209	35,347
Operating income		**1,121,929**	**981,991**
General administrative expenses	*11*	(669,740)	(613,939)
Depreciation expense	*12*	(69,637)	(72,252)
Other operating expenses	*13*	(31,592)	(17,079)
Profit / (loss) on sale of tangible fixed assets	*14*	(1,272)	7,268
Net impairment losses	*15*	11,140	4,002
Profit before tax		**360,828**	**289,991**
Income tax expense	*16*	(79,362)	(50,840)
Net profit		**281,466**	**239,151**
Weighted average number of ordinary shares	*17*	130,659,600	130,659,600
Net profit per ordinary share (in PLN)	*17*	**2.15**	**1.83**
Diluted weighted average number of ordinary shares	*17*	-	-
Diluted net profit per ordinary share (in PLN)	*17*	-	-

Balance sheet

In thousands of PLN — As of	*Note*	30.06.2005	31.12.2004
ASSETS			
Cash and balances with central bank	*18*	814,452	841,114
Financial assets held for trading	*19*	7,209,711	5,316,962
Financial assets available for sale	*20*	5,112,453	6,091,194
Equity investments	*21*	323,563	332,511
Loans and advances	*22*	18,885,997	18,498,769
to financial sector		*8,956,846*	*8,675,599*
to non-financial sector		*9,673,149*	*9,057,286*
accrued interest		*255,982*	*765,884*
Property and equipment	*24*	726,683	711,710
land, buildings and equipment		*677,532*	*711,710*
investment property		*49,151*	*-*
Intangible assets	*25*	1,327,290	1,309,578
Deferred income tax assets	*27*	176,768	237,205
Other assets	*28*	180,068	470,088
Total assets		**34,756,965**	**33,809,131**
LIABILITIES			
Due to central bank		364	718
Financial liabilities held for trading	*19*	4,368,480	4,194,290
Financial liabilities valued at amortized cost	*29*	22,455,280	21,974,328
deposits from		*21,592,090*	*20,667,770*
financial sector		*5,321,076*	*3,814,669*
non-financial sector		*16,271,014*	*16,853,101*
other liabilities		*807,200*	*1,248,838*
accrued interest		*55,990*	*57,720*
Financial liabilities from transfers of financial assets	*30*	552,792	-
Provisions	*31*	56,577	216,717
Income tax liabilities	*27*	3,358	23,509
Other liabilities	*32*	2,389,434	1,257,585
Total liabilities		**29,826,285**	**27,667,147**
EQUITY			
Issued capital	*33*	522,638	522,638
Share premium	*33*	2,944,585	3,044,585
Revaluation reserve	*33*	31,572	19,651
Other reserves	*33*	1,101,977	2,116,561
Retained earnings (losses brought forward)		48,442	(9,973)
Profit / (loss) - current period		281,466	448,522
Total equity		**4,930,680**	**6,141,984**
Total liabilities and equity		**34,756,965**	**33,809,131**

Statement of changes in equity

In thousands of PLN	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings / (losses brought forward)	Net profit / (loss) (current year)	**Total equity**
Previous GAAP balance at 1 January 2004	**522,638**	**3,044,585**	**(13,212)**	**2,115,273**	**277,646**	**-**	**5,946,930**
Effects of transition to IFRS					(45,109)	-	(45,109)
Balance as of 1 January 2004- after opening balance restatement	**522,638**	**3,044,585**	**(13,212)**	**2,115,273**	**232,537**	**-**	**5,901,821**
Differences from current valuation at fair value of financial assets available for sale	-	-	(117,146)	-	-	-	(117,146)
Adjustments in respect of deferred income tax on valuation of financial assets available for sale	-	-	22,258	-	-	-	22,258
Disposal of fixed assets	-	-	(128)	128	-	-	-
Net profit	-	-	-	-	-	239,151	239,151
Dividends for payment	-	-	-	-	(241,720)	-	(241,720)
Transfers to capital	-	-	-	790	(790)	-	-
Closing balance as of 30 June 2004	**522,638**	**3,044,585**	**(108,228)**	**2,116,191**	**(9,973)**	**239,151**	**5,804,364**

In thousands of PLN	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings / (losses brought forward)	Net profit / (loss) (current year)	**Total equity**
Previous GAAP balance at 1 January 2005	**522,638**	**3,044,585**	**19,651**	**2,116,561**	**438,549**	-	**6,141,984**
Effects of transition to IFRS			2,479		59,243	-	61,722
Balance as of 1 January 2005- after opening balance restatement	**522,638**	**3,044,585**	**22,130**	**2,116,561**	**497,792**	-	**6,203,706**
Differences from current valuation at fair value of financial assets available for sale	-	-	11,731	-	-	-	11,731
Adjustments in respect of deferred income tax on valuation of financial assets available for sale	-	-	(2,229)	-	-	-	(2,229)
Disposal of fixed assets	-	-	(60)	60			0
Net profit	-	-	-	-	-	281,466	281,466
Dividends for payment	-	(100,000)	-	(1,049,804)	(414,191)	-	(1,563,995)
Transfers to capital	-	-	-	35,159	(35,159)	-	-
Closing balance as of June 30, 2005	**522,638**	**2,944,585**	**31,572**	**1,101,977**	**48,442**	**281,466**	**4,930,680**

Statement of cash flows

For the period *In thousands of PLN*	01.01.-30.06. 2005	01.01.-30.06. 2004
A. Cash flows from operating activities		
I. Net profit (loss)	**281,466**	**239,151**
II. Adjustments to reconcile net profit or loss to net cash provided by operating activities:	**88,051**	**(217,819)**
Current and deferred tax income, recognised in income statement	79,362	50,840
Amortisation	69,637	72,252
Impairment	(2,568)	57,950
Net provisions (recoveries)	(3,206)	(62,032)
Net gains/ (losses) on sale of investments	4,308	20,147
Other adjustments	(1,669,538)	(740,346)
Cash flows from operating profits before changes in operating assets and liabilities	**(1,522,050)**	**(601,189)**
Increase / decrease in operating assets (excl. cash and cash equivalents)	**(755,673)**	**(168,901)**
Increase / decrease in loans and receivables	(297,973)	4,849,989
Increase / decrease in assets available for sale	978,741	(5,737,263)
Equity investments	(1,932)	1,491,117
Increase / decrease in assets held for trading	(1,892,749)	(851,345)
Increase / decrease in deferred charges	40,007	(16,260)
Increase / decrease in other assets	418,233	94,861
Increase / decrease in operating liabilities (excl. cash and cash equivalents)	**2,365,774**	**552,271**
Increase / decrease in advances from central bank	(354)	(39,452)
Financial liabilities valued at amortised cost	695,525	1,016,651
Increase / decrease in liabilities held for trading	176,467	(329,707)
Increase / decrease in deferred income	(84,203)	(164)
Increase / decrease in other liabilities	1,578,339	(95,057)
Cash flows from operating activities	**369,517**	**21,332**
Income taxes (paid) refunded	**(16,791)**	**(48,088)**
III. Net cash flows from operating activities	**352,726**	**(26,756)**
B. Cash flows from investing activities		
Cash payments to acquire tangible assets	(51,534)	(36,545)
Cash receipts from the sale of tangible assets	2,989	2,183
Cash payments to acquire intangible assets	(33,062)	(10,502)
Cash receipts from the disposal of investments in subordinated entities	6,157	3,004
Other cash receipts related to investing activities	2,146	7,984
Net cash flows from investing activities	**(73,304)**	**(33,876)**
C. Cash flows from financing activities		
Other cash proceeds related to financing activities	19,292	-
Other cash payments related to financing activities	(236,142)	(49,242)
Net cash flows from financing activities	**(216,850)**	**(49,242)**
D. Effect of exchange rate changes on cash and cash equivalent	**3,907**	**(1,982)**
E. Increase in net cash	**62,572**	**(109,874)**
F. Cash at the beginning of reporting period	**972,013**	**1,211,860**
G. Cash at the end of reporting period	**1,034,585**	**1,101,986**

Explanatory notes to the financial statements

1. General information about the Bank

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

Citibank Overseas Investments Corporation, a subsidiary of Citibank N.A., is the parent of the Bank.

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

The Bank offers a wide range of banking services in domestic and foreign markets for individuals and corporates.

2. Significant accounting policies

Statement of compliance

The semi-annual financial statements of the Bank for the six months ended 30 June 2005 were prepared in accordance with International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and related interpretations issued as Commission Regulations, collectively hereinafter called IFRS, referred to in Art. 2.3 of the Polish Accounting Act of 29 September 1994 (Journal of Laws of 2002 No. 76/694, as amended). These are the first financial statements of the Bank in which the provisions of IFRS 1 have been applied "First-time adoption of IFRS".

Bases of preparation

These semi-annual financial statements have been prepared for the period from 1 January 2005 to 30 June 2005. For the balance sheet, comparable financial data is presented as of 31 December 2004. For the income statement, statement of changes in equity and cash flow statement, comparable data is presented for the period from 1 January 2004 to 30 June 2004.

The Bank is also preparing a consolidated financial statement for the first half of 2005in accordance with IFRS.

The financial statements also meet the requirements of:

- The Regulation of the Council of Minister about ad hoc and periodical reporting by issuers of securities of 21 March 2005 (Journal of Laws No. 49/463);
- The Regulation of the Council of Minister about certain amendments to the Regulation about the detailed conditions for a prospectus and mini-prospectus of 21 March 2005 (Journal of Laws No. 50/464);

In matters on which IFRS are silent, this report has been prepared in accordance with the Polish Accounting Act and Regulations and orders issued pursuant thereto.

The financial statements are presented in PLN, rounded to the nearest thousand.

These financial statements have been prepared on a historical cost basis, with the exception of financial assets and liabilities recognized at fair value through the income statement and financial instruments classified as available-for-sale.

All changes in accounting policies have been implemented in accordance with transitional provisions of relevant standards. Note 47 explains how the implementation of IFRS has affected specific lines of the financial statements, the financial situation of the Bank and the cash flows.

In 2004, the Bank applied the early adoption of IFRS 2 Share-based Payment to management stock option programs offered to the Bank's management as part of the equity benefits of Citigroup.

When preparing these financial statements, the Bank did not choose to implement IFRS 7 (Financial Instruments: Disclosures) prior to its effective date. IFRS 7 will apply from the beginning of the first annual period starting on or after January 1, 2007.

In order to prepare financial statements in accordance with IFRS, management has to make judgment and estimations, as well as to adopt assumptions that have an impact on the accounting policies adopted and the amounts of assets and liabilities and revenues and expenses. Management's judgment and estimates that significantly affects the financial statements with a risk that adjustments would be needed in the next financial year are presented in the "Estimates" section of the key accounting policies of the Bank.

Foreign currencies

Functional currency and presentation currency

The Bank's financial statements are valued in the basic currency of the economic environment in which it conducts its operations ("the functional currency"). The Bank's functional currency is PLN and the financial statements are presented in PLN.

Transactions and balances

Balance sheet and off-balance sheet items expressed in foreign currencies are stated at the exchange rate of the functional currency prevailing on the balance sheet date.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions.

Foreign exchange gains and losses resulting from revaluation of balance sheet items denominated in foreign currencies and settlement of transactions in foreign currencies are included in net profit on foreign exchange.

The Bank uses the NBP mid exchange rate to translate foreign currency assets and liabilities as at the balance sheet date.

The exchange rates of the major currencies applied in the preparation of these financial statements are:

PLN

		30 June 2005	31 December 2004	30 June 2004
1	USD	3.3461	2.9904	3.7470
1	CHF	2.6072	2.6421	2.9726
1	EUR	4.0401	4.0790	4.5422

Financial assets and liabilities

Classification

The Bank classifies its financial instruments into the following categories:

- financial asset or liability at fair value through profit or loss;
- loans and advances;

- available-for-sale financial assets.
- other financial liabilities

In the reporting period, the Bank did not classify assets to investments held to maturity. The Bank classifies financial assets to particular categories on the date of their first recognition.

a) Financial assets or financial liabilities at fair value in the income statement

This category has two sub-categories: financial assets and liabilities held for trading and those designated at fair value through profit or loss at initial recognition. Assets or liabilities are included in this category when they were purchased with the primary objective of resell or repurchase in a short time, are part of the portfolio of specified financial instruments that are managed jointly and for which there is a confirmation of the current actual formula for generating short-term profits or when they are classified to this category at management's discretion. All derivative instruments are also categorized as held for trading.

b) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides funds, goods or services directly to the debtor for any purpose except for the generation of short-term profits from trading in such loans or advances. This category comprises in the first instance amounts due in respect of loans, purchased debts and debt securities that are not quoted in an active market.

c) Available-for-sale financial assets

Available-for-sale financial assets are financial assets, which are not classified in any of the other categories.

d) Other financial liabilities

Other financial liabilities are financial liabilities, which are not classified as financial liabilities at fair value through profit or loss.

Recognition

Transactions of purchase or sale of financial assets that are measured at fair value through profit or loss and transactions of purchase or sale of financial assets that are classified as available for sale are shown as appropriate in the Bank's balance sheet on the transaction settlement day, i.e. on a day on which the Bank will receive or transfer the ownership right to assets, as the case may be. The rights and liabilities from a concluded transaction are measured at fair value from the transaction conclusion day to the transaction settlement day.

Loans and other receivables are recognized at the time of payment of cash to the borrower.

Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership.

Measurement

When financial assets or financial liabilities are recognized initially, they are measured at fair value plus in the case of assets and liabilities that are not subject to measurement at fair value through profit or loss, significant transaction costs that are directly associated with the purchase or issue of the financial assets or financial liabilities.

After initial recognition, the Bank measures financial assets, including derivatives that are assets, at fair value without deducting transaction expenses that it may incur in connection with the sale or a disposal of assets, excluding loans and receivables, which are shown at amortized cost using the effective interest method, and investments in equity instruments for which no quotations in an active market are available, i.e. for which fair value cannot be reasonably determined.

After initial recognition, financial liabilities are measured at amortized cost using the effective interest method, except financial liabilities that are measured at fair value through profit or loss and financial liabilities that result from the transfer of financial assets that do not qualify for exclusion from the balance sheet. Liabilities arising from the transfer of financial assets that do not qualify for exclusion from the balance sheet are shown using an approach resulting from maintenance of the exposure. Financial liabilities that are measured at fair value through profit or loss, including derivatives liabilities, are carried at fair value.

Profits or losses resulting from financial assets or financial liabilities that are qualified as measured at fair value through profit or loss are shown in revenues or expenses. Profits or losses resulting from financial assets that are classified as available for sale are directly shown in equity by comparing changes in equity, except revaluation write-downs for impairment, and foreign exchange gains and losses, until financial assets are excluded from the balance sheet, when accumulated profits or losses which were previously included in equity, are recognised in the income statement. However, interest that accrued using the effective interest method is recognised in the income statement. Dividends on equity instruments available for sale are included in the income statement on the day on which the entity acquired the right to receive them.

The fair value of shares in companies other than subsidiaries and associates listed in an active market results from their current purchase price. If the market of specific financial assets is inactive (this also applies to not-listed securities), the Bank determines fair value using appropriate valuation techniques.

Derivative instruments

Derivative financial instruments are stated at their fair values on the trade date. Fair values are determined by reference to their prices in an active market, including prices in recent market transactions, or using valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivative instruments with positive fair values are shown in the balance sheet as available-for-sale assets and all derivative instruments with negative fair values, as available-for-sale liabilities.

Embedded derivatives are accounted for as separate derivatives if the risks and economic characteristics of the embedded derivative are not closely related to the risks and characteristics of the host contract and the host contract is not measured at fair value in the income statement.

Hedge accounting

The Bank does not apply hedge accounting.

Offsetting financial instruments

Financial assets and liabilities are offset and presented in the balance sheet on a net basis when there is a legally enforceable right to offset and their settlement is intended to take place on a net basis or simultaneously. Currently, the Bank does not offset and present its financial assets and liabilities on a net basis.

Repo / reverse repo transactions

The Bank enters into purchase/sale transactions under an agreement to resell/repurchase the same financial assets, so called sell-buy-back and buy-sell-back respectively as well as repo and reverse repo transactions on securities.

Securities sold under repurchase agreements continue to be shown as the Bank's assets and the Bank discloses liabilities resulting from the repurchase clause. In the case of securities' purchase under the resell agreement, securities are reported in the Bank's balance sheet as loans and advances.
Any differences between sale/purchase prices and repurchase/resale prices are recognized respectively as interest income and expense with the effective interest rate application.

Assets taken over for debts

Assets taken over for debts are valued at the lower of the fair value of the given asset and its cost. Assets are written down for any excess of the debt amount over the fair value of the assets taken over and the excess amount is recognized in the income statement.

Impairment of assets measured at amortized cost

On a of commitment basis, the Bank classifies assets measured at amortized cost into the portfolio of assets that are individually significant and the portfolio of assets that are not individually significant (portfolio basis). On the balance sheet date, the Bank assesses if there is objective evidence of impairment of a financial asset or a group of financial assets.

Write-downs to a provision created to cover incurred but nor recognized credit losses ("IBNR")

The Bank creates a provision for incurred but not recognized credit losses. The IBNR provision reflects the level of a credit loss in the period from the last individual assessment of receivables to the balance sheet date, which is assessed on the basis of historic losses on assets with similar risk characteristics as the risk characteristics of the asset group covered by the IBNR provision calculation process. The IBNR provision calculation process covers all receivables for which no proof of impairment was found at the individual level or for which such proofs were found, but the individual assessment of possible impairment did not confirm the need to write them down. The IBNR provision is calculated using statistical models for asset groups that are combined in portfolios having similar credit risk features. In the presentation of the financial statements of the Bank, the provision for incurred but not recognized credit risk is deducted from credit exposures.

Write-downs for impairment of individually-material assets

The level of the provision for receivables that are deemed individually significant, for which evidence of impairment was detected, is calculated as the difference between the carrying value of an asset and the present value of the future cash flows from expected repayments by the borrower, from cash-settlement of collateral or from sales of receivables. The future cash flows are discounted to the present value with the effective interest rate for a given instrument.

If the present value of the estimated cash flows increases following an event occurring after impairment was identified, the write-down that was previously made will be reversed as appropriate through profit or loss.

Write-downs for impairment of individually-immaterial assets

The level of the provision for receivables that are deemed not individually significant, for which evidence of impairment was detected, is calculated on the basis of a portfolio assessment which is based on the history of losses incurred on assets with similar risk characteristics.

Provisions for receivables from the financial sector, non-financial sector and public sector, and write-downs for permanent impairment of securities and other assets adjust the value of particular asset lines of the balance sheet. Provisions for off-balance sheet commitments are shown in "Provisions" in the liabilities section of the balance sheet.

Non-recoverable loans (i.e. loans for which the Bank does not expect any future cash flows and that meet conditions to allocate loss to tax deductible costs under separate tax regulations or that were unconditionally written-off under an agreement with the customer) are written-down to provisions. If a written-down amount is subsequently recovered, the amount of impairment write-downs in the income statement will be reduced respectively.

Impairment of financial assets available for sale

For financial assets classified as available for sale, for which there is objective evidence of impairment, accumulated losses recorded in equity as the difference between the purchase price less subsequent repayments and amortization and fair value (taking into account previous impairment write-downs) are transferred to the income statement. Losses on impairment of equity investments classified as available for sale are not subject to reversal through profit or loss. Losses on impairment of debt instruments classified as available for sale are reversed through the income statement if the fair value of a debt instrument increases in subsequent periods and such increase may be reasonably connected with an event that occurred after recognizing the loss.

Impairment of financial assets measured at cost

Financial assets measured at cost consist of shares in companies other then subordinated entities that are classified as available for sale, for which fair value cannot be reasonably determined (e.g. no quotations available), and equity investments in subordinated companies that are measured under IAS 27 (Consolidated and Separate Financial Statements). If there are objective proofs of impairment of such equity investments, the amount of impairment loss is determined as the difference between the carrying value of a financial asset and the present value of the estimated future cash flows, discounted with the current market rate of return for similar financial assets. Impairment losses that are determined using the above method are not reversed, excluding units measured at purchase price.

Impairment of assets other than financial assets

The carrying values of the Bank’s assets, excluding deferred tax assets, are reviewed on the balance sheet date to determine if there are reasons to make revaluation write-downs for impairment. If so, the recoverable amount of assets should be determined.
Revaluation write-downs for impairment are recognized if the book value of an asset or of its cash-generating unit exceeds the recoverable amount. Revaluation write-downs for impairment are measured through profit or loss.
In the case of a cash-generating unit, revaluation write-downs for impairment are first deducted from goodwill allocated to such cash-generating units (group of units) and, then reduce proportionally the carrying value of other assets in the unit (group of units). The value of goodwill and intangible assets with an indefinite useful life was tested for impairment as of January 1, 2004 (IFRS implementation date) no reason was found to make revaluation write-downs for impairment.

Calculation of the recoverable amount

The recoverable amount of other assets is the higher of their net realizable value (fair value less costs to sell) and their value in use. In order to determine the value in use, the estimated future cash flows are discounted to their present value with the pre-tax discount rate, which reflects the current expectations of the market towards the value of money and the specific risk of a given asset. For assets that do not generate cash flows that are independent of those from other assets, the recoverable value is determined for a given cash-generating unit to which such assets belong.

Reversing impairment losses (write-downs)

Impairment losses (write-downs) for goodwill are not reversed.
For other assets, such write-downs are reversed if the estimates used to determine the recoverable amount have changed.
An impairment write-down may only be reversed to the level at which the carrying value of the asset does

not exceed the carrying value of the asset that would have been determined had no impairment loss been recognized previously.

Investments: shares in subordinated entities

Subordinated entities comprise subsidiaries and associates

Subsidiaries - definition

Subsidiaries are any entities that are controlled by the Bank. An entity is controlled by the Bank when the Bank is able to control, directly or indirectly, its financial and operating policy to obtain financial benefits from its operations. Control is usually connected with the possession of a majority of votes on governing bodies.

The Bank uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured, as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Any identifiable purchased assets and assumed liabilities, including contingent liabilities, acquired in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. Any excess of the cost of acquisition over the fair value of the Bank's interest in the acquired identifiable net assets is recognized as goodwill. If the cost of acquisition is lower than the fair value of the net assets of the acquired subsidiary, the difference is recognized directly in the income statement.

Associates - definition

Associates are those entities over which the Bank indirectly or directly has significant influence but not control, usually accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognized at cost.

Subsidiaries and associates - recognition and valuation

Shares in subordinated entities, construed as subsidiaries and associates, are disclosed in the Bank's financial statements on the basis of the cost method, in line with IAS 27, *Consolidated and separate financial statements.* The cost method is the method of accounting for investments whereby the investment is stated at cost. The Bank recognizes income from an investment only up to the amount received in respect of the distribution of the aggregate profit earned by the entity until its acquisition by the Bank. The income received in excess of these profits is treated as a recovery of the investment and it reduces the cost of the investment.

Investments: shares in other entities

Shares in entities other than subordinated entities are classified as financial assets available for sale.

Goodwill

Goodwill represents the difference between the cost of the acquisition and the fair value of the Bank's interest in the identifiable acquired assets and liabilities as of the acquisition date. Goodwill on acquisition of subsidiaries is recognized in intangible assets. In the stand alone financial statements of the Bank, goodwill is the excess of the acquisition cost over the Bank's interest in the net fair value of the identifiable assets and liabilities taken-over at the acquisition date. Goodwill is included in intangible assets. Goodwill is carried at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortized, but only tested, annually, for impairment. In the case of associates, goodwill is included in the carrying value of the investment in an associate.

Profits or losses on the disposal of a subsidiary or an associate include the carrying value of goodwill allocated to the entity sold.

Goodwill resulting from takeovers that were occurred before March 31, 2004, i.e. the effective date of IFRS 3 (Business Combinations), was calculated in accordance with the previous accounting policies, as the difference between the cost of acquisition of an entity and the net asset value of the acquired entity at the acquisition date. The settlements of the business combinations that were effected before March 31, 2004, have not been restated for the purposes of preparation of the IFRS opening balance sheet at January 1, 2004.

Property and equipment and intangible assets (excluding goodwill)

Property and equipment and intangible assets are stated at historical cost less accumulated depreciation or amortization and impairment write-offs. The historical cost of an item of property and equipment includes any directly attributable costs of purchasing and bringing the asset into use.

Subsequent expenditure relating to an item of property and equipment is added to the carrying amount of the asset or recognized as a separate asset (where appropriate) only when it is probable that future economic benefits will flow to the Bank and the cost of the asset can be measured reliably. Any other expenditure e.g. on repairs and maintenance is recognized as an expense when incurred.

Depreciation and amortization are calculated using the straight-line method over the expected useful life of an asset on the basis of rates that are approved in the deprecation and amortization plan for 2005.

Illustrative annual depreciation and amortization rates applied by the Bank are presented in the table below:

Buildings and structures	1.5 %	-	4.5 %
Motor vehicles	14.0 %	-	20.0 %
Computers		34.0 %	
Office equipment		20.0 %	
Other tangible fixed assets	7.0 %	-	20.0 %
Computer software and licenses (except the main operating system, which is depreciated at the rate of 20%)		34.0 %	
Other intangible fixed assets		20.0%	

As at each balance sheet date, the residual values of non-current assets and their useful lives are reviewed and the depreciation and amortization schedule is adjusted, where appropriate.

Assets with original cost less than PLN 3,500 are fully depreciated on a one-off basis when brought into use. The total cost of other tangible fixed assets depreciated on a one-off basis is not material to the financial statements.

Assets in the course of construction are stated at the total of costs directly attributable to construction, assembly or improvement in progress less impairment write-offs.

Property and equipment include rights to perpetual usufruct of land obtained by the Bank free of charge in prior years under the then applicable regulations.

Historically, fixed assets were periodically subjected to revaluation with the indices published by the President of the Central Statistical Office. The results of revaluation were reflected in the revaluation reserve in the Bank's equity. It should be noted that no revaluation based on the indices published by the

Central Statistical Office has taken place since 31 December 1995.

Items of property and equipment are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount of an item of property and equipment or intangible asset is written down to its recoverable amount if the carrying amount exceeds the recoverable amount. The recoverable amount of an item of property and equipment is the higher of its fair value less costs to sell and value in use.

Investment properties

Properties classified by the Bank as investment properties are presented in the financial statements as part of property and equipment. The Bank applies the fair value model to their valuation.

Employee benefits

Short-term employee benefits

Short-term employee benefits of the Bank include salaries, bonuses, holiday, leave and sick pay, as well as social security contributions.
Depending on their individual compensation category, employees may receive an award from the incentive fund, a bonus under the bonus scheme applicable in a given area or a discretionary annual bonus under the internal employee compensation regulations. Bonuses and awards are granted after completion of the period for which the employee's performance is evaluated.

Short-term employee benefits are recognized as an expense in the period when they were incurred.

Share-base payment transactions

Employees may also receive awards in the form by Citigroup stock options. In accordance with IFRS 2 (Share-based Payment), the program is deemed as a cash-settled program. A provision is created for future payments and is shown in "Other liabilities." The costs of the program are determined on the basis of an option valuation model. According to IFRS 2, the fair value of an option is, first, measured at grant date and, subsequently, at each reporting date until the final settlement. Total expenses recorded in a given period are based on the fair value of the options at the reporting date and the part of the rights that were deemed acquired in that period.

Long-term employee benefits

Under its compensation scheme, the Bank guarantees its employees retirement benefits, which depend on the length of service with the Bank directly prior to the acquisition of the title to such benefits. Employees who are hired under a contract of employment in accordance with the Company Collective Labor Agreement have the right to an additional award for the determined length of service. For employees who were hired before March 1, 2001, the base of the award includes periods of employment that were included pursuant to the principles of the Company Collective Labor Agreement in force from January 1, 1997. A provision is created for the future payments. The provision is shown in "Other liabilities." Provisions for the future costs of such retirement benefits and long-service awards are calculated on the basis of actuarial assumptions. The actuarial measurement is subject to periodic revaluations.

Defined contribution plans

In addition, the Bank enables its employees to join the pension plan, which is discussed in detail in Note 42. The Bank pays contributions for the employees who participate in the plan into a separate fund and has no subsequent obligation to pay further contributions, so this is a defined contribution plan in accordance with IAS 19 (Employee Benefits). Contributions are recognized as an expense when paid.

Provisions

Provisions are recorded in the Bank's balance sheet if the Bank has legal or constructive obligation arising from past events, and if it is probable that the discharge of this obligation will result in an outflow of economic benefits, and the provision amount can be reliably estimated.

Restructuring provision

Restructuring provisions are recorded when the following conditions have been met: (i) the Bank has a detailed and formalized restructuring plan; (ii) the restructuring has already begun or has been publicly announced; (iii) the provision amount can be reliably estimated. The restructuring provision does not include future operating expenses.

Equity

Equity (Tier 1 + Tier 2 capital) is stated at nominal value, with the exception of the revaluation reserve, which, insofar as it relates to the effects of revaluation of available-for-sale financial assets, is stated on a net basis.

Dividends are recognized as liabilities on the date at which the General Meeting of the Bank has approved the appropriation of earnings.

Other balance-sheet items

Other trade receivables and other receivables

Trade receivables and other receivables are recognized at the amount due less impairment write-downs.

Liabilities

Liabilities, except financial liabilities held for trading, are recognized at the amount due.

Determination of profit or loss

Profit or loss includes all revenue earned and costs incurred in earning it, relating to the given reporting period, irrespective of their payment or receipt dates.

Accruals and prepayments

The Bank records accruals and prepayments of expenses, primarily in relation to the Bank's overhead expenses, in reporting periods to which they relate.

Interest income and interest expenses

For all financial instruments, interest income and interest expense is recognized through profit or loss using the effective interest method.

The effective interest method calculates the amortized cost of a financial asset or a financial liability and allocates interest income or interest expense to appropriate periods. The effective interest rate is a rate that precisely discounts the estimated futures inflows or payments in the expected period until the maturity of the financial instrument to the carrying value of a financial asset or a financial liability. When calculating the effective interest rate, the Bank takes into account all the terms and conditions of a financial instrument agreement (e.g. prepayments, call options, etc.), but excludes potential future losses in connection with non-recoverable loans. The calculation covers all the commissions payable to and receivable from the parties to the agreement, integral components of the effective interest rate, transaction costs and any other premiums and discounts. As a result, commissions that are an integral part of the effective interest rate are recognized as components of interest income.

Beginning at 1 January 2005, the Bank implemented the effective interest method. Previously, banking commissions and fees, except one-off transactions, were amortized in the income statement using the straight-line method.

In the case of financial assets or groups of similar financial assets for which impairment losses were recognized, interest income is measured using the interest rate that was used to discount the future cash flows to estimate such impairment losses.

Commission income and commission expenses, banking fees

Commission and fee income is generated when the Bank renders financial services to its customers. Depending on its allocation to one of the following categories:
- commissions that are an integral part of the effective interest rate;
- commissions for services rendered; or
- commissions for executing significant transactions,

Commissions that are an integral part of the effective interest rate are recognized in the income statement adjusted by the calculation of the effective interest rate and are shown in interest income.

Commissions for services rendered and executing significant transactions are recognized in the income statement, in proportion to the completion of the services rendered, or a single amount after completing the rendering of a service, respectively and are shown in commission income.

In the case of loans and borrowings with undetermined installment payment dates, e.g. overdrafts or credit cards, commissions and fees are recognised using the straight-line method until the expiry date of a credit limit. Such commissions and fees are recognized as commission income.

Other operating income and expenses

Other operating income and for expenses comprise income and expenses that are not directly related to banking activities. They include proceeds from and costs of selling or disposing of property, plant and equipment and assets held for disposal, compensation, penalties and fines.

Income tax

Income tax consists of current tax and deferred tax. Income tax is recognized in the income statement, except for taxes related to amounts that are allocated directly to equity. In such a case, income tax is also recognized in the Bank's equity.

A deferred tax provision is calculated using the carrying value method by computing temporary differences between the carrying value of assets and liabilities, in the balance sheet, and the tax base of assets and liabilities. In the balance sheet, the Bank discloses deferred tax assets net of deferred tax provisions.
A deferred tax asset is recognized only to the extent that it is probable that a tax benefit will be realized in the future.

Following the introduction of the EU Guarantee Fund Act of 16 April 2004 (Journal of Laws No. 121/1262) and the related new Art. 38a in the Corporate Income Tax Act, the Bank has recognised a receivable from the Budget in respect of its right to reduce its taxation liabilities in the years 2007 to 2009

Segment reporting

A segment is a separate area of the Bank's operations that either distributes goods or renders services in a specific sector environment (business segment) or distributes goods or renders services in a specific economic environment (geographical segment). A segment is exposed to certain risks and derives benefits that are specific only for that segment. The business segment has been adopted as the reporting segment in the Bank segment since both risks and rates of return result from differences between products. The Bank is managed at the level of three main business segments – Corporate and Investment Bank, Consumer Bank and Citifinancial.
Assets and liabilities, revenues and financial results of particular segments are measured in accordance with the accounting policies and standards adopted by the Bank.

Accounting estimates and judgements

Determination of the carrying values of selected assets and liabilities at the balance sheet date requires estimating the effect of uncertain future events on these items. The estimates and assumptions are subject to continuous evaluation, are based on historical experience and other factors, including the expectations as to future events, which seem justified in a given situation. The most crucial estimates applied in the preparation of the financial statements are presented below.

Fair value of derivatives

The fair value of financial instruments not quoted on active markets is determined using valuation techniques. If valuation techniques are used to determine the fair values, these methods are periodically assessed and verified. All the models are approved before application. As far as possible, only observable data are used in the models, although in some areas, the entity's management must use estimates. Changes in the assumptions relating to the estimated factors may affect the fair values of financial instruments disclosed.

The Bank applies the following methods of measurement of particular types of derivative instruments:
- fx forwards – discounted cash flows model;
- options - Garman-Kohlhagen model;
- interest rate transactions – discounted cash flows model;
- futures – current quotations.

Impairment of loans

Due to implementing IFRS from 1 January 2005 the Bank has changed the method of estimating impairment of financial assets. The provisions of the Decree of the Finance Minister of 10 December 2003 on the principles for setting up general banking risk provisions (*Journal of Laws* No. 218, item 2147), have been superceded by the requirements of IAS 39.

At each balance sheet date, the Bank assesses whether there is objective evidence of impairment of loan exposures. If so, the Bank records a write-down equal to the difference between the carrying value and the estimated present value of the future cash flows from a given loan exposure. The Bank applies statistical analysis of financial assets in respect of which evidence of impairment has not been identified individually, or in spite of finding the evidence of impairment, the individual assessment of the given asset has not indicated the necessity of recording an impairment write-down.

The Bank's Management Board must use estimates to identify evidence of impairment and calculate the present value of future cash flows. The methodology and assumptions used to determine the impairment level of loans are regularly reviewed and updated, as required.

Impairment of goodwill

On applying IFRS, the Bank has replaced amortization of goodwill with the annual impairment test. In line with the provisions of IFRS 1 regulating the principles of adopting IFRS for the first time, the Bank carried out impairment tests of goodwill which arose on the business combination between Bank Handlowy w Warszawie and Citibank (Polska) S.A. The estimate of goodwill has been performed on the basis of the provisions of IAS 36 concerning determination of the value in use of cash generating units. The tests carried out as at 1 January 2004 (the start of the earliest period for which the Bank presents IFRS comparative figures) and as at 1 January 2005 did not show any impairment.

Employee benefits

Provisions for future payments in respect of employee benefits guaranteed by the collective labor agreement are subject to periodic estimation by an independent actuary.

At each balance sheet date, the Bank estimates the level of the provision related to bonuses granted to the employees in the form of Citigroup stock options. The amount of the provision is determined on the basis of the methodology described in IFRS 2, using an option pricing model. Determination of the provision amount requires application of estimates relating to the expected level of employee rotation, the expected level of dividends paid by Citibank or option execution deadlines.

3. Segment reporting

The Bank's operating activities have been divided into three business segments:

- *Corporate and Investment Bank.* Within the segment, the Bank offers products and renders services to business entities, self-government units and the public sector. Apart from traditional banking services covering lending and deposit activities, the segment provides services in the areas of cash management, trade financing, leases, brokerage and custody services in respect of securities, offers treasury products on financial and commodity markets. Moreover, the segment offers a wide range of investment banking services on the local and international capital markets, including advisory services, obtaining and underwriting of financing via public and non-public issue of financial instruments. The segment activities also comprise transactions on own behalf on the markets of capital, debt and derivative instruments. The Bank's products and services in the Corporate and Investment Bank segment are available through the distribution channels tailored to client needs, both through the branch network, direct contact with customers and modern and effective remote channels – services through the telephone and the electronic banking.
- *Consumer Bank.* The Consumer Bank segment provides products and financial services to individuals. Apart from maintaining bank accounts and providing an extensive lending and deposit offer, the Bank offers credit cards to customers, provides investment advisory services and asset management services, and acts as agent in sale of investment and insurance products. The customers have the branch network, ATMs, telephone services, and electronic banking services at their disposal.
- *Citifinancial.* Through the Citifinancial segment, the Bank offers cash loans and consolidated loans to customers. The segment products are offered via the dynamically developing network of small outlets conveniently located next to housing estates and shopping-centers.

  The valuation of the segment assets and liabilities, income and segment results are based on the Bank's accounting policies contained in the notes describing the adopted accounting policies.

  Transactions between the individual segments of the Bank are concluded on an arm's length basis

  The Bank conducts its operations solely in the territory of Poland and no significant differences in risk were identified as regards the geographical location of its outlets. Therefore, the Bank decided not to present its results by geographical area.

The financial results of the Bank by business segment as of 30 June 2005

In thousands of PLN

Profit and loss account	**Corporate and Investment Bank**	**Consumer Bank**	**Citifinancial**	**Total**
Net interest income	235,173	232,814	45,254	513,241
Net fee and commission income	147,749	114,402	2,788	264,939
Dividend income	2,146	-	-	2,146
Net trading income	9,042	2,112	-	11,154
Net gain on disposal of non-trading financial instruments	102,861	-	-	102,861
FX income	183,327	19,052	-	202,379
Other operating income	20,647	4,602	(40)	25,209
Operating income	**700,945**	**372,982**	**48,002**	**1,121,929**
General administrative expenses	(340,385)	(282,733)	(46,622)	(669,740)
Depreciation expense	(49,170)	(19,840)	(627)	(69,637)
Other operating expense	(25,545)	(6,047)	-	(31,592)
Profit/ (loss) on sale of tangible fixed assets	199	(1,471)	-	(1,272)
Net impairment losses	29,173	(10,535)	(7,498)	11,140
Profit before tax	315,217	52,356	(6,745)	360,828
Corporate income tax				(79,362)
Net profit				281,466

The balance sheet of the Bank by business segment as of 30 June 2005

Balance sheet	**Corporate and Investment Bank**	**Consumer Bank**	**Citifinancial**	**Total**
Assets	32,011,120	2,305,894	439,951	34,756,965
Liabilities	28,214,371	6,435,106	107,488	34,756,965

The financial results of the Bank by business segment as of 30 June 2004

In thousands of PLN

Profit and loss account	**Corporate and Investment Bank**	**Consumer Bank**	**Citifinancial**	**Total**
Net interest income	228,738	209,412	14,836	452,986
Net fees and commissions income	157,259	112,300	915	270,474
Dividends	7,984	-	-	7,984
Net trading income	(32,197)	4,442	-	(27,775)
Net gain on disposal of non-trading financial instruments	21	-	-	21
FX income	226,524	16,410	-	242,934
Other operating income	31,940	3,477	(70)	35,347
Operating income	**620,269**	**346,041**	**15,681**	**981,991**
General administrative expenses	(358,135)	(234,966)	(20,838)	(613,939)
Depreciation expense	(55,265)	(16,644)	(343)	(72,252)
Other operating expense	(11,922)	(5,157)	-	(17,079)
Profit/ (loss) on sale of tangible fixed assets	7,422	(154)	-	7,268
Net impairment write downs	1,082	4,104	(1,184)	4,002
Profit before tax	**203,451**	**93,224**	**(6,684)**	**289,991**
Corporate income tax				(50,840)
Net profit				**239,151**

The balance sheet of the Bank by business segment as of 31 December 2004

Balance sheet	**Corporate and Investment Bank**	**Consumer Bank**	**Citifinancial**	**Total**
Assets	31,441,968	2,030,255	336,908	33,809,131
Liabilities	27,372,676	6,383,743	52,712	33,809,131

4. Net interest income

In thousands of PLN	**01.01. - 30.06 2005**	**01.01-.30.06 2004**
Interest and similar income from:		
Central bank	8,058	1,382
Placements in banks	130,542	47,506
Loans and advances, of which:	521,477	528,450
financial sector	*35,737*	*28,633*
non-financial sector	*485,740*	*499,817*
Financial assets available-for-sale	159,520	158,737
Financial assets held for trading	50,907	55,014
	870,504	**791,089**
Interest expense and similar charges for:		
Central bank	(9)	(148)
Deposits from banks	(38,047)	(45,494)
Deposits from financial sector (excl. banks)	(43,541)	(40,509)
Deposits from non-financial sector	(261,745)	(236,581)
Loans and advances received	(13,921)	(15,371)
	(357,263)	**(338,103)**
Net interest income	**513,241**	**452,986**

For the period ended 30 June 2005 net interest income includes net expenses and charges for operations with central and local government institutions of PLN 6,767 thousand (30 June 2004: PLN 8,693 thousand).

For the period ended 30 June 2005 net interest income includes interest accrued on impaired loans, not yet received of PLN 42,785 thousand (30 June 2004: PLN 125,173 thousand).

5. Net fee and commission income

In thousands of PLN	**01.01.-30.06 2005**	**01.01.-30.06 2004**
Fee and commission income		
Insurance products	65,685	50,807
Payment services	55,446	68,478
Payment and credit cards	43,765	56,023
Custody services	38,472	26,210
Asset and liabilities management	24,479	28,088
Off-balance sheet guarantee liabilities	10,297	13,868
Off-balance sheet financial liabilities	3,277	4,742
Other	58,497	54,417
	299,918	**302,633**

In thousands of PLN	**01.01.-30.06 2005**	**01.01.-30.06 2004**
Fee and commission expense		
Insurance products	(23,541)	(19,591)
Payment and credit cards	(3,628)	(4,483)
Fees paid KDPW	(2,919)	(2,833)
Brokers fees	(1,568)	(923)
Other	(3,323)	(4,329)
	(34,979)	**(32,159)**
Net fee and commission income	**264,939**	**270,474**

6. Dividend income

For the period ended 30 June 2005 dividend income is related to available-for-sale securities amounting to PLN 2,146 thousand (30 June 2004: PLN 7,984 thousand)

7. Net trading income

In thousands of PLN	**01.01.-30.06 2005**	**01.01.-30.06 2004**
Net trading income from:		
Debt instruments and related derivatives	7,825	(32,428)
Equity instruments and related derivatives	1,947	2,826
Commodity instruments and related derivatives	1,382	1,847
	11,154	**(27,755)**

Debt instruments and related derivatives net trading income includes the net results on trading in government securities, corporate debt securities, money market instruments, interest rate and currency swaps, options, futures and other derivatives.

Equity instruments and related derivatives net trading income includes the net result on trading in equity options.

8. Net gain on disposal of non-trading financial instruments

In thousands of PLN	**01.01.-30.06 2005**	**01.01.-30.06 2004**
Profits realized on available-for-sale securities:		
Debt instruments	123,455	33,619
Equity instruments	-	308
	123,455	**33,927**
Losses realized on available-for-sale securities:		
Debt instruments	**(20,594)**	**(33,906)**
Net gain on disposal of non-trading financial instruments	**102,861**	**21**

9. Net profit on foreign exchange

In thousands of PLN	01.01. - 30.06. 2005	01.01. - 30.06. 2004
Net profit on foreign exchange		
Revaluation	341,594	40,547
Currency derivatives exchange	(139,215)	202,387
	202,379	**242,934**

Net profit on foreign exchange includes profit and losses on revaluation of assets and liabilities denominated in foreign currency and currency derivatives such as swap, spot, forward and options.

10. Other operating income

In thousands of PLN	01.01.-30.06 2005	01.01.-30.06 2004
Other operating income		
Investment property	3,741	4,047
rent income from investment property	*2,915*	*3,171*
other	*826*	*876*
Settlement of perpetual usufruct right to land	3,429	3,630
Sale of services	2,417	2,770
Refund of Bank Guarantee Fund charges	1,880	4,310
Non-operating income	809	959
Release of provisions for receivables from sundry debtors	407	1,482
Release of provisions for litigations	316	1,745
Other	12,210	16,404
	25,209	**35,347**

11. General administrative expenses

In thousands of PLN	01.01.-30.06 2005	01.01.-30.06 2004
Staff expenses:		
Wages and salaries	(254,643)	(222,475)
Social security contributions and other benefits	(51,230)	(43,593)
Retirement benefits	(24,420)	(6,258)
Provision for restructuring	-	(25,131)
Payments related to own equity instruments	(6,324)	(8,919)
	(336,617)	**(306,376)**

In thousands of PLN	**01.01.-30.06 2005**	**01.01.-30.06 2004**
Administrative expenses		
Telecommunication expenses	(90,015)	(89,136)
Service expenses	(68,451)	(64,337)
Building maintenance	(29,200)	(29,532)
Rent	(27,875)	(28,838)
Advisory, audit and consulting services expenses	(27,126)	(15,739)
Marketing expenses	(19,691)	(13,062)
Postal services	(8,608)	(8,991)
IT expenses	(6,758)	(4,625)
Training and education	(5,488)	(3,647)
Insurance expenses	(2,365)	(969)
Charges for KIR, BRIR	(2,270)	(3,178)
Bank Guarantee Fund expenses	(1,851)	(3,976)
Other	(43,425)	(41,533)
	(333,123)	**(307,563)**
	(669,740)	**(613,939)**

In the first half of 2005, the Bank increased the provision for employee retirement and jubilee payments to the amount of PLN 17,280 thousand in accordance with the valuation carried out by the independent actuary.

12. Depreciation expense

In thousands of PLN	**01.01.-30.06 2005**	**01.01.-30.06 2004**
Property and equipment	(54,299)	(55,821)
Intangible assets	(15,338)	(16,431)
	(69,637)	**(72,252)**

13. Other operating expenses

In thousands of PLN	**01.01.-30.06 2005**	**01.01.-30.06 2004**
Other operating expenses		
Investment property	(10,578)	(5,366)
Related directly to rental income	*(3,245)*	*(3,633)*
Other expenses	*(7,333)*	*(1,733)*
Creation of provisions for litigations	(5,682)	(1,665)
Donations made	(2,521)	(155)
Vindication expenses	(2,774)	(3,193)
Creation of provisions for receivables from sundry debtors	(2,093)	(1,410)
Other	(7,944)	(5,290)
	(31,592)	**(17,079)**

14. Profit / (loss) on sale of tangible fixed assets

In thousands of PLN	01.01.-30.06 2005	01.01.-30.06 2004
Profits on:		
Tangible fixed assets	1,033	1,184
Investments in subordinated entities	740	7,542
	1,773	**8,726**
Losses on:		
Tangible fixed assets	(3,045)	(428)
Investments in subordinated entities	-	(1,030)
	(3,045)	**(1,458)**
Profit / (loss) on sale o tangible fixed assets	**(1,272)**	**7,268**

15. Net impairment losses

Net impairment write-downs of financial assets

In thousands of PLN	01.01.-30.06 2005	01.01.-30.06 2004
Impairment write-downs:		
Equity investments	(4,558)	(4,124)
Loans and receivables valued at amortized cost (including finance leases)	(339,322)	(464,127)
Other	(25,332)	(2,118)
	(369,212)	**(470,369)**
Reversals of impairment write-downs:		
Equity investments	-	8,350
Loans and receivables valued at amortized cost (including finance leases)	367,979	400,300
Other	3,801	3,769
	371,780	**412,419**
Net impairment write-downs of receivables	**2,568**	**(57,950)**

Net (charges to) / releases of provisions for liabilities

Charges to provisions for off-balance sheet commitments	(19,355)	(85,143)
Releases of provisions for off-balance sheet commitments	27,927	147,095
Net (charges to) / releases of provisions for liabilities	**8,572**	**61,952**
	11,140	**4,002**

16. Income tax expense

Recognized in the income statement

In thousands of PLN	01.01.-30.06 2005	01.01.-30.06 2004
Current tax expense	**(188,579)**	**(135,059)**
Current year	(187,610)	(135,059)
Adjustments for prior years	(969)	-
Deferred tax expense	**109,217**	**84,219**
Origination and reversal of temporary differences	104,974	73,477
Other, including:	4,243	10,742
Movement in receivables arising from tax deductions	(2,093)	10,742
Total income tax expense in income statement	**(79,362)**	**(50,840)**

Reconciliation of effective tax rate

In thousands of PLN	01.01.-30.06 2005	01.01.-30.06 2004
Profit before tax	**360,828**	**289,991**
Income tax using the domestic corporation tax rate	(68,557)	(55,098)
Non-deductible expenses	(12,108)	4,258
Tax exempt revenues	1,303	-
Total tax	**(79,362)**	**(50,840)**

Deferred tax recognised directly in equity

In thousands of PLN	01.01.-30.06 2005	01.01.-30.06 2004
Relating to debt instruments available-for-sale	612	(32,281)

17. Earnings per share

Financial data for calculation of earnings per share

	30.06.2005	30.06.2004
in PLN	**2.15**	**1.83**

The calculation of earnings per share at 30 June 2005 was based on profit attributable to ordinary shareholders of PLN 281,466 thousand (30 June 2004: PLN 239,151 thousand) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2005 of 130,659,600 (30 June 2004: 130,659,600).

The Bank does not have any ordinary shares that may have a dilution impact and therefore there is no requirement for a separate calculation of diluted profit per ordinary share.

18. Cash and balances with the central bank

In thousands of PLN	**30.06.2005**	**31.12.2004**
Cash at hand	284,561	310,650
Current balances with central bank	529,891	530,464
	814,452	**841,114**

On the current account in the National Bank of Poland (NBP), the Bank maintains an obligatory reserve with the declared balance as at 30 June 2005 of PLN 699,661 thousand (31 December 2004: PLN 738,313 thousand).

The Bank may use the obligatory reserve provided that the sum of the average monthly balance on the current account in NBP is not lower than the declared balance.

19. Financial assets and liabilities held for trading

In thousands of PLN	**01.01.-30.06 2005**	**01.01.-30.06 2004**
Financial assets held for trading		
Debt instruments		
Bonds and notes issued by:		
Banks	91,305	152,207
Financial entities	598	-
Non-financial entities	149,501	190,915
Government	2,607,054	860,197
Other debt instruments:		
Banks	28,775	8,520
	2,877,233	**1,211,839**
Listed	*2,563,649*	*841,458*
Unlisted	*313,584*	*370,381*
Derivative instruments	**4,332,478**	**4,105,123**
	7,209,711	**5,316,962**
Financial liabilities held for trading		
Short positions in financial assets	-	268,117
Derivative financial instruments	4,368,480	3,926,173
	4,368,480	**4,194,290**

The total amount of debt instruments held for trading as at 30 June 2005, includes securities with par value of PLN 63,530 thousand which represents the collateral of Bank's liabilities arising from the deposits accepted in relation repurchase transactions on securities (31 December 2004: PLN 250,999 thousand), including:

– corporate bonds with par value of PLN 49 330 thousand (31 December 2004: PLN 162 590 thousand)

– certificates of deposits of banks with par value of PLN 14 200 thousand (31 December 2004: zero)

– bonds of the State Treasury with par value of PLN 88 400 thousand as at 31 December 2004

19. Financial assets and liabilities held for trading continued
Non-matured derivatives as of 30 June 2005

In thousands of PLN	Notional amount with remaining life of					Fair values	
	less than three months	**between three months and one year**	**between one year to five years**	**more than five years**	**Total**	**Assets**	**Liabilities**
Interest rate instruments	**62,850,805**	**70,204,193**	**78,755,396**	**18,535,886**	**230,346,280**	**3,761,280**	**3,770,297**
FRA-purchase	27,967,500	16,856,000	250,000	-	45,073,500	65	86,596
FRA-sale	24,166,000	18,094,000	800,000	-	43,060,000	82,938	174
Interest rate swaps (IRS)	8,831,947	33,531,576	74,624,192	16,583,937	133,571,652	3,489,109	3,528,728
Currency- interest rate swaps (CIRS)	574,132	418,514	3,081,204	451,949	4,525,799	178,004	143,280
Interest rate options purchased	4,000	293,293	-	750,000	1,047,293	10,231	620
Interest rate options sold	4,000	293,293	-	750,000	1,047,293	730	10,341
Future contracts-purchase*	694,857	717,517	-	-	1,412,374	148	177
Future contracts-sale*	608,369	-	-	-	608,369	55	381
Currency instruments	**32,472,836**	**15,442,984**	**880,141**	**-**	**48,795,961**	**555,274**	**581,488**
FX forward	3,043,029	2,267,238	260,056		5,570,323	46,042	114,204
FX swap	24,825,834	6,447,758	221,837		31,495,429	385,652	344,759
Foreign exchange options purchased	2,273,353	3,305,643	199,124		5,778,120	122,430	161
Foreign exchange options sold	2,330,620	3,422,345	199,124		5,952,089	1,150	122,364
Securities transactions	**4,064,326**	**73,460**	**27,922**	**-**	**4,165,708**	**11,710**	**12,481**
Share options (purchase)	25,348	36,730	13,961		76,039	5,570	720
Share options (sale)	25,348	36,730	13,961		76,039	720	5,570
Securities purchased pending delivery	1,854,331	-			1,854,331	4,661	495
Securities sold pending delivery	2,159,299	-			2,159,299	759	5,696
Other (commodity swap)	**4,671**	**67,457**	**2,584**	**-**	**74,712**	**4,214**	**4,214**
Derivative instruments subtotal	**99,392,638**	**85,788,094**	**79,666,043**	**18,535,886**	**283,382,661**	**4,332,478**	**4,368,480**

*Exchange-traded products

19. Financial assets and liablities held for trading continued
Non-matured derivatives as of 31 December 2004

In thousands of PLN	Notional amount with remaining life of					Fair values	
	less than three months	**between three months and one year**	**between one year to five years**	**more than five years**	**Total**	**Assets**	**Liabilities**
Interest rate instruments	**22,540,238**	**46,369,663**	**64,826,626**	**14,597,615**	**148,334,142**	**2,433,870**	**2,334,421**
FRA-purchase	7,094,000	8,156,340	-	-	15,250,340	120	25,515
FRA-sale	8,294,000	8,924,760	-	-	17,218,760	27,650	52
Interest rate swaps	4,397,389	26,267,043	62,818,910	12,806,866	106,290,208	2,146,657	2,060,565
Currency- interest rate swaps	449,882	1,588,138	1,704,716	290,749	4,033,485	236,823	225,029
Interest rate options purchased	866,000	300,000	151,500	750,000	2,067,500	21,816	613
Interest rate options sold	866,000	300,000	151,500	750,000	2,067,500	723	21,933
Future contracts-purchase*	553,701	833,382	-	-	1,387,083	89	630
Future contracts-sale*	19,266	-	-	-	19,266	-	83
Currency instruments	**19,672,277**	**18,668,194**	**4,080,356**	**-**	**42,420,827**	**1,651,938**	**1,572,406**
FX forward	1,108,717	2,085,222	866,760		4,060,699	149,200	226,650
FX swap	14,755,420	11,540,330	2,642,009		28,937,759	1,357,289	1,202,106
Foreign exchange options purchased	1,845,459	2,492,827	280,020		4,618,306	127,208	11,144
Foreign exchange options sold	1,962,681	2,549,815	291,567		4,804,063	18,241	132,506
Securities transactions	**713,912**	**137,146**	**82,660**	**-**	**933,718**	**16,090**	**16,129**
Share options (purchase)	67,100	68,573	41,330		177,003	11,133	3,921
Share options (sale)	67,100	68,573	41,330		177,003	3,921	11,133
Securities purchased pending delivery	238,033	-	-		238,033	323	887
Securities sold pending delivery	341,679	-	-		341,679	713	188
Other (commodity swap)	**237,679**	**-**	**-**	**-**	**237,679**	**3,217**	**3,217**
Derivative instruments subtotal	**43,164,106**	**65,175,003**	**68,989,642**	**14,597,615**	**191,926,366**	**4,105,123**	**3,926,173**

*Exchange-traded products

Foreign currency contracts

The table below summarises, by major currency, the contractual amounts of forward, swap and options contracts, with details of the contracted exchange rates and remaining periods to maturity. Foreign currency amounts are translated at rates ruling at the balance sheet date.

	Weighted average contracted exchange rates		Notional amount	
In thousands of PLN	**30.06.2005**	**31.12.2004**	**30.06.2005**	**31.12.2004**
Buy Euro				
Less than three months	4.1985	4.3664	3,443,450	3,529,141
Between three months and one year	4.2896	4.3925	3,883,665	3,416,974
More than one year	4.4083	4.5377	271,471	418,912
Sell Euro				
Less than three months	4.1817	4.3703	3,175,995	3,306,978
Between three months and one year	4.2623	4.3463	3,737,685	3,270,292
More than one year	4.3307	4.4525	258,114	371,416
Buy US Dollars				
Less than three months	3.3195	3.2323	11,326,178	7,547,547
Between three months and one year	3.2730	3.5377	3,300,223	4,251,151
More than one year	3.2334	4.2113	263,104	16,836
Sell US Dollars				
Less than three months	3.3296	3.2086	14,930,656	11,013,16
Between three months and one year	3.3013	3.5062	3,782,820	4,211,646
More than one year	3.4101	3.9730	67,591	5,981
Buy Switzerland Franc				
Less than three months	2.6104	2.6413	275,316	274,324
Sell Switzerland Franc				
Less than three months	2.6102	2.6381	456,969	525,638
Buy Pound Sterling				
Less than three months	5.9936	5.7935	170,513	9,026
Between three months and one year	5.9861	-	390,186	-
Sell Pound Sterling				
Less than three months	5.9867	5.9357	125,285	2,408
Between three months and one year	6.0202	-	331,743	-

20. Financial assets available for sale

In thousands of PLN	**30.06.2005**	**31.12.2005**
Debt instruments		
Bonds and notes issued by:		
Central bank	2,280,724	384,287
Government	2,831,729	5,706,907
	5,112,453	**6,091,194**
Listed instruments	*2,801,122*	*5,421,877*
Unlisted instruments	*2,311,331*	*669,317*

The total amount of debt instruments available-for-sale as of 30 June 2005, includes PLN 28,620 thousand which represents collateral of the Bank's liabilities (31 December 2004: PLN 223,280 thousand), including:

– T-bills of par value of PLN 28,620 thousand representing collateral of liabilities due to the Bank Guarantee Fund (31 December 2004: PLN 54,280 thousand),

– Bonds of the State Treasury with par value of PLN 169,000 thousand as of 31 December 2004, representing the security of the Bank's liabilities arising from deposits accepted from repurchase transactions on securities;

The total amount of debt instruments available-for-sale includes bonds of the National Bank of Poland with a nominal value of PLN 366,665 thousand, purchased on 28 February 2002, in connection with the reduction of the rates of mandatory reserves maintained by banks in NBP. These bonds include bearer bonds bearing interested calculated according to the interest rate established on the basis of the profitability of 52-week T-bills.

The movement in financial assets available-for-sale is as follows:

In thousands of PLN	**30.06.2005**	**31.12.2004**
As of 1 January	**6,091,194**	**2,723,471**
Increases (in respect of)		
Purchases	23,161,279	33,682,443
FX differences	71,300	-
amortisation of discount, premium and interest	46,124	144,970
Decreases (in respect of)		
Purchases	(24,156,106)	(30,000,851)
Revaluation	(39,410)	(3,292)
FX differences	-	(430,154)
amortisation of discount, premium and interest	(61,928)	(25,393)
Closing balance	**5,112,453**	**6,091,194**

21. Equity investments

In thousands of PLN	**30.06.2005**	**31.12.2004**
Stocks and shares in subordinated entities	295,862	304,482
Stocks and shares in associated entities	4,012	93,590
Stocks and shares in other entities	67,045	67,045
Impairment	(43,356)	(132,606)
	323,563	**332,511**
Listed instruments	*344*	*344*
Unlisted instruments	*323,219*	*332,167*

The movement in equity investments is as follows:

In thousands of PLN	**Subordinated entities**	**Associated entities**	**Other entities**	**Total**
As of 1 January 2005	**300,423**	**4,340**	**27,748**	**332,511**
Decreases (in respect of)				
purchases	(4,062)	(328)	-	(4,390)
revaluation	(4,558)	-	-	(4,558)
As of 30 June 2005	**291,803**	**4,012**	**27,748**	**323,563**

In thousands of PLN	**Subordinated entities**	**Associated entities**	**Other entities**	**Total**
As of 1 January 2004	**338,218**	**17,711**	**23,633**	**379,562**
Effects of transition to IFRS	(48,319)	(7,371)		(55,690)
As of 1 January after opening balance transformation	**289,899**	**10,340**	**23,633**	**323,872**
Increases (in respect of)				
purchases	-	-	476	476
revaluation	17,353	-	-	17,353
reclassified from associated shares	-	-	4,715	4,715
Decreases (in respect of)				
purchases	-	(1,285)	(1,076)	(2,361)
revaluation	(797)	-	-	(797)
FX differences	(6,032)	-	-	(6,032)
reclassified to minority shares	-	(4,715)	-	(4,715)
As of 31 December 2004	**300,423**	**4,340**	**27,748**	**332,511**

Financial information on subordinates
30.06.2005

In thousands of PLN

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Relationship other than mentioned in basis for control / significant influence	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
CITILEASING Sp. z o.o. 1/	Warsaw	Leasing	Subsidiary undertaking	97.47	Indirect relationship- see note below the table	120,000	183,672	12,532	171,140	5,134	4,009
DOM MAKLERSKI BANKU HANDLOWEGO SA	Warsaw	Brokerage	Subsidiary undertaking	100.00		70,950	657,544	567,252	90,292	44,633	13,826
BANK ROZWOJU CUKROWNICTWA S.A.	Poznań	Banking	Subsidiary undertaking	100.00		40,255	44,543	318	41,599	1,843	1,040
HANDLOWY- INVESTMENTS S.A. 2/	Luksembourg	Investment activity	Subsidiary undertaking	100.00		-	89,141	157,504	(68,363)	-	2,594
TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH BH S.A.	Warsaw	Investment activity	Subsidiary undertaking	100.00		22,843	31,933	1,934	28,725	20,199	5,280
HANDLOWY - INVESTMENTS II S.a.r.l.	Luksembourg	Investment activity	Subsidiary undertaking	80.97	Indirect relationship- see note below the table	15,691	34,605	23,982	10,623	-	(468)
PPH SPOMASZ Sp. z o.o. w likwidacji	Warsaw	Production of catering and trading equipment	Subsidiary undertaking	100.00		9,442	Entity under liquidation				
HANDLOWY INWESTYCJE Sp. z o.o. 3/	Warsaw	Investment activity	Subsidiary undertaking	100.00		8,070	16,296	6,256	10,040	-	682
HANDLOWY ZARZĄDZANIE AKTYWAMI S.A.	Warsaw	Brokerage	Subsidiary undertaking	100.00		4,366	6,057	383	4,664	4,387	97
POLSKIE PRACOWNICZE TOWARZYSTWO EMERYTALNE DIAMENT S.A. w likwidacji	Warsaw	Insurance	Subsidiary undertaking	79.27		186	Entity under liquidation				
HANDLOWY HELLER S.A.	Warsaw	Factoring	Joint-venture	25.00	Indirect relationship- see note below the table	2,752	451,092	422,853	28,239	21,641	3,469
KP KONSORCJUM Sp. z o.o.	Warsaw	Investment fund management	Associated undertaking	49.99		1,260	22,052	4,055	17,997	3,157	(54)
Total						**295,815**	**1,536,935**	**1,197,069**	**334,956**	**100,994**	**30,475**

The explanation of indirect relationships:

1/ Indirect relationship via Citileasing Sp. z o.o.

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Relationship other than mentioned in basis for control / significant influence	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY LEASING S.A.	Warsaw	Leasing, rent and hire purchase of real estate	Subsidiary undertaking	100.00		3,125	744,262	733,369	10,893	29,179	9,831

2/ Indirect relationship via Handlowy Investments S.A

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Relationship other than mentioned in basis for control / significant influence	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY - INVESTMENTS II S.a.r.l.	Luksembourg	Investment activity	Subsidiary undertaking	19.03		1,959	34,604	23,982	10,623	-	(468)
NIF FUND HOLDINGS PCC Ltd.	Guernsey	Investment activity	Associated undertaking	23.86		17,308	no data available	no data available	no data available	no data available	no data available

3/ Indirect relationship via Handlowy Inwestycje Sp. z o.o.

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Relationship other than mentioned in basis for control / significant influence	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
CITILEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	2.53		3,125	183,672	12,532	171,140	5,134	4,009
HANDLOWY HELLER S.A.	Warsaw	Factoring	Joint-venture	25.00		3,558	451,092	422,853	28,239	21,641	3,469

The financial data of individual entities available at the time of preparation of these statements and originating from non-audited financial statements of the respective entities were presented

31.12.2004

In thousands of PLN

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Relationship other than mentioned in basis for control / significant influence	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
CITILEASING Sp. z o.o. [1/]	Warsaw	Leasing	Subsidiary undertaking	97.47	Indirect relationship- see note below the table	120,000	189,273	21,308	167,410	13,122	3,580
DOM MAKLERSKI BANKU HANDLOWEGO SA	Warsaw	Brokerage	Subsidiary undertaking	100.00		70,950	361,542	261,653	93,266	62,876	18,261
BANK ROZWOJU CUKROWNICTWA S.A.	Poznań	Banking	Subsidiary undertaking	100.00		40,255	43,927	313	40,559	2,880	1,877
HANDLOWY- INVESTMENTS S.A. [2/]	Luksembourg	Investment activity	Subsidiary undertaking	100.00		-	118,777	189,567	(70,790)	-	(18,193)
TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH BH S.A.	Warsaw	Investment activity	Subsidiary undertaking	100.00		22,843	26,839	2,796	23,446	24,577	6,315
HANDLOWY - INVESTMENTS II S.a.r.l.	Luksembourg	Investment activity	Subsidiary undertaking	80.97	Indirect relationship- see note below the table	20,249	34,616	23,427	11,189	-	797
PPH SPOMASZ Sp. z o.o. w likwidacji	Warsaw	Production of catering and trading equipment	Subsidiary undertaking	100.00		9,442	Entity under liquidation				
HANDLOWY INWESTYCJE II Sp. z o.o. [3/]	Warsaw	Investment activity	Subsidiary undertaking	100.00		4,061	4,100	26	4,074	-	175
HANDLOWY INWESTYCJE Sp. z o.o. [3/]	Warsaw	Investment activity	Subsidiary undertaking	100.00		8,070	15,307	6,054	9,253	-	706
HANDLOWY ZARZĄDZANIE AKTYWAMI S.A.	Warsaw	Brokerage	Subsidiary undertaking	100.00		4,366	6,352	630	4,567	6,524	(412)

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Relationship other than mentioned in basis for control / significant influence	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
POLSKIE PRACOWNICZE TOWARZYSTWO EMERYTALNE DIAMENT S.A. w likwidacji	Warsaw	Insurance	Subsidiary undertaking	79.27		186	Entity under liquidation				
HANDLOWY HELLER S.A.	Warsaw	Factoring	Joint-venture	25.00	Indirect relationship- see note below the table	2,752	395,842	368,739	27,103	37,161	6,091
MOSTOSTAL ZABRZE HOLDING S.A.	Zabrze	Production and service construction industry	Associated undertaking	34.44		-	140,045	229,127	(94,250)	42,591	(21,159)
KP KONSORCJUM Sp. z o.o.	Warsaw	Investment fund management	Associated undertaking	49.99		1,260	28,017	9,966	18,051	15,553	(5,510)
CREDITREFORM PL Sp. z o.o.	Warsaw	Business investigation agency	Associated undertaking	49.03		329	627	318	308	5,173	132
Total						**304,763**	**1,365,264**	**1,113,924**	**234,186**	**210,437**	**(7,340)**

The explanation of indirect relationships:

1/ Indirect relationship via Citileasing Sp. z o.o.

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Relationship other than mentioned in basis for control / significant influence	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY LEASING S.A.	Warsaw	Leasing, rent and hire purchase of real estate	Subsidiary undertaking	100.00		3,125	755,202	727,980	25,671	98,895	21,920

2/ Indirect relationship via Handlowy Investments S.A.

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Relationship other than mentioned in basis for control / significant influence	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY - INVESTMENTS II S.a.r.l.	Luksembourg	Investment activity	Subsidiary undertaking	19.03		3,149	34,616	23,427	11,189	-	797
NIF FUND HOLDINGS PCC Ltd.	Guernsey	Investment activity	Associated undertaking	23.86		17,475	83,928	3,316	80,612	29,644	26,669

3/ Indirect relationship via Handlowy Inwestycje Sp. z o.o

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Relationship other than mentioned in basis for control / significant influence	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
CITILEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	2.53		3,125	189,273	21,308	167,410	13,122	3,580
HANDLOWY HELLER S.A.	Warsaw	Factoring	Joint-venture	25.00		3,558	395,842	368,739	27,103	37,161	6,091

The financial data of individual entities available at the time of preparation of these statements and originating from non-audited financial statements of the respective entities were presented excluding Handlowy Investments S.A., Handlowy Investments II S.a.r.l. and NIF Fund Holdings PCC Ltd.

22. Loans and advances

Loans and advances (by category)

In thousands of PLN	**30.06.2005**	**31.12.2004**
Loans and advances to financial sector		
Current accounts of banks	45,598	89,761
Loans, placements and advances, including:	9,036,213	8,412,131
placements in other banks and other monetary financial institutions	*7,480,005*	*7,043,329*
Purchased receivables	15,217	12,710
Realised guarantees	281	251
Receivables subject to securities sale and repurchase agreements	-	292,849
Other receivables	3,767	3,000
	9,101,076	8,810,702
Impairment write-offs	(144,230)	(135,103)
	8,956,846	**8,675,599**
Loans and advances to non-financial sector		
Loans and advances	11,181,577	10,423,355
Purchased receivables	211,573	163,989
Realised guarantees	65,240	66,781
Other receivables	2,719	506
	11,461,109	10,654,631
Impairment write-offs	(1,787,960)	(1,597,345)
	9,673,149	**9,057,286**
Accrued interest	**255,982**	**765,884**
Loans and other receivables	**18,885,977**	**18,498,769**

As of 30 June 2005 the total amount of receivables from non-financial sector was PLN 67 thousand, representing receivables from central and local government institutions (31 December 2004: PLN 1,277 thousand)

Loans and advances- gross (by time to maturity)

In thousands of PLN	**30.06.2005**	**31.12.2004**
Loans and advances to financial sector		
up to 1 month	5,946,251	6,625,957
1 month- 3 months	457,145	725,737
3 months- 1 year	1,896,325	1,132,631
1 year- 5 years	714,356	313,668
over 5 years	86,999	12,709
	9,101,076	**8,810,702**

Loans and advances to non-financial sector		
up to 1 month	7,040,928	6 614 710
1 month- 3 months	672,989	589 044
3 months- 1 year	1,364,947	1 520 815
1 year- 5 years	2,193,487	1 789 415
over 5 years	188,758	140 647
	11,461,109	**10 654 631**
Loans and advances- gross	**20,562,185**	**19 465 333**

The Bank does not act as a lessor under finance leases

23. Impairment of loans and advances

The movement in impairment of loans and advances is as follows:

In thousands of PLN	**2005**	**2004**
1 January	**1,732,448**	**1,620,987**
Related to:		
Receivables from monetary financial institutions	9,751	12,196
Receivables from other customers of financial, non-financial and central and local government sector	1,722,697	1,608,791
Effects of transition to IFRS	76,556	-
1 January - after restatement of opening balance	1,809,004	1,620,987
Change of impairment write downs	123,186	111,461
Charges	339,322	901,818
Write-offs	(11,629)	(152,600)
Amounts released	(367,979)	(641,181)
Other	163,472	3,424
Closing balance	**1,932,190**	**1,732,448**
Related to:		
Receivables from monetary financial institutions	11,437	9,751
Receivables from other customers of financial, non-financial and central and local government sector	1,920,753	1,722,697

As of 30 June 2005 closing balance of impairment recognized on loans and advances to clients consisted of:

In thousands of PLN	
Portfolio impairment loss	431,561
Individual impairment loss	1,431,462
Incurred but not reported losses	69,167

In comparable periods the Bank calculated loan loss provisions based on the Ordinance of the Minister of the Finance, dated 10 December 2003 on creating provisions for risk related to banking operations.

24. Property and equipment

Land, buildings and equipment

In thousands of PLN

	Land and buildings	Vehicles	Other	Under construction	Total
Cost					
Balance as of 1 January 2004	**760,298**	**56,032**	**671,315**	**18,201**	**1,505,846**
Additions:					
Purchases	2,149	-	32,327	60,310	94,786
Reclassification	17,348	18,161	18,957	-	54,466
Other increases	-	-	3,068	-	3,068
Disposals:					
Disposals	(176)	(11,769)	(2,224)	-	(14,169)
Reclassification	-	-	-	(74,642)	(74,642)
Other decreases	(13,383)	(319)	(62,772)	-	(76,474)
Balance as of 31 December 2004	**766,236**	**62,105**	**660,671**	**3,869**	**1,492,881**
Balance as of 1 January 2005	**766,236**	**62,105**	**660,671**	**3,869**	**1,492,881**
Effects of transition to IFRS	(41,249)	-	-	-	(41,249)
As of 1 January - after restatement of opening balance	**724,987**	**62,105**	**660,671**	**3,869**	**1,451,632**
Additions:					
Purchases	750	17	22,475	28,293	51,535
Reclassification	8,523	11,685	5,519	-	25,727
Other increases	-	-	3,310	-	3,310
Disposals:					
Disposals	-	(7,583)	(1,275)	-	(8,858)
Reclassification	-	-	-	(26,964)	(26,964)
Other decreases	(5,178)	(78)	(24,094)	(262)	(29,612)
Balance as of 30 June 2005	**729,082**	**66,146**	**666,606**	**4,936**	**1,466,770**
Depreciation and amortization					
Balance as of 1 January 2004	**177,840**	**23,492**	**538,678**	**-**	**740,010**
Increases:					
Depreciation charge for the period	38,524	11,254	69,965	-	119,743
Other increases	-	-	2,232	-	2,232
Decreases:					
Disposals	(175)	(8,781)	(2,217)	-	(11,173)
Other decreases	(9,325)	(114)	(61,893)	-	(71,32)
Balance as of 31 December 2004	**206,864**	**25,851**	**546,765**	**-**	**779,480**
Balance as of 1 January 2005	**206,864**	**25,851**	**546,765**	**-**	**779,480**
Effects of transition to IFRS	(17,554)	-	-		(17,554)
As of 1 January - after restatement of opening balance	**189,310**	**25,851**	**546,765**	**-**	**761,926**
Increases:					
Depreciation charge for the year	19,492	6,235	28,649	-	54,376
Other increases	238	-	3,318	-	3,556
Decreases:					
Disposals	-	(5,781)	(503)	-	(6,284)
Other decreases	(3,360)	(64)	(22,603)	-	(26,027)
Balance at 30 June 2005	**205,680**	**26,241**	**555,626**	**-**	**787,547**

Impairment losses					
Balance at 1 January 2004	**1,453**	**-**	**238**	**-**	**1,691**
Increases					
Decreases					
Balance at 31 December 2004	**1,453**	**-**	**238**	**-**	**1,691**
Balance at 1 January 2005	**1,453**	**-**	**238**	**-**	**1,691**
Increases					
Decreases					
Balance at 30 June 2005	**1,453**	**-**	**238**	**-**	**1,691**
Carrying amounts					
At 1 January 2004	581,005	32,540	132,399	18,201	764,145
At 31 December 2004	557,919	36,254	113,668	3,869	711,710
At 1 January 2005	534,224	36,254	113,668	3,869	688,015
At 30 June 2005	521,949	39,905	110,742	4,936	677,532

Investment properties

In thousands of PLN	**01.01.-30.06. 2005**	**01.01.-30.06. 2004**
As of 1 January	**-**	**-**
Effects of transition to IFRS	54,923	-
As of 1 January - after restatement	**54,923**	**-**
Decreases:		
Impairment losses	(5,589)	-
Other decreases	(183)	-
Closing balance	**49,151**	**-**

In the opening balance sheet in 2005, the Bank identified certain property taken over for debts and own property as investment properties. As a result of identification of investment property, the positive difference between the fair value of a given property and its carrying value at the moment of identification was recorded as an adjustment to retained earnings amounting to PLN 7,881 thousand.

25. Intangible assets

In thousands of PLN	Goodwill	Patents and trademarks	Software	Other intangible assets	Prepay-ments	Total
Balance as of 1 January 2004	**1,448,907**	**740**	**166,972**	**-**	**288**	**1,616,907**
Additions:						
Purchases	-	-	16,048	-	-	16,048
Investments	-	-	-	-	5,907	5,900
Reclassification	-	-	21,135	-	-	21,135
Disposals:						
Disposals	-	-	-	-	(5,289)	(5,289)
Other decreases	-	-	-	-	(799)	(799)
Balance as of December 2004	**1,448,907**	**740**	**204,155**	**-**	**107**	**1,653,909**

Balance as of 1 January 2005	**1,448,907**	**740**	**204,155**	**-**	**107**	**1,653,909**
Additions:						
Purchases	4,876	-	3,845	20,589	-	29,310
Investments	-	-	-	-	3,751	3,751
Reclassification	-	-	175	-	-	175
Disposals:						
Other decreases	-	-	-	-	(186)	(186)
Balance as of 30 June 2005	**1,453,783**	**740**	**208,175**	**20,589**	**3,672**	**1,686,959**
Depreciation and amortization						
Balance as of 1 January 2004	205,262	410	116,223	-	-	321,895
Increases:						
Depreciation charge for the period	-	126	22,310	-	-	22,435
Balance as of 31 December 2004	**205,262**	**536**	**138,533**	**-**	**-**	**344,330**
Balance as of 1 January 2005	**205,262**	**536**	**138,533,**	**-**	**-**	**344,330**
Increases:						
Depreciation charge for the period	-	58	14,276	1,004	-	15,338
Balance as of 30 June 2005	**205,262**	**594**	**152,809**	**1,004**	**-**	**359,668**
Carrying amounts						
At 1 January 2004	1,243,645	330	50,749	-	288	1,295,012
At 31 December 2004	1,243,645	204	65,622	-	107	1,309,578
At 1 January 2005	1,243,645	204	65,622	-	107	1,309,578
At 31 June 2005	1,248,521	147	55,366	19,585	3,672	1,327,290

As of 30 June 2005, goodwill includes the amount of PLN 1,243,645 thousand arising from the merger of the Bank and Citibank (Poland) S.A. as of 28 February 2001 and the amount of PLN 4,876 thousand arising from the purchase of part of the activity of ABN AMRO Bank (Poland) S.A. as of 28 February 2005. As of 1 January 2004, as required by IFRS, the Bank ceased to make write-downs of goodwill, and replaced them with the impairment test.
In addition, the amount of PLN 19,585 thousand has been presented in the balance sheet as other intangible assets as a result of the purchase of an organised part of enterprise from ABN AMRO Bank (Poland) S.A.

26. Impairment test for goodwill

For the purpose of carrying out impairment tests, goodwill has been allocated to cash generating units: Corporate and Investment Bank and Consumer Bank. In both cases the allocated goodwill is significant in comparison to the total book value of goodwill.

The allocation of goodwill, which arose on the business combination between Bank Handlowy w Warszawie and Citibank (Poland) S.A. to cash generating units, is presented in the table below. The table excludes the goodwill arising from the purchase of an organised part of enterprise from ABN Amro Bank (Poland) S.A.

In thousands of PLN	**The book value of goodwill aallocated to the unit**
Corporate and Investment Bank	849,613
Consumer Bank	394,032
	1,243,645

The base of valuation of recoverable amount is the value in use, assessed on the basis of a detailed, precise and reliable five-year financial plan approved by the Supervisory Board.

The discount rate, which is equivalent to the required rate of return has been used in the valuation. Required rate of return is assessed on the basis of capital assets pricing model using beta coefficient for banking sector, return on WIG index and Treasury bond yield curves.

Extrapolation of cash flow, which exceeds the five-year period covered by financial plan, has been based on growth rates reflecting:

- in Corporate and Investment Bank: continuation of the growth rate as in detailed financial projection
- in Consumer Bank: long-term NBP inflation target

The applied growth rates do not exceed the long-term average growth rates appropriate to the commercial and retail banking sector in Poland

Management believes that any reasonably possible changes in the key assumptions adopted in the valuation of recoverable amount of cash generating units, would not cause their book value to exceed their recoverable amount.

27. Deferred income tax assets and liabilities

In thousands of PLN	**30.06.2005**	**31.12.2004**
Deferred income tax assets*		
Current	-	-
Deferred	176,768	237,205
	176,768	**237,205**

In thousands of PLN	**30.06.2005**	**31.12.2004**
Deferred income tax liabilities*		
Current	3,358	23,509
Deferred	-	-
	3,358	**23,509**

* Deferred income tax assets and provision are shown in total in the balance sheet.

Positive and negative periodical changes adopted to calculation of deferred income tax assets and provision are presented below

Deferred tax assets are attributable to the following:

In thousands of PLN	**30.06.2005**	**31.12.2004**
Interest accrued and other expense	63,173	43,855
Loan loss provisions	176,743	168,504
Other	99,848	59,972
Unrealised premium	6,380	5,629
Unrealised financial instruments valuation expenses	834,172	738,782
Income collected in advance	8,530	11,556
Provisions for shares	20,958	33,354
Adjustments of fixed assets revaluation	1,063	-
Commission	16,888	14,542
Deferred tax assets	**1,227,755**	**1,076,194**

Deferred tax provisions are attributable to the following:

In thousands of PLN	**30.06.2005**	**31.12.2004**
Interest accrued (income)	28,636	27,060
Unrealised premium from options	45	26
Unrealised financial instruments valuation income	824,648	775,058
Unrealised securities discount	4,255	2,383
Investment relief	23,332	23,754
Provisions for deferred tax liabilities	166,997	-
Other	3,074	10,708
Deferred tax provisions	**1,050,987**	**838,989**

Movement in temporary differences during the year

In thousands of PLN	**Balance 1 Jan 2004**	**Recognised in income**	**Recognised in equity**	**Balance 31 Dec 2004**
Interest accrued and other expense	52,748	(8,893)	-	43,855
Loan loss provisions	144,901	23,603	-	168,504
Other	39,229	22,941	-	62,170
Unrealised premium	5,129	500	-	5,629
Unrealised financial instruments valuation expenses	631,117	107,665		738,782
Income collected in advance	7,427	4,129	-	11,556
Provisions for shares	63,229	(29,875)	-	33,354
Commission	16,063	(1,521)	-	14,542
Debt securities available for sale	(10,023)		7,825	(2,198)
	949,820	**118,549**	**7,825**	**1,076,194**

In thousands of PLN	**Balance 1 Jan 2004**	**Recognised in income**	**Recognised in equity**	**Balance 31 Dec 2004**
Interest accrued (income)	17,647	9,413	-	27,060
Unrealised premium from options	52	(26)	-	26
Unrealised financial instruments valuation income	682,043	93,015	-	775,058
Unrealised securities discount	727	1,656	-	2,383
Investment relief	24,822	(1,068)	-	23,754
Other	5,408	5,300	-	10,708
	730,699	**108,290**	**-**	**838,989**

In thousands of PLN	**Balance 1 Jan 2005**	**Recognised in income**	**Recognised in equity**	**Balance 30 Jun 2004**
Interest accrued and other expense	43,855	19,318	-	63,173
Loan loss provisions	168,504	8,239	-	176,743
Other	62,170	39,290	-	100,460
Unrealised premium	5,629	751	-	6,380
Unrealised instruments valuation expenses	738,782	95,390	-	834,172
Income collected in advance	11,556	(3,026)	-	8,530
Provisions for shares	33,354	(12,396)	-	20,958
Adjustments of fixed assets revaluation	-	1,063	-	1,063
Commission	14,542	2,346	-	16,888
Debt securities available for sale	(2,198)		1,586	(612)
	1,076,194	**149,975**	**1,586**	**1,227,755**

In thousands of PLN	**Balance 1 Jan 2005**	**Recognised in income**	**Recognised in equity**	**Balance 30 Jun 2004**
Interest accrued (income)	27,060	1,576	-	28,636
Unrealised premium from options	26	19	-	45
Unrealised instruments valuation income	775,058	49,590	-	824,648
Unrealised securities discount	2,383	1,872	-	4,255
Investment relief	23,754	(422)	-	23,332
Deferred income tax provision	-	-	-	166,997
Other	10,708	(7,634)	-	3,074
	838,989	**45,001**	-	**1,050,987**

28. Other assets

In thousands of PLN	**30.06.2005**	**31.12.2004**
Repossessed assets	-	23,425
Interbank settlements	11,830	14,729
Settlements related to trade in securities	-	1,468
Settlements related to operations on derivative instruments	695	220,995
Accounts receivable	5,865	23,554
Staff loans out of the Social Fund	38,915	39,581
Sundry debtors	72,240	64,239
Prepayments	41,735	81,741
Other assets	8,788	356
	180,068	**470,008**

As of 30 June 2005 settlements of operations on derivative instruments included funds hedging derivative transactions amounting to PLN 669 thousand, representing pledges and assignments (31 December 2004: PLN 215,578 thousand).

29. Financial liabilities valued at amortized cost

Financial liabilities valued at amortized cost (by category)

In thousands of PLN	**30.06.2005**	**31.12.2004**
Deposits		
Financial sector		
Current accounts, including:	1,196,032	721,487
current accounts of banks and other monetary financial institutions	*1,194,215*	*720,855*
Term deposits, including:	4,125,044	3,093,182
term deposits of banks and other monetary financial institutions	*1,638,702*	*849,460*
	5,321,076	**3,814,669**
Non-financial sector		
Current accounts, including:	4,830,363	4,126,203
corporate customers	*2,570,832*	*2,284,398*
individual customers	*1,587,092*	*1,324,039*
Term deposits, including:	11,440,651	12,726,898
corporate customers	*7,153,135*	*7,833,795*
individual customers	*3,487,092*	*4,032,425*
	16,271,014	**16,853,101**
Deposits	**21,592,090**	**20,667,770**

In thousands of PLN	**30.06.2005**	**31.12.2004**
Other liabilities		
Loans and advances received	263,481	446,824
Liabilities in respect of securities subject to sale and repurchase agreements	63,008	408,361
Other liabilities, including:	480,711	393,653
cash collateral	*402,901*	*345,110*
Other liabilities	**807,200**	**1,248,838**
Accrued interest	**55,990**	**57,720**
	22,455,280	**21,974,328**

As of 30 June 2005 the total amount of non-financial sector deposits was PLN 489,909 thousand. The amount was related to central and local government institutions deposits (31 December 2004: PLN 531,002 thousand)

Financial liabilities valued at amortized cost (by time to maturity)

In thousands of PLN	**30.06.2005**	**31.12.2004**
Financial liabilities valued at amortized cost, of which		
Financial sector		
up to 1 month	4,266,158	3,783,763
1 month - 3 months	343,617	65,090
3 months - 1 year	920,737	562,358
1 year - 5 years	77,271	93,700
over 5 years	39,062	20,475
	5,646,845	**4,525,386**
Non-financial sector		
up to 1 month	14,162,593	14,129,131
1 month - 3 months	1,299,898	1,845,209
3 months - 1 year	974,805	1,012,962
1 year - 5 years	313,920	403,762
over 5 years	1,229	158
	16,752,445	**17,391,222**
	22,399,290	**21,916,608**

The liabilities arising from deposits accepted, presented in above Note and arising from reverse repurchase transactions on securities, were secured by debt securities. The type and value of debt securities representing the security of these liabilities are presented in information under Notes 19 and 20.

30. Financial liabilities from transfers of financial assets

Financial liabilities connected with transfers of financial assets relate to current account balances subject to offsetting operations – "Cash Pooling". Cash Pooling involves the consolidation of balances of product participants who, as a rule, are affiliated companies ("Participants"). Participants designate one of the companies as the settlement unit in the group ("Agent"). At the end of each business day, the Bank transfers available assets from the accounts of Participants ("Principal Accounts") to the Agent's account ("Consolidation Account"). Assets available in the Agent's account are transferred to those accounts of Participants that show negative balances up to the debit balance. The Bank carries out such operations under loan agreements that are concluded between the Agent and each Participant after recording all the incoming and outgoing transactions.

On the next business day, in the morning, the Bank effects return transfers (repayment of loans). When performing a Cash Pooling agreement, the Bank is authorized, under an instruction received by the Bank, to realize such transfers (from Participants with negative balances to the Agent and from the Agent to Participants with positive balances). The above operations are carried out to reflect the net balance of the entire group of Participants in the Consolidation Account of the Agent at the end of a day. For customers, Cash Pooling generates savings and allows them to utilize their financial assets more efficiently, as well as to improve the management of liquidity of the Participants. Cash Pooling is aimed at the minimization of funding costs coupled with the maximization of benefits generated by the customer's own cash.

31. Provisions

In thousands of PLN	**30.06.2005**	**31.12.2004**
For disputes	18,731	13,365
For off-balance sheet commitments	37,846	39,268
For general risk	-	164,000
	56,577	**216,717**

As of 1 January 2005, following the adoption of IFRS, the Bank ceased recognition of its provision for general banking risk. This category was replaced by provision for incurred but unrecognised losses, which is included in impairment of receivables from customer.

The movements in provisions is as follows:

In thousands of PLN	**2005**	**2004**
Balance at 1 January 2005	**216,717**	**311,331**
Provisions for:		
Disputes	13,365	2,312
Off-balance sheet commitments	39,352	145,019
General risk	164,000	164,000
Effects of transition to IFRS	(156,935)	-
As of 1 January after opening balance transformation	**59,782**	**311,331**
Movements in provisions:		
Charges to provisions:	25,037	200,631
for off-balance sheet liabilities	19,355	186,008
for litigations	5,682	14,623
Use of provisions	-	(1,207)
Release of provisions:	(28,242)	(294,038)
for off-balance sheet liabilities	(27,926)	(291,675)
for litigations	(316)	(2,363)
Balance at 30 June 2005	**56,577**	**216,717**
Provisions for:		
Litigations	18,731	13,365
Off-balance sheet liabilities	37,846	39,352
General risk	-	164,000

32. Other liabilities

In thousands of PLN	**30.06.2005**	**31.12.2004**
Staff benefits	69,722	67,609
Interbank settlements	312,406	65,804
Interbranch settlements	2,134	128
Settlements related to operations on derivative instruments	478	230
Settlements with Tax Office and National Insurance (ZUS)	11,319	5,426
Sundry creditors	1,641,566	114,879
Accruals and deferred income:	261,108	158,749
provision for employee payments	88,212	90,772
provision for employees retirement and jubilee payments	44,236	26,956
Other	128,660	41,021
Deferred income and suspense	90,701	844,760
	2,389,434	**1,257,585**

As of 30 June 2005 the amount of sundry creditors includes the amount of PLN 1,563,995 thousand consisting the Bank's liabilities arising from the approved dividend payment for the year 2004 (see the Note 33)

33. Capital and reserves

Share capital

Share capital (structure)

Series/ issue	**Type of shares**	**Type of preference**	**Type of limitation**	**Number of shares**	**Par value of series/ issue**	**Method of payment**	**Date of registration**	**Eligibility for dividends (from date)**
A	bearer shares	ordinary shares	-	65,000,000	260,000	paid in	27.03.97	01.01.97
B	bearer shares	ordinary shares	-	1,120,000	4,480	paid in	27.10.98	01.01.97
B	bearer shares	ordinary shares	-	1,557,500	6,230	paid in	25.06.99	01.01.97
B	bearer shares	ordinary shares	-	2,240,000	8,960	paid in	16.11.99	01.01.97
B	bearer shares	ordinary shares	-	17,648,500	70,594	paid in	24.05.02	01.01.97
B	bearer shares	ordinary shares	-	5,434,000	21,736	paid in	16.06.03	01.01.97
C	bearer shares	ordinary shares	-	37,659,600	150,638	Transfer of CPSA assets to Bank	28.02.01	01.01.00
Total number of shares				**130,659,600**				
Total share capital					**522,638**			
Par value of 1 share = PLN 4.00								

As of 30 June 2005, Bank's share capital amounted to PLN 522,638,400, and it was divided into 130,659,600 common bearer shares of the nominal value of PLN 4 each and has not been changed since 30 June 2004.

In 2004 the ownership structure of considerable shareholdings underwent changes. The change was due to the disposal of 18,722,874 shares constituting 14.3% of Bank's share capital by Citibank Overseas Investment Corporation (COIC), the subordinated entity of Citibank N.A., to the benefit of International Finance Associates B.V., with its seat in Amsterdam, the subordinated entity of COIC, on 30 November 2004. As the result of this transaction the percentage share of COIC in Bank's share capital was reduced from 89.3% to 75%.

The Bank did not issue preference shares.

To 1996, the Bank operated in an economy of hyperinflation. IAS 29 (Financial Reporting in Hyperinflationary Economies) requires the restatement of each component of shareholders equity (except retained earnings and any revaluation surplus) by the index price of commodities and service for the period of hyperinflation. This retrospective application would have resulted in an increase in share capital PLN 407,467 thousand and Other reserve funds by PLN 617,659 thousand and a reduction in retained earning over the period of equivalent amounts.

The list of stockholders

The stockholders who as at 30 June 2005 held at least 5% of the total number of votes in the General Assembly or at least 5% of Bank' share capital are presented in the following table.
The position: "Other stockholders" contains the concise data relating to stockholders with blocks of shares securing the right to less than 5% of votes in the General Assembly.

	Value of stocks	**Number of stocks**	**% stocks**	**Number of votes at GA**	**% votes at GA**
Citibank Overseas Investment Corporation, USA	391,979	97,994,700	75.0	97,994,700	75.0
International Finance Associates, USA	74,891	18,722,874	14.3	18,722,874	14.3
Other stockholders	55,768	13,942,026	10.7	13,942,026	10.7
	522,638	**130,659,600**	**100.0**	**130,659,600**	**100.0**

Supplementary capital

Supplementary capital is designated for offsetting the Bank's balance sheet losses or for other purposes, including payment of dividends to the shareholders. The General Shareholders' Meeting decides upon the utilization of supplementary capital, but a portion of its balance, amounting to 1/3 of share capital may be used exclusively for offsetting losses shown in the financial statements.

The supplementary capital amount comprises PLN 2,485,534 thousand constituting the excess of the fair value of the issued shares over their nominal value in connection with the business combination between the Bank and Citibank (Poland) S.A., which took place on 28 February 2001.

Revaluation reserve

In thousands of PLN	**30.06.2005**	**31.12.2004**
Differences from valuation of fixed assets	28,962	29,021
Differences from valuation of financial assets available for sale	2,610	(9,370)
	31,572	**19,651**

Revaluation reserve is not distributed. Total results of periodical changes in fair value related to revaluation reserve are reversed as of the day of exclusion of all or part of financial assets available for sale.

Total or part of previous adjustment increases or decreases the value of the item of financial assets available for sale.

Other reserves

In thousands of PLN	**30.06.2005**	**31.12.2004**
Reserve capital	711,977	1,726,561
General risk reserve	390,000	390,000
	1,101,977	**2,116,561**

Reserve capital

Reserve capital is recorded out of annual profit distributions or from other sources, independently of the supplementary capital.

Reserve capital is designated for offsetting the Bank's balance sheet losses or for other purposes, including payment of dividends to the shareholders. The General Shareholders' Meeting makes decisions on utilization of the reserve capital.

General risk reserve

General risk reserve is recorded out of net profit, against unidentified risk arising from banking activities.

Dividends

In accordance with the Resolution No. 8 of the Ordinary General Meeting of the Bank of 21 June 2005, the profit for 2004 was allocated and a resolution for the payment of dividends was adopted and the dividend date and the date of dividend payment were determined.

General Meeting of the Bank allocated for the payment of dividends:
- the amount of PLN 414,190,932 from 2004 profit

- the amount of PLN 1,149,804,480 originating from previous years' profits transferred from supplementary capital and reserve capital.

The total amount intended for payment as a dividend is PLN 1,563,995,412 (in 2004: PLN 241,720,260) and is equivalent to PLN 11.97 per one ordinary share (in 2004: PLN 1.85)

The date of determination of the right to the dividend was designated as 25 July 2005 and the date of dividend payment as 1 September 2005.

As of 30 June 2005 the Bank recorded the liabilities arising from the approved dividend payment for the year 2004.

34. Repurchase and reverse repurchase agreements

The Bank raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate.

Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates.

As of 30 June 2005 assets sold under repurchase agreements were as follows:

In thousands of PLN	**Fair value of underlying assets**	**Carrying amount of corresponding liabilities***	**Repurchase dates**	**Repurchase price**
Trading instruments	63,083	63,081	To 1 month	63,092

* taking into account interest

At 31 December 2004 assets sold under repurchase agreements were as follows:

In thousands of PLN	**Fair value of underlying assets**	**Carrying amount of corresponding liabilities***	**Repurchase dates**	**Repurchase price**
Trading instruments	243,719	243,855	To 1 week	243,935
Available for sale instruments	164,591	164,704	To 1 week	164,882
	408,310	**408,559**		**408,817**

* taking into account interest

For the period from 1 January 2005 to 30 June 2005 the total interest expense on repurchase agreements was PLN 1,293 thousand (31 December 2004: PLN 43,779 thousand).

The Bank also purchases financial instruments under agreements to resell them at future dates ("reverse repurchase agreements"). The seller commits to repurchase the same or similar instruments at an agreed future date. Reverse repurchases are entered into as a facility to provide funds to customers.

As of 30 June 2005 there were no any assets purchased subject to agreements to resell them.

At 31 December 2004 assets purchased subject to agreements to resell were as follows:

In thousands of PLN	**Carrying amount of receivable***	**Fair value of assets held as collateral**	**Repurchase dates**	**Repurchase price**
Loans and other receivables:				
from financial sector	293,209	293,819	To 1 week	293,342

* taking into account interest

For the period from 1 January 2005 to 30 June 2005 the total interest income on reverse repurchase agreements was PLN 346 thousand (30 June 2004: PLN 8,515 thousand).

35. Fair value information

Fair value of financial assets and liabilities

Fair value is an amount for which an asset could be exchanged or a liability could be discharged between well-informed and willing parties in a direct transaction other than a force sale or liquidation – the market price (if available) is its best equivalent.

The summary below covers balance sheet and fair value valuation for each asset and liability group that is presented on the balance sheet at fair value. Pursuant to sec. 36A of IFRS 1, the Bank has used the exemption from the requirement to disclose comparable data in respect of fair value.

In thousands of PLN	30.06.2005 Carrying amount	Fair value
Assets		
Financial assets available for sale	323,563	437,239
Loans and other receivables	18,885,977	18,891,358
Liabilities		
Financial liabilities valued at amortized cost	22,455,280	22,457,264

Fair Value Definition

In the case of short-term financial assets and liabilities, it is assumed that their balance sheet value is practically equal to their fair value. In the case of other instruments, the following methods and assumptions have been adopted.

Equity investments: In the case of financial assets that are investments in subsidiaries and associates, fair value was measured as the percentage of net assets of an entity that is attributable to the Bank's interests in a given entity. The Bank's Management believes that this is the best available approximation of fair value of such instruments. Listed minority shares are valued at market price. For other shares, the Bank was not able to estimate a reasonable fair value, therefore the fair value item includes purchase price adjusted by revaluation write-offs connected with diminution in value.

Loans and advances: in the balance sheet loans are valued at amortized cost less diminution in value. In the case of variable interest rate loans, in respect of short period of interest rate reassesment, it is assumed that their fair value is equal to their balance sheet value, taking into account revaluation write-offs. The fair value of fixed interest rate loans is calculated as the discounted value of expected future principal and interest payments. It is assumed that loans will be paid back on their contractual date without loss of value or on dates adjusted by the risk of late payments for loans with confirmed diminution in value. In the case of loans for which repayment dates are not fixed (e.g. overdrafts), fair value is the repayment that would be required if the amount were due on the balance-sheet date. Expected future cash flows connected with homogenous loan categories, are assessed on the basis of the loan portfolio and discounted using the current interest rate that applies to loans from a similar class that are offered to new customers with similar credit profile.

For variable interest rate and overnight deposits, fair value is equal to their balance sheet value. For fixed interest rate deposits, fair value is assessed on the basis of discounted cash flows using current money market interest rates for receivables with similar credit risk, time to maturity, and currency.

Financial liabilities valued at amortized cost: In the case of variable interest and demand deposits, as well as deposits without any pre determined maturity date, fair value is an amount that would be paid out if demanded on the balance sheet date. The fair value of fixed maturity deposits, including certificates of deposit, is estimated on the basis of cash flows discounted with current interest rates applicable to deposits with similar maturity dates. The role of long term relationships with depositing parties is not taken into account in the course of the fair value valuation process adopted for such instruments.

36. Contingent liabilities

Information on pending proceedings

As of 30 June 2005, no proceedings relating to the liabilities or receivables of the Bank or its subsidiaries, the value of which would correspond to at least 10% of the Bank's shareholders' equity, were pending before any court, administrative authority or an arbitration court.
The total value of all pending court proceedings involving the Bank or its subsidiaries and related to

their receivables exceeded 10% of the Bank's shareholders' equity and amounted to PLN 1,257,472 thousand.

The most significant legal actions that are pending in relation to the Bank's receivables:

Parties to Proceedings	Litigation Value (in thousands of PLN)	Proceedings Commencement Date	Description of Case
Creditor: Bank Handlowy w Warszawie SA.	158,534	8 August 1996 – declaration of bankruptcy.	Case pending. The Bank submitted the receivable to repay it from the bankrupt's assets for arrangement. The official receiver expects to complete the bankruptcy proceeding by the end of 2006.
Creditor: Bank Handlowy w Warszawie SA	65,947	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 classified as category VI and may remain unpaid.
Plaintiff: Bank Handlowy w Warszawie SA	33,976	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	47,054	On 22 June 2001, the court declared the debtor bankrupt.	Case pending. The Bank submitted its receivables to the proceedings.
Plaintiff: Bank Handlowy w Warszawie SA	14,025	Suit for payment under a bill of exchange. 21 April 2005.	The Bank obtained the writ for payment. Case pending.
Creditor: Bank Handlowy w Warszawie SA	30,953	The court declared the debtor bankrupt in March 2004.	The Bank submitted the receivable to repay it from the bankrupt's assets for arrangement. Case pending (loan-related receivable).

As of 30 June 2005, the total value of litigations involving the Bank and related to its liabilities did not exceed 10% of the Bank's shareholders' equity.

Off-balance sheet commitments

The amount of off-balance sheet commitments granted, by individual off-balance sheet categories, is as follows:

In thousands of PLN	**30.06.2005**	**31.12.2004**
Off-balance sheet commitments granted		
Letters of credit	130,365	185,181
including to related parties	8,428	545
Guarantees granted	2,347,536	2,351,306
including to related parties	1,500	2,355
Credit lines granted	7,746,422	8,353,740
including to related parties	214,869	131,727
Deposits to be issued	-	121,359
	10,224,323	**11,011,586**

In thousands of PLN	**30.06.2005**	**31.12.2004**
Letters of credit by categories		
Import letters of credit issued	106,605	168,073
including to related parties	8,428	545
Export letters of credit confirmed	23,760	17,108
	130,365	**185,181**

In thousands of PLN	**30.06.2005**	**31.12.2004**
Contingent liabilities received		
financial	220,679	335,975
guarantee	2,923,066	2,616,366
	3,143,745	**2,952,341**

Guarantees issued include credit principal repayment guarantees, other repayment guarantees, advance repayment guarantees, performance guarantees, tender guarantees, and bills of exchange.
The Bank makes specific provisions for off-balance sheet commitments. As of 30 June 2005, the specific provisions created for off balance sheet commitments amounted to PLN 37,846 thousand, including provisions for off-balance sheet commitments granted to subordinated undertakings amounting to PLN 2,300 thousand (31 December 2004: PLN 39,352 thousand, including off-balance sheet commitments to subordinated undertakings – PLN 265 thousand)

37. Assets pledged as collateral

Assets have been pledged as security in respect of the following liabilities:

In thousands of PLN	**30.06.2005**	**31.12.2004**
Liabilities		
Financial liabilities valued at amortized cost		
Liabilities in respect of securities subject to sale and repurchase agreements	63,081	408,559

Details of the carrying amounts the assets pledged as collateral are as follows:

In thousands of PLN	**30.06.2005**	**31.12.2004**
Assets pledged		
Financial assets held for trading		
Debt instruments	63,083	243,719
Financial assets available for sale		
Debt instruments	28,231	217,417
Other assets		
Settlements related to operations on derivative instruments	669	215,578
	91,983	**676,716**

38. Trust activities

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The Bank is the leader on the market of custodian banks in Poland. It offers both custody services for foreign institutional investors and depositary services for Polish financial institutions, including pension, investment and equity insurance funds. As of 30 June 2005 the Bank maintained 8,274 securities accounts.

39. Operating leases

Leases where the Bank is the lessee

Non-cancellable operating lease rentals are payable as follows:

In thousands of PLN	**30.06.2005**	**31.12.2004**
Less than one year	544	-
Between one and five years	1,971	-
More than five years	-	-
	2,515	**-**

The Bank uses cars under operating lease contracts, which were signed with its subsidiary in the first half of 2005. The contracts have been signed for 3 years. Lease payments are determined at a fixed interest rate for the entire lease period. In accordance with the lease contracts, lease payments have commenced in July 2005.

40. Cash flow statement

Additional information:

In thousands of PLN	**30.06.2005**	**30.06.2004**
Cash related items		
Cash at hand	284,561	321,054
Nostro current account in central bank	529,891	487,931
Current accounts in other banks (nostro, overdrafts on loro accounts)	220,133	293,001
	1,034,585	**1,101,986**

41. Related entities

Transactions with related entities

The Bank has a related party relationship with entities of Citigroup Inc., subsidiaries and associates (see Note No. 21) and management, supervision personnel and employees.

Banking transactions are entered into with related parties in the normal course of business. These mainly include loans, deposits, guarantees and derivatives transactions. All transactions are valued at market price.

Transactions with entities of Citigroup Inc.

The balance sheet and off balance sheet receivables and commitments towards Citigroup Inc. companies are as follows:

In thousands of PLN	**30.06.2005**	**31.12.2004**
Receivables, including:	4,018,942	4,898,775
Placements	3,928,518	4,877,390
Liabilities, including:	539,792	674,489
Deposits	489,582	456,866
Loans received	50,210	217,623
Off-balance sheet guarantee liabilities granted	111,360	110,680
Off-balance sheet guarantee liabilities received	739,633	619,087
Derivative transactions	163,349,331	114,058,930
Interest and commission income in the first half of 2005/2004*	54,836	28,846
Interest and commission expense in the first half of 2005/2004*	5,095	12,350

*not including derivative transactions

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

The costs arising and accrued in the first half of 2005 from concluded agreements amounted in total to PLN 83,572 thousand (in the first half of 2004: PLN 67,073 thousand) and related in particular to the costs arising from the provision of services related to the maintenance of the Bank's information systems and advisory support for the Bank; income in the amount of PLN 25,523 thousand (in the first half of 2004: 20,221 thousand) arose from the provision of data processing services by the Bank.

Transactions with subordinated entities

	30.06.2005		**31.12.2004**	
In thousands of PLN	**Subsidiaries**	**Associates**	**Subsidiaries**	**Associates**
Loans, advances and other receivables				
Current accounts	450,030	111,054	488,405	102,212
Loans granted	26,134	-	41,809	2,849
Subordinated loans	79,398	-	117,957	-
	555,562	111,054	648,171	105,061
Loans, advances and other receivables				
Opening balance	648,171	105,061	844,957	37,347
Closing balance	555,562	111,054	648,171	105,061

Deposits				
Current accounts	411,261	475	490,308	314
Term deposits	51,761	-	50,211	-
	463,022	475	540,519	314
Deposits				
Opening balance	540,519	314	314,226	26,045
Closing balance	463,022	475	540,519	314
Off-balance sheet commitments granted				
Letters of credit	8,428	-	545	-
Guarantees granted	1,500	-	1,500	855
Credit lines granted	198,191	16,678	57,911	73,816
	208,118	16,678	59,956	74,671
Interest and commission income in the first half of 2005/2004	10,935	3,632	9,880	1,156
Interest and commission expenses in the first half of 2005/2004	9,471	0	6,229	4

As of 30 June 2005, the amount of impairment write-downs for receivables of subsidiaries and associates amounted to PLN 95,732 thousand (31 December 2004: PLN 57, 036 thousand), write-downs for off balance sheet commitments granted amounted to PLN 2,300 thousand (31 December 2004: PLN 265 thousand).

Transactions related to subordinated entities

On 29 December 2004, an agreement on the sale of all the shares of an associated company, Creditreform Polska Sp. z o.o. ("Creditreform"), held by the Bank to Creditreform Frankfurt Emil Vogt KG with its registered office in Frankfurt-am-Mein, Germany. The block of shares sold constituted 49.03% of the capital of Creditreform and the same number of votes in the Meeting of Shareholders of that company. The agreement provides that the profit for the accounting year 2004 generated by Creditreform, attributed to the shares held by the Bank on the date of signing the agreement, will be paid out no later than within two months of the adoption of the resolution on the payment of a dividend by Meeting of Shareholders of Creditreform. In accordance with the conditions of the agreement, the transfer of ownership of the shares took place in January 2005, at the date of payment of the entire selling price by the buying party.

The following transactions with subordinated undertakings were executed in the period from 1 January 2005 to 30 June 2005:

- On 20 January 2005, the Bank concluded with a subsidiary, Handlowy Inwestycje II Sp. z o.o. ("Inwestycje II"), in which it had shares representing 100% of the issued capital, an agreement concerning the takeover of shares in the raised initial capital of that company. The takeover of shares was covered by a contribution in kind in the form of shares of Mostostal-Zabrze Holding SA ("MZH") constituting 24.60% of the initial capital of that company. The contribution value at which the non-cash contribution was submitted to Inwestycje II was determined as PLN 467,400.00. After the registration of the increase in capital on 4 February 2005, the initial capital of Inwestycje II amounted to PLN 471,400.00 and is divided into 4,714 shares with a nominal value of PLN 100 each and one vote at the Meeting of Shareholders is attributed to each share. Before the sale of shares, the share held by the Bank represented 34.44% of the initial capital of MZH and authorized the holder to exercise 34.44% of the total number of votes at the General Meeting. As a result of this transaction, the Bank has 9.84% share in the initial capital of MZH and the same percentage of votes at the Company General Meeting.

- On 14 March 2005, the Bank entered into the agreement pursuant to which it sold – to Mr. Zbigniew Opach – 2,357 shares in the subsidiary, Inwestycje II Sp. z o.o. (previously, “Handlowy-Inwestycje II” Sp. z o.o.) (“Inwestyje II”), with the nominal value of PLN 100 each and with total nominal value of PLN 235,700, representing 50% of the initial capital of Inwestycje II and entitling the holder to exercise 50% of votes at the General Meeting. The agreement was entered under the performance of provisions of a conditional agreement of sale of the shares in question for the price of PLN 1,200,000, with the possibility of introducing an adjustment in accordance with the appropriate provisions of the agreement. The book value of shares sold amounted to PLN 2,264,192.13. There are no links between the Bank as well as persons managing or supervising the Bank and the person purchasing the assets.
- Regardless of the transaction described above, the Bank, on 14 March 2005, entered into the agreement pursuant to which it disposed of, for the benefit of Ms. Małgorzata Waniowska, the remaining 2,357 shares in Inwestycje II, with the nominal value of PLN 100 each and with the total nominal value of PLN 235,700, representing 50% of the initial capital of Inwestycje II and entitling the holder to exercise 50% of votes at the General Meeting of Shareholders. The agreement was entered under the performance of provisions of a conditional agreement of sale of the shares in question for the price of PLN 1,200,000, with the possibility of introducing an adjustment in accordance with the appropriate provisions of the agreement. The book value of shares sold amounted to PLN 2,264,192.13. There are no links between the Bank as well as persons managing or supervising the Bank and the person purchasing the assets.

Before entering into the above-mentioned transactions of sale of shares, the Bank had 4,714 of shares in Inwestycje II representing 100% of the initial capital of that company and entitling the holder to exercise 4,714 votes at the Meeting of Shareholders. As a result of transactions concluded, the Bank has no shares in Inwestycje II.

Transactions with employees, members of the Management Board and Supervisory Board

In thousands of PLN	**30.06.2005**			**31.12.2004**		
	Employees	**Members of the Management Board**	**Members of the Supervisory Board**	**Employees**	**Members of the Management Board**	**Members of the Supervisory Board**
Loans, advances and other receivables						
Loans granted	70,176	920	-	69,928	843	67
Staff benefits	38,915	-	-	39,581	-	-
Prepayments	140	-	-	104	-	-
	109,231	**920**	**-**	**109,613**	**843**	**67**
Deposits						
Current accounts	27,089	317	132	23,603	74	34
Term deposits	56,403	2,881	650	56,655	905	282
	83,493	**3,198**	**782**	**80,258**	**979**	**316**
Guarantees issued	876	-	-	1,133	318	-

Salaries and awards (in cash and in kind), including bonuses from retained profit, paid or payable to persons managing and supervising the Bank

Total amount of salaries, awards and benefits paid or payable to the current and former members of the Bank Management Board in period from 1 January 2005 to 30 June 2005:

In thousands of PLN

	Salaries, awards and benefits received in the Bank				Remuneration received for positions held in governing bodies of subordinated undertakings
	Base salaries and awards	Other benefits	Value of shares awarded in 2004	Managerial options granted in 2005 (in units)	
Management Board members performing their functions at the end of 2004	2,504	330	2,074	-	17
Management Board members who ceased performing their functions in 2004:	554	5	668	5,554	-
	3,058	**335**	**2,742**	**5,554**	**17**

The total amount of “Base salaries and awards” includes the gross amount of base salaries paid in the first half of 2005

According to a decision of the Supervisory Board the remaining amount of awards granted to the members of the Bank Management Board for 2004, paid in the first half of 2005, in total amounted to PLN 4,055 thousand.

The total amount of “Other benefits” includes the gross amount of paid remuneration arising from indemnification for employment contract termination, managerial options granted, benefits in kind, lump-sum payment for the use of company car, insurance policy premium, holiday leave equivalent, dividend, supplementary benefits consistent with the employment contract of foreign employees.

The total remuneration of members of the Supervisory Board in the first half of 2005, received for fulfilling their positions, amounted to PLN 244 thousand

In the first half of 2005, persons having supervisory functions in the Bank did not receive any remuneration for their positions held in the governing bodies of subordinated undertakings of the Bank.

The total amount of salaries, awards and benefits paid or payable to the current and former members of the Bank Management Board in the period from 1 January 2004 to 30 June 2004:

In thousands of PLN

	Salaries, awards and benefits received in the Bank				Remuneration received for positions held in governing bodies of subordinated undertakings
	Base salaries and awards	Other benefits	Value of shares awarded in 2004	Managerial options granted in 2004 (in units)	
Management Board members performing their functions at the end of 2004	2,559	89	1,121	30,000	19
Management Board members who ceased performing their functions in 2004:	428	2,765	-		-
	2,987	**2,854**	**1,121**	**30,000**	**19**

The total amount of "Base salaries and awards" includes the gross amount of base salaries paid in the first half of 2004

According to a decision of the Supervisory Board the amount of awards granted to the members of the Bank Management Board for 2003 in total amounted to PLN 3,294 thousand, out of which PLN 631 thousand was paid in the first half of 2004.

The total amount of "Other benefits" includes the gross amount of paid remuneration arising from indemnification for employment contract termination, managerial options granted, benefits in kind, lump-sum payment for the use of company car, insurance policy premium, holiday leave equivalent, dividend, supplementary benefits consistent with the employment contract of foreign employees.

The total remuneration of members of the Supervisory Board in the first half of 2004, received for fulfilling their positions amounted to PLN 237 thousand.

In the first half of 2004, persons having supervisory functions in the Bank did not receive any remuneration for their positions held in the governing bodies of subordinated undertakings of the Bank

42. Employee benefits

Employee benefits are divided into the following categories:

– short-term benefits, which include salaries, social insurance contributions, paid leave and benefits in kind (such as medical care, company apartments, company cars and other free or subsidized benefits). The costs of short-term benefits are expensed in the profit and loss account in the period to which they relate. At the end of a given reporting period, if there is a balance payable which equals the expected undiscounted value of short-term benefits for that period, the Bank will record it as an accrued expense (liabilities);

– benefits after termination of employment – including severance pay (see Note 2) and pension plans presented below offered by the Bank to its staff.

A provision is created for future pension severance pay which is shown in the balance sheet in "Other liabilities". The provision is calculated by an independent actuary in accordance with IFRS rules.

The Bank's pension plan is a pre-determined-premium program in accordance with IAS 19. The Bank pays contributions for its staff to a separate organization and, after they are paid, has no other payment liabilities. Premiums are shown as employee benefit expenses when paid.

Description of Employee Pension Plan

The objective of the Employee Pension Plan (the Plan) created by the Bank is to save and accumulate through investments funds from premiums paid within the Plan into an individual account of the participant in order to ensure benefit payments after the participant attains the age of 60 years or undergoes early retirement or if the participant obtains the rights to disability benefits due to incapacity for work.
The current Plan, which is a continuation of PPE Polskie Towarzystwo Emerytalne "Diament", was implemented on 19 March 2004 under an agreement with CitiSenior SFIO ("PPE CitiSenior") managed by Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A. ("TFI BH").
The basic premium for Plan participants is paid from the Bank's funds at the amount of 6% of individual salary of the employee.
Each employee who participates in the Plan can also make additional premium contributions to the Plan. The total of premiums paid to PPE CitiSenior is invested in units of Specjalistyczny Otwarty Fundusz Inwestycyjny Kapitał Handlowy Senior managed by Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A. TFI BH.

- other long-term employee benefits – jubilee and other long service awards. Information about jubilee awards are described in Note 2. These are paid under a pre-determined benefit scheme and their valuation is carried out by an independent actuary in accordance with IAS 19.

- employee equity benefits – in the form of a Citigroup stock-option program. As it was mentioned in Note 2, pursuant to IFRS 2, "Payment in the form of the company's stocks," such program is considered a program settled in cash. A provision is created for future payments and it is included in the line "Other liabilities." Costs of the program are determined by using an option valuation model. As required by the standard, the fair value of an option is determined as of the option allocation date for the first time and, then, re-assessed as of each reporting date until the final settlement. Total expenses shown as of a given reporting date are the product of the fair value of an option as of a reporting date and the portion of the entitlement acquired in that period.

Provisions for the above employee benefits calculated as follows:

In thousands of PLN	**30.06.2005**	**31.12.2004**
Provisions for remunerations and charges to remunerations	59,946	68,830
Provisions for employees' retirement and jubilee payments	44,236	26,956
Provisions for equity compensation	28,266	21,942
Provisions for personnel restructuring expense	-	6,307
	132,448	**124,035**

In the first half of 2005, the Bank's expenses in respect of premiums for the employee pension plan amounted to PLN 7,141 thousand (in the first half of 2004: PLN 6,162 thousand).

In the first half of 2005, the average number of employees at the Bank was 5,479 (in the first half of 2004: 5,120).

Description and principles of employee stock benefits

Under the employee stock benefit program, awards in the form of Citigroup stock (so-called Capital Accumulation Program, or CAP) or Citigroup stock options (so-called Stock Ownership Program, or SOP) are offered to selected employees of Citigroup. Within the framework of the SOP, eligible employees receive options to buy stock at the NYSE closing price as of the date directly preceding the award allocation date. Employees acquire the right to a portion of their options on each anniversary of their SOP award allocation date. Options may be exercised by purchases of stock or settlements in cash of a difference between the striking price and the current market price in the period from the acquisition date of the right to an option to the expiry date of the option.

Within the framework of the CAP, eligible employees receive so-called “restricted shares” of Citigroup. The number of shares granted to a given employee under the CAP is calculated as the amount of the award divided by the NYSE closing price on the 5th business day prior to the allocation date. "Restricted shares" give the right to dividends, but without voting rights, and must not be sold prior to their conversion into stocks. "Restricted shares" are converted into stocks after the end of a period that is determined in the Program Rules, which commences on the CAP award allocation date, provided, however, that an eligible employee is still with Citigroup.

In addition, in 2003, employees were eligible to participate in the Citigroup 2003 Stock Purchase Program. Funds to buy stocks were deducted from an employee’s salary for two years and accumulated in a separate interest-bearing account. Employees were entitled to buy Citigroup stock during the program or on the last day of the program at the lower of the price offered on the program commencement day and the NYSE close rate on the stock purchase day. After buying the stock, an employee had the right to sell them at any time.

Assumptions of valuation of the employee equity benefit programs

The fair value of particular awards and the assumptions used in their measurement, except the Citigroup 2003 Stock Purchase Program, the amount of which is immaterial for the financial statements, are shown below:

	SOP	**CAP**
Grant date	(1) 17-04-2001 (2) 13-02-2002 (3) 12-02-2003 (4) 20-01-2004 (5) 18-01-2005	(1) 13-02-2002 (2) 12-02-2003 (3) 20-01-2004 (4) 18-01-2005
Exercise price / Value of stocks at the stock allocation date	(1) 43.79 (2) 42.11 or 41.90 (3) 32.05 (4) 49.5 (5) 47.5	(1) 16.24-41.90 (2) 24.70-32.93 (3) 37.27-49.69 (4) 47.95
Number of eligible employees	(1) 1 (2) 380 (3) 400 (4) 141 (5) 10	(1) 21 (2) 22 (3) 31 (4) 179
Number of options / shares	(1) 5,361 (2) 193,294 (3) 175,806 (4) 110,939 (5) 12,946	(1) 6,308 (2) 35,984 (3) 28,094 (4) 104,697
Period to acquire the title (in years)	(1)-(2) 20% after the each of the following years (3)-(5) 33.33% after the each of the following years	(1)-(3) after 3 years (4) 25% after the each of the following years
Expected variances	16.02 %	16.02 %

	SOP	CAP
Life cycle of the instrument	(1) – 0,5 year from the moment of rights acquisition (2)-(5) – 1 year from the moment of rights acquisition	In the moment of rights acquisition
Risk free interest rate (for USD)	3.76 %	3.76 %
Expected dividends (in USD per one share)	0.92	0.92
Probability of premature termination of employment (annual staff turnover for awarded employees)	7 %	7 %
Fair value of one instrument* (in USD)	2.03 – 14.84	46.23

* Varies depending on the date of exercise

Options – volumes and weighted-average striking prices:

	30.06.2005		31.12.2004	
	Number (‘000)	**Weighted average striking price**	**Number (‘000)**	**Weighted average striking price**
At the beginning of the period	531,887	40.11	548,670	37.61
Allocated in the period	12,946	47.50	120,646	49.50
Redeemed in the period	46,487	39.43	137,429	34.68
Expired in the period	-	-	-	-
At the end of the period	498,346	40.36	531,887	40.11
Exercisable at the end of the period	139,136	37.91	154,692	37.93

For options that exist at the end of a given period:

30.06.2005			31.12.2004		
Striking price range (in USD)	**Number (‘000)**	**Weighted average period to the end of life cycle**	**Striking price range (in USD)**	**Number (‘000)**	**Weighted average period to the end of life cycle**
43.79	5,361	0.33	43.79	5,361	0.52
42.11	191,803	1.15	42.11	208,525	1.65
41.90	1,491	1.15	41.90	2,033	1.65
32.00	175,806	1.03	32.05	195,321	1.53
49.5	110,939	2.06	49.50	120,645	2.55
47.5	12,946	3.56	-	-	-

43. Subsequent events

On 1 July 2005, the Bank concluded eleven product agreements relating to sales of insurance products by the Bank with CitiInsurance Polska Towarzystwo Ubezpieczeń na Życie ("CitiInsurance Polska") and two product agreements with CitiInsurance General Insurance Company Limited ("CGIC") and CitiInsurance Life Assurance Company Limited ("CLACL") relating to sales of insurance products by the Bank. The above-mentioned agreements are a continuation of the Bank's cooperation with CitiInsurance and they define the rights and responsibilities of the parties in connection with individual insurance products, including financial obligations. The above-mentioned agreements were concluded in connection with carrying out a global acquisition from Citigroup Inc. of the Travelers Life&Annuity Group by MetLife Inc., which resulted in indirect acquisition of CitiInsurance Polska by MetLife Inc.

On 27 July 2005, the Bank's Management Board received from Citigroup Inc. a non-binding proposal concerning disposal of the Bank's subsidiaries, including: Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A. and Handlowy Zarządzanie Aktywami S.A. ("the Subsidiaries"). The Bank's Management Board shall carry an in-depth analysis of the proposal and of the possibilities of the Subsidiaries continuing their operations bearing in mind the information provided by Citigroup Inc. that pursuant to an agreement with Legg Mason Inc, Citigroup Inc will be unable to support the Bank's activities in the field of asset management.

On 1 September 2005, in accordance with the Resolution No. 8 of the Ordinary General Meeting of the Bank of 21 June 2005 on distribution of 2004 profit and dividend payment, the Bank paid the dividend amounting to PLN 1,563,995,412.

The Management Board of the Bank plans that up to the end of 2005 the Bank would terminate employment contracts of up to 530 employees following the reorganization of individual areas and introduction of new technological and organizational solutions. The Bank expects that this will lead to an improvement in quality and effectiveness of customer service. On 19 August 2005, the Bank entered with trade unions an agreement defining the level of severance benefits payable to them.

44. Risk management

Derivative instruments

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

Detailed financial data related to derivatives as of the balance sheet date is included in the Note no 19.

As of 30 June 2004, the Bank placed deposits at other institutions as collateral against derivative transactions amounting in total to PLN 669 thousand (31 December 2004: PLN 215,578 thousand), and for derivative transactions, the Bank received collateral totalling PLN 39,016 thousand (31 December 2004: PLN 8,116 thousand).

Forward and swap FX contracts

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

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

Currency option contracts

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

Interest rate contracts

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

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

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

Interest rate option contracts

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

Securities term contracts

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

Share options

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

Futures contracts

A financial futures contract is a contract traded on an organised stock exchange, related to the purchase or sale of a standard amount of the specific financial instrument at a specified date in the future and at a pre-agreed price.

Financial futures contract may be based on financial instruments of defined types, prices of which depend on interest rates. Financial futures contract may also be based on changes in FX rates of certain basic foreign currencies. The Bank does not carry out trade in futures-type FX contracts.

Market risk

The Bank manages market risk in line with the principles and procedures approved by ALCO and the Bank's Management Board, which reflect the requirements of the Polish supervision bodies and correspond to the principles followed in Citigroup.

Management of market risk comprises two core risk areas: financial liquidity risk and pricing risk.

The liquidity risk is defined as the risk of the Bank failing to meet the financial obligations due to its clients and partners.

The pricing risk is defined as the risk of the negative impact on the Bank's results of changes in market interest rates, foreign exchange rates, share prices and any other volatility parameters in respect of these rates and prices.

Liquidity risk management

Measurement and mitigation of the liquidity risk

The Market Access Report ("MAR") represents the basic measure of the Bank's financial liquidity risk; the report portrays gaps in the Bank's financial flows in individual time spans and reflects potential exposure to the necessity of finding additional sources of financing on the monetary market. The MAR report comprises all the financial flows related to balance sheet transactions and off-balance sheet transactions of foreign currency exchange. The report is prepared daily by Treasury Product Control, which is independent of the Treasury Department responsible for managing the Bank's liquidity. The report covers the aggregate Bank's balance sheet (all currencies) and the balance sheets in individual currencies, showing the balances that are material in terms of liquidity management, i.e. PLN, USD, EUR and CHF. The gap limits established by the ALCO. Treasury are binding for the following terms: O/N, 2-7 days, 8-15 days, 1 month, 2 months, 3 months, 6 months and 1 year. The liquidity gap above one year is not covered by limits but is subject to monitoring. In calculating the gap, the statistical research is taken into account, for example, in the area of the deposit base stability and the premises relating to the share of the individual product groups in the Bank's balance sheet structure. In the monthly cycle, stress tests are performed which take account of the potential threats resulting, for example, from the banking system crisis and the related limitations to the market liquidity. Additionally, in order to assess the liquidity risk, the Market Risk Department monitors the basic relationships in the Bank's balance sheet structure and analyzes changes in these relationships over time.

The measure of the assessment of the bank's liquidity risk is the level of the modified gap in financial flows in respect of the potential sources of financing. Therefore, the gap level is compared with the possibility of obtaining additional finance from wholesale market (other banks, investment funds, pension funds, insurance companies) and with the balance of liquid assets (mainly, liquid securities) which may be sold or pledged (as part of repo transactions or using a pawn loan from NBP) in the assumed time horizon. The levels of the modified financial flows gap and the level of liquid assets at the end of 2004 and at the end of June 2005 are shown in the tables below:

The liquidity gap as at 30 June 2005 in real terms

In thousands of PLN	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**More than 1 year**	**More than 2 years**
Assets	4,627,322	396,914	1,623,829	60,230	29,435,240
Equity and liabilities	1,843,969	1,925,446	1,128,807	35,669	31,215,232
Balance sheet gap in the period	2,783,353	(1,528,532)	495,022	24,560	(1,779,991)
Off-balance sheet transactions - inflows	20,796,112	6,732,889	10,056,068	1,868,094	3,971,185
Off-balance sheet transactions - outflows	20,283,556	7,086,270	10,096,890	2,003,678	4,186,607
Off-balance sheet gap in the period	512,556	(353,382)	(40,822)	(135,584)	(215,422)
Cumulative gap	3,295,909	(1,881,914)	454,200	(111,024)	(1,995,413)

The liquidity gap as at 31December 2004 in real terms

In thousands of PLN	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**More than 1 year**	**More than 2 years**
Assets	5,491,242	664,018	831,002	40,789	28,347,407
Equity and liabilities	3,631,512	82,266	804,627	125,328	30,730,696
Balance sheet gap in the period	1,859,730	581,752	26,375	(84,539)	(2,383,289)
Off-balance sheet transactions - inflows	16,339,815	7,045,382	14,072,942	1,512,305	1,177,410
Off-balance sheet transactions - outflows	16,220,019	6,963,804	14,243,544	1,774,623	1,115,629
Off-balance sheet gap in the period	119,795	81,578	(170,602)	(262,318)	61,782
Cumulative gap	1,979,525	663,331	(144,227)	(346,856)	(2,321,507)

The liquid assets and the cumulative liquidity gap up to 1 year :

In thousands of PLN	**30.06.2005**	**31,12,2004**	**Change**
Liquid assets, including:	8,711,706	7,857,725	853,981
- obligatory reserve in NBP and cash surplus	889,726	902,772	(13,045)
- debt securities available for sale	2,893,279	1,236,291	1,656,988
- debt securities held for trading	4,928,701	5,718,662	(789,961)
Cumulative liquidity gap up to 1 year	1,868,195	2,498,689	(617,865)
Coverage of the gap with liquid assets (in %)	Positive gap	Positive gap	Non related

Pricing risk management

Risk range

Pricing risk management applies to all portfolios where income is exposed to the adverse effect of market factors, such as interest rates, foreign exchange rates, share prices, prices of mass commodities and the volatility parameters of these factors. In managing the pricing risk, two type of portfolios are identified: trading and banking. Trading portfolios cover transactions in financial instruments (balance sheet and off balance sheet) the purpose of which is to achieve income related to the change of the market parameters within a short period. Trading portfolios are valued at market prices. The Treasury Department conducts operations on the trading portfolios comprising portfolios involving interest rate risk and the foreign exchange risk. Banking portfolios comprise all the remaining balance sheet and off-balance sheet items not included in the trading portfolios. The purpose of concluding these transactions is to achieve results over the entire contractual transaction period. The Treasury Department takes over the interest rate risk items from the banking portfolios of all the other business units of the Bank. The mechanism of transferring the interest rate risk items is based on the system of the funds transfer prices, whereas the Treasury Department takes over the risk to the extent in which it may be hedged through transactions on money and capital markets. The interest rate risk, which cannot be directly hedged through market transactions (e.g. the interest margin risk for products with rates managed by a given business unit and not directly related to the level of market interest rates). The risk is referred to as the residual risk. The calculation of the result on banking portfolios is performed using the accruals method – accumulation of interest.

Measurement of the banking portfolios pricing risk

The Bank applies two methods for measuring the banking portfolios pricing risk:

- Interest Rate Exposure method
- Value at Close method

The risk limits are imposed on the potential changes in interest income as a result of shifting the interest rate curves by a 100 bp for the basic currencies (PLN, USD, EUR), in which the Bank's assets and liabilities are denominated in the 1-year and 5- and 10-year horizon. Utilization of limits is monitored on a daily basis. The changes in the costs of closing the open interest items are also monitored in a daily cycle. The changes are regulated by limits, which when exceeded – must be reported to higher management levels and the management must decide upon a further action plan.

Measurement of trading banking portfolios pricing risk

The ratio of sensitivity of the financial result to changes in the market risk factors (interest rates, foreign exchange rates, share prices, credit risk margins for trading debt securities) is the basic operational measure of the pricing risk of the trading portfolios at the level of both operational units and the whole Bank. On the basis of the sensitivity ratios, assuming the unit value of the risk factor change (change in the general level of interest rates and credit risk margin by 1 basis point, change in foreign exchange rates and share prices by 1 percent), the risk item limits are determined by currency and for each business unit separately. In the case of interest rate risk, critical values are additionally adopted for the risk items on individual segments of the interest rate curves. Risk limits are determined for individual items at the end of each day and monitored on a daily basis.

On the Bank level, Value-at-Risk is measured, with the assumed time horizon for closing the items equal to 1 day and the confidence ratio of 99%. The Value-at-Risk limits are determined both for the foreign exchange risk and the interest risk separately and for the sum of these risks.

In the daily cycle, the stress tests are performed, assuming higher changes of risk factors than those adopted in the measurement of Value at Risk and disregarding the historical correlations between these factors.

The Bank performs stress testing of risk in three main scenarios:

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

The two risk monitoring methods described above are supplemented by restrictions regarding:

- critical cumulative monthly loss on the portfolio,
- Aggregate Contracts Limit
- Max Tenor
- concentration limits in the case of debt securities and owner securities.

The Value at Risk (VaR) is the measure of the pricing risk of the trading portfolios which links the effect of the items in various risk factors and takes account of the correlation between the volatility of the individual factors.
The level of risk determined using this measure, categorized by foreign exchange risk and interest rate risk items during the first six months of 2005 is shown in the table below:

	30.06.2005	**31.12.2004**	**In the period 1 I – 30 VI 2005**		
			Average	**Maximum**	**Minimum**
Foreign exchange risk	941	304	1,532	6,471	190
Interest rate risk	7,908	5,742	8,167	12,259	5,086
Total risk	8,074	5,807	8,394	13,108	5,395

Effective interest rate

The Bank does not take a risk of equity instruments' prices increase (decrease) related to trading activity. The equity investments portfolio owned by the Bank is not classified as a trading portfolio.

Equity instruments risk

The amounts below present the weighted averages of effective interest rate accounted for receivables and liabilities by segments of the Bank's activities.

As of 30 June 2005:

	Corporate and Investment Bank			**Consumer Bank**			**CitiFinancial**		
	PLN	**EUR**	**USD**	**PLN**	**EUR**	**USD**	**PLN**	**EUR**	**USD**
ASSETS									
Receivables from non-financial sector									
- term	6.95	3.00	3.25	24.46	-	-	25.81	-	-
LIABILITIES									
Liabilities to non-financial sector									
- term	5.15	2.06	2.57	4.36	1.15	1.41	-	-	-

As of 31 December 2004

	Corporate and Investment Bank			Consumer Bank			CitiFinancial		
	PLN	EUR	USD	PLN	EUR	USD	PLN	EUR	USD
ASSETS									
Receivables from non-financial sector									
- term	7.39	3.79	2.50	27.89	-	-	28.14	-	-
LIABILITIES									
Liabilities to non-financial sector									
- term	6.42	2.20	1.85	5.40	1.21	1.02	-	-	-

Currency structure

Currency structure of Bank's assets and liabilities in core currencies was as follows:

In thousands of PLN	**30.06.2005**	**31.12.2004**
Assets		
PLN	24,380,894	23,877,594
EUR	3,009,064	3,034,775
USD	6,788,744	6,045,339
GBP	77,145	139,102
CHF	311,631	419,996
Other currencies	189,487	292,325
	34,756,965	33,809,131
Liabilities		
PLN	28,906,663	28,096,502
EUR	2,989,863	2,647,169
USD	2,481,866	2,644,959
GBP	172,505	141,865
CHF	116,815	139,505
Other currencies	89,253	139,131
	34,756,965	33,809,131

Credit risk

Under the decision of the Bank's Management Board, the Head of Risk Management is empowered to define in his decisions parties or persons who are responsible for control activities related to credit risk.

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

Key elements of credit risk management are presented below:

While managers are responsible for risk management in their areas of responsibility, the Bank additionally has a system of controls that includes:
- independent position of risk manager;
- each credit decision has to be taken by at least two authorised persons. Larger loans, carrying higher risk, require approval from more senior persons of authority;

- Independent Audit Department revieving activities related to risk management;
- each borrower is assigned an appropriate risk scale, with its own rating, based both on financial and quality criteria. Risk ratings help the Bank to ensure that the credit portfolio overall is at an acceptable risk level;
- each customer of the Bank is assigned to a control unit that manages the relationship with the customer. In case of customers being a part of a capital group the risk is managed on a group basis to avoid exceeding concentration limits;
- the Credit Policy Committee assigns individuals to approve loans based on their experience and skills;
- the Bank has to reduce concentration in order to maintain differentiated risk bearing assets as well as to meet capital requirements for the portfolio. Credit risk includes limitations for customers, sectors and regions;

– the Bank defined principles for periodic monitoring of customers' results from their activities and identification of negative changes in their standing which require immediate communication to upper or middle-level management. This also includes opinions of specialised restructuring units.

Credit risk guidelines related to products offered to Consumer Banking customers are defined by the Bank for each of the product offered separately. Key risk management concepts are presented below:

- Credit Risk evaluation is based on:
- Minimum acceptance criteria,
- Scoring models,
- Judgmental criteria,
- Use of the Credit Bureau information,
- Advanced Management Information System is used to monitor portfolio performance.

Concentration of exposure

<u>Concentration limits</u>

The Banking Act of 29 August 1997 (Journal of Laws of 2002 No. 72, item 665, as later amended) and its executive regulations issued by the Commission for Banking Supervision define maximum exposure limits for the Bank. Under article 71 paragraph 1 of the Act, which came into force as of 1 January 2002, total balance sheet and off-balance sheet exposure from one or more capital and organisationally related entity cannot exceed 20% of the Bank's equity when one of the entities is a parent entity or subsidiary undertaking of the Bank or is a subsidiary undertaking to a parent entity of the Bank or cannot exceed 25% of the Bank's equity when there is no such relationship between the Bank and such entities. Pursuant to provisions of the Resolution No. 4/2004 of the Commission for Banking Supervision dated 8 September 2004 regarding specific rules for calculating capital requirements for banking risk categories (…) (NBP Official Journal No. 15, item 25), the Bank is allowed to maintain exposure exceeding concentration limits, as defined in article 71 paragraph 1 of the Banking Act, solely with respect to debt arising from operations included in the trading portfolio. Equity for the purpose of setting concentration limits specified in the Banking Act has been established in accordance with Resolution No. 5/2004 of the Commission for Banking Supervision dated 8 September 2004 regarding specific rules for calculating equity for banks (…) (NBP Official Journal No. 15, item 26).

As of 30 June 2005, the Bank had an exposure to two entities exceeding the statutory debt concentration limits. In the first case, the excess exposure was related to debt arising from transactions in derivative instruments. In the second case it was related to debt of bank's portfolio. Due to the fact that the debt concentration limit has been exceeded, an additional capital requirement for excess exposure was factored into the calculation of the Bank's capital adequacy ratio as of 31 December 2004. In the case of the enterprise with excess exposure of debt of bank's portfolio, some activities were taken to decrease the exposure of bank's portfolio below the debt concentration limit.

The Bank sets out to limit its exposure to individual clients. As of 30 June 2005, the Bank's exposure in banking portfolio transactions with customers, which exceeded 10% of the Bank's equity, amounted to PLN 1,889,425 thousand, i.e. 64.9% of these funds (31 December 2004: PLN 560,076 thousand, i.e. 13.8%).

Exposure concentration- 10 largest the Bank's creditors (non-bank customers)

In thousands of PLN

	30.06.2005			**31.12.2004**		
	Balance sheet exposure*	**Off-balance sheet exposure**	**Total exposure**	**Balance sheet exposure***	**Off-balance sheet exposure**	**Total exposure**
Customer 1	461,476	155,981	617,457	502,258	57,818	560,076
Customer 2	248,889	211,090	459,979	29	492,733	492,762
Customer 3	258,097	153,892	411,989	75,742	407,989	483,731
Customer 4	400,000	0	400,000	122,769	202,071	324,840
Customer 5	128,619	146,182	274,801	198,425	80,902	279,327
Customer 6	228,217	33,135	261,352	127,672	148,712	276,384
Customer 7	25	229,485	229,510	0	254,341	254,341
Customer 8	130,957	89,731	220,688	1,294	219,738	221,032
Customer 9	156,057	43,505	199,562	158,028	54,759	212,787
Customer 10	70,877	114,627	185,504	6,020	136,638	142,658
Total 10	**2,083,214**	**1,177,628**	**3,260,842**	**1,192,237**	**2,055,701**	**3,247,938**

**Does not include exposures to shares and other securities. Equity data for individual entities, excluding exposures to entities related to a given customer.*

Concentration of exposure in individual economy sectors

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

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

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

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

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

B/ industries excluded in view of their sensitivity to market factors and earnings volatility,
C/ industries excluded in view of their declining trends in performance.

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

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

Sector of the economy according to Polish Classification of Economic Activity (PKD)	**30.06.2005 in %**	**31.12.2004. in %**
Wholesale trade and sales on commission excluding motor vehicles and motorcycles	18.79	19.60
Financial intermediary excluding insurance and pension funds	9.97	10.73
Generation and distribution of electrical energy, gas, steam, and hot water	9.12	8.64
Production of food and beverages	6.18	6.66
Production of chemicals	3.85	3.73
Production of motor vehicles, trailers and semitrailers	3.49	1.94
Construction	3.26	3.66
Retail sale excluding motor vehicles and motor cycles, repair of household items and consumer products	3.16	2.25
Production of paper and paper products	3.15	1.01
Manufacture of machines and equipment not classified elsewhere	2.90	3.50
Top 10 sectors	***63.87***	***61.71***

Sector of the economy according to PKD	**30.06.2005 in %**	**31.12.2004. in %**
Production of other means of transport	2.87	2.69
Production of coke and refinig products of crude oil and nuclear fuels	2.85	2.07
Production of rubber and plastic products	2.58	2.21
Post and telecommunications	2.57	3.39
Sale, service, and repair of mechanical vehicles and motorcycles, retail sale of fuel for motor vehicles	2.43	3.07
Other economic activities	2.14	2.44
Production of furniture; manufacturing activities not classified elsewhere	2.00	2.13
Production of wood and wood products excluding furniture	1.70	1.30
Land transport, transport by pipelines	1.42	1.57
Production of radio, television, and communication hardware and equipment	1.40	2.30
Top 20 sectors	***85.83***	***84.88***
Other sectors	*14.16*	*15.12*
	100.00	***100.00***

The Bank operates exclusively in the territory of Poland. No significant connection between the location of the Bank's business outlets and credit risk was identified. Therefore, it was decided that the Bank would refrain from presenting the geographical segment of credit risk.

Operational risk

In recent years operational risk has been managed by the bank through a number of tools and techniques (e.g. policies, procedures, checklists, limits, self assessment, information security control tools, continuity of business plans, insurance, audits).

Following developments of the Basel Committee recommendations the Bank's Management has strengthened qualitative as well as quantitative measures over operational risk.

Roles and responsibilities of different management levels have been formalised in "Operational Risk Policy Including Risk and Control Self Assessment Procedure" and communicated to organizational units during repetitive training sessions.

Strategic decisions regarding bank policies, organization, assignment of roles and responsibilities, reorganizations of processes, automation and centralization are reserved for Management Board.

Head of Finance Division, in coordination with the Business Risk, Control and Compliance Committee, is responsible for monitoring the Bank's operational risk and Risk and Control Self Assessment process including: providing guidance (e.g., defining minimum standards) in the setting and interpretation of the Policy; overseeing implementation of the corporate and local Policy; approving exception requests and changes to the Policy; and Reviewing RCSA results information to identify areas of potential risk exposure (at least quarterly).

Operational risk has been defined as the risk of loss resulting from inadequate or failed internal processes, people, or systems, or from external events. Operational Risk excludes strategic risks and potential losses related solely to judgments with regard to taking credit, market, interest rate (asset liability management or 'ALM'), liquidity, or insurance risk.

Risk and Control Self Assessment process has been implemented for ongoing identification, control, assessment, monitoring, measurement and reporting of quality of the control environment and potential threats. Data on Operational Risk Events' Effects (losses) is being regularly collected since 2002. Issues, events, indicators pertaining to the operational risk are being regularly reported to the Business Risk, Control and Compliance Committee.

Management of risks as well as Risk and Control Self Assessment process are subject to rated internal audit.

Analyses of losses and corrective actions allow defining the following risk profile:

- transaction capture, execution and maintenance
- external fraud and theft
- systems & technology

Centralization and automation introduced during recent years allowed to reduce number as well as amount of operational losses considerably. Further effort will concentrate on processes covered by the BHW risk profile.

45. Explanation of transition to IFRS

These financial statements of the Bank are the first IFRS financial statements, and as mentioned in Note 2, they meet the requirements of IFRS 1, which specifies the rules for preparing the first IFRS financial statements.

The accounting principles and standards that are presented in Note 2 were used to prepare the financial statements for the six-month period to June 30, 2005, to present comparable data for the corresponding period of the previous financial year and for the financial year to December 31, 2004, as well as to prepare the opening balance sheet at January 1, 2004 in accordance with IFRS, i.e. at the date of the implementation of the new standards by the Bank, except IAS 39 (Financial Instruments: Recognition and Measurement) and IAS 32 (Financial Instruments: Recognition and Presentation), for which the Bank chose the option not to convert comparable data. 1 January 2005 is the day of transition for IAS 32, 39.

The financial statements of the Bank that were published previously were prepared in accordance with Polish GAAP.

When preparing the financial statements in accordance with IFRS 1, the Bank chose the option to depart from the full retrospective application of IFRS in the following cases:

– Goodwill recognized in the Bank's financial statements prepared at the date of the implementation of IFRS results from a takeover to which IFRS 3 (Business Combinations) was not applied retrospectively. As a result, the amount of goodwill was defined in accordance with previous accounting standards, as of the day of transition to IFRS. As at 1 January 2004 and as at 31 December 2004, goodwill was tested for impairment. The test did not show a necessity of recording an impairment write-down.
– The Bank adopted the revaluation of tangible fixed assets performed previously in line with the previously applied GAAP as a deemed cost.
– As mentioned in Note 2, the Bank adopted early the IFRS 2, *Share-based Payment* in respect of manager option programs offered to the Bank's employees as part of the so-called Citigroup equity benefits.

The detailed explanation of changes in the financial statements for the year 2004 resulting from transferring to IFRS

Value adjustments

– reversal of amortization of goodwill

As of 1 January 2004, as required by IFRS, the Bank ceased to make write-downs of goodwill, and replaced them with the impairment test.

– withdrawal of valuation under the equity method

Contrary to the previously applied accounting policies, IAS 27 does not permit valuation of subordinated entities using the equity method in stand-alone financial statements

Other comparable financial data has been prepared in accordance with previous PAS.

Adjustments introduced as of 1 January 2005 (including application of IAS 39)

– In accordance with IAS 40, the Bank selected the fair value model for identified investment property. The posiive difference between the fair value of a given real property and its carrying value at the moment of identification has been recorded in retained earnings.

– Change of the definition of the direct costs of obtaining financial instruments – the definition of the costs of obtaining financial instruments which qualify for being deferred in time according to IFRS, differs from the definition previously applied by the Bank. In view of the above, as at 1 January 2005, the Bank adjusted the costs remaining to be deferred in time for the portion which does not need the IFRS requirements.

– Beginning from 1 January 2005, the Bank commenced valuation of loans and securities at amortized cost. Since previously the commission was accounted for on a straight-line basis, the effect of implementing the effective interest rate on the Bank's financial statements should be considered immaterial, except for debt securities classified as available for sale, for which an appropriate adjustment has been introduced.

– As at 1 January 2005, the Bank evaluated the amounts receivable for impairment estimated in accordance with IAS 39. At the same time, as mentioned in Note 11, the Bank reversed the general risk provision, which did not comply with the IFRS, and was recorded on the basis of the banking law and the accounting policies binding in the previous periods.

Significant differences between PAS and IFRS in the Bank's financial statements

In the course of preparations of the IFRS balance sheet, the Bank adjusted amounts presented in earlier financial statements, which were produced using the accounting standards previously in force (PAS). The tables below, as well as notes to the tables, explain the impact of the switch from PAS to IFRS on the Bank's financial position, financial result and cash flows:

Balance sheet as of 1 January 2004

In thousands of PLN	*Note*	**PAS**	**Adjustment**	**IFRS**
ASSETS				
Cash and balances with central bank		1,186,514		1,186,514
Financial assets held for trading		4,743,692		4,743,692
Financial assets available for sale		2,723,471		2,723,471
Equity investments	(a)	379,562	(55,690)	323,872
Loans and advances		22,269,387		22,269,387
Financial assets held to maturity		70,159		70,159
Tangible fixed assets		764,145		764,145
Intangible assets, of which:		1,295,012		1,295,012
Income tax assets	*(a)*	345,855	10,581	356,436
Other assets		250,419		250,419
Total assets		**34,028,216**	**(45,109)**	**33,983,107**

In thousands of PLN	*Note*	**PAS**	**Adjustment**	**IFRS**
LIABILITIES				
Due to central bank		41,145		41,145
Financial liabilities held for trading		3,651,195		3,651,195
Financial liabilities at amortized cost		22,801,290		22,801,290
Financial liabilities from transfers of financial assets		-		-
Provisions		447,331		447,331
Income tax liabilities		-		-
Other liabilities		1,140,325		1,140,325
Total liabilities		**28,081,286**		**28,081,286**
EQUITY				
Share capital		522,638		522,638
Share premium		3,044,585		3,044,585
Revaluation reserve		(13,212)		(13,212)
Other reserves		2,115,273		2,115,273
Retained earnings (losses brought forward)	*(a)*	277,646	(45,109)	232,537
Total equity		**5,946,930**	**(45,109)**	**5,901,821**
Total liabilities and equity		**34,028,216**	**(45,109)**	**33,983,107**

Explanation of adjustments

a) Withdrawal of equity method

1)	Decrease of equity investments	(55,690)
2)	Increase of deferred income tax assets	10,581
3)	Decrease of retained earnings	(45,109)

Impact on settlements in respect of deferred income tax and retained earnings

Assets *in respect of deferred income tax*

1)	Impact of withdrawal of equity method	10,581

Retained earnings

1)	Impact of withdrawal of equity method	45,109

Balance sheet as of 30 June 2004

In thousands of PLN	*Note*	**PAS**	**Adjustment**	**IFRS**
ASSETS				
Cash and balances with central bank		808,986		808,986
Financial assets held for trading		5,595,037		5,595,037
Financial assets available for sale		6,965,774		6,965,774
Equity investments	(a)	402,933	(78,222)	324,711
Loans and advances		18,658,997		18,658,997
Financial assets held to maturity		67,559		67,559
Tangible fixed assets		734,506		734,506
Intangible assets		1,259,070	36,223	1,295,293
Income tax assets	*(a)*	330,659	14,862	345,521
Other assets	*(g)*	293,332		293,332
Total assets		**35,116,853**	**(27,137)**	**35,089,716**

In thousands of PLN	*Note*	**PAS**	**Adjustment**	**IFRS**
LIABILITIES				
Due to central bank		1,693		1,693
Financial liabilities held for trading		3,321,488		3,321,488
Financial liabilities at amortized cost		23,768,699		23,768,699
Financial liabilities from transfers of financial assets		-		-
Provisions		279,754		279,754
Income tax liabilities				
Other liabilities		1,913,718		1,913,718
Total liabilities		**29,285,352**		**29,285,352**
EQUITY				
Share capital		522,638		522,638
Share premium		3,044,585		3,044,585
Revaluation reserve		(108,228)		(108,228)
Other reserves		2,116,191		2,116,191
Retained earnings (losses brought forward)	*(a)*	35,136	(45,109)	(9,973)
Profit-current period	*(a)(b)*	221,179	17,972	239,151
Total equity		**5,831,501**	**(27,137)**	**5,804,364**
Total liabilities and equity		**35,116,853**	**(27,137)**	**35,089,716**

Explanation of adjustments

a) Withdrawal of equity method

1)	Decrease of equity investments	(78,222)
2)	Increase of assets in respect of deferred income tax	14,862
3)	Decrease of retained earnings	(45,109)
4)	Decrease of current period profit	(18,251)

b) Reversal of goodwill amortization

1)	Increase of goodwill	36,223
2)	Increase of current period profit	36,223

Impact on settlements in respect of deferred income tax and retained earnings

Assets *in respect of deferred income tax*

1)	Impact of withdrawal of equity method	14,862

Retained earnings

1)	Impact of withdrawal of equity method	45,109

Profit-current period

1)	Impact of withdrawal of equity method	(18,251)
2)	Reversal of goodwill amortization	36,223
	Total impact	17,972

Balance sheet as of 31 December 2004

In thousands of PLN	*Note*	PAS	Adjustment	IFRS
ASSETS				
Cash and balances with central bank		841,114		841,114
Financial assets held for trading		5,316,962		5,316,962
Financial assets available for sale		6,091,194		6,091,194
Equity investments	(a)	435,284	(102,773)	332,511
Loans and advances		18,498,769		18,498,769
Tangible fixed assets		711,710		711,710
Intangible assets	*(b)*	1,237,133	72,445	1,309,578
Income tax assets		217,678	19,527	237,205
Other assets	*(a)*	470,088		470,088
Total assets		**33,819,932**	**(10,801)**	**33,809,131**

In thousands of PLN	*Note*	PAS	Adjustment	IFRS
LIABILITIES				
Due to central bank		718		718
Financial liabilities held for trading		4,192,013		4,192,013
Financial liabilities at amortized cost		21,976,605		21,976,605
Financial liabilities from transfers of financial assets				
Provisions		216,717		216,717
Income tax liabilities		23,509		23,509
Other liabilities		1,257,585		1,257,585
Total liabilities		**27,667,147**		**27,667,147**
EQUITY				
Share capital		522,638		522,638
Share premium		3,044,585		3,044,585
Revaluation reserve		19,651		19,651
Other reserves		2,116,561		2,116,561
Retained earnings (losses brought forward)	*(a)*	35,136	(45,109)	(9,973)
Profit-current period	*(a(b))*	414,214	34,308	448,522
Total equity		**6,152,785**	**(10,801)**	**6,141,984**
Total liabilities and equity		**33,819,932**	**(10,801)**	**33,809,131**

Explanation of adjustments

a) Withdrawal of equity method

1)	Decrease of equity investments	(102,773)
2)	Increase of assets in respect of deferred income tax	19,527
3)	Decrease of retained earnings	(45,109)
4)	Decrease of current period profit	(38,137)

b) Reversal of goodwill amortization

1)	Increase of goodwill	72,445
2)	Increase of current period profit	72,445

Impact on settlements in respect of deferred income tax and retained earnings

Assets *in respect of deferred income tax*

1)	Impact of withdrawal of equity method	19,527

Retained earnings

1)	Impact of withdrawal of equity method	45,109

Profit-current period

1)	Impact of withdrawal of equity method	(38,137)
2)	Reversal of goodwill amortization	72,445
	Total impact	34,308

Balance sheet as of 1 January 2005

In thousands of PLN	*Note*	**PAS**	**Adjustment**	**IFRS**
ASSETS				
Cash and balances with central bank		841,114		841,114
Financial assets held for trading		5,316,962		5,316,962
Financial assets available for sale		6,091,194		6,091,194
Equity investments	(a)	435,284	(102,773)	332,511
Loans and advances	(c)(e)(g)(h)	18,498,769	(68,321)	18,430,448
Tangible fixed assets	*(f)(i)*	711,710	31,228	742,938
Intangible assets	*(b)*	1,237,133	72,445	1,309,578
Income tax assets	*(a)(c)(e)(f)*	217,678	15,722	233,400
Other assets	*(c)(i)*	470,088	(68,298)	401,790
Total assets		**33,819,932**	**(119,997)**	**33,699,935**

In thousands of PLN	*Note*	**PAS**	**Adjustment**	**IFRS**
LIABILITIES				
Due to central bank		718		718
Financial liabilities held for trading		4,192,013		4,192,013
Financial liabilities at amortized cost		21,976,605		21,976,605
Financial liabilities from transfers of financial assets	*(h)*		751,277	751,277
Provisions	*(e)(h)*	216,717	(156,935)	59,782
Income tax liabilities		23,509		23,509
Other liabilities	*(e)(g)*	1,257,585	(765,260)	492,325
Total liabilities		**27,667,147**	**(170,918)**	**27,496,229**
EQUITY				
Share capital		522,638		522,638
Share premium		3,044,585		3,044,585
Revaluation reserve	*(d)*	19,651	2,479	22,129
Other reserves, of which:		2,116,561		2,116,561
Retained earnings (losses brought forward)	*(a)(b)(c)(d)(e)(f)*	449,350	48,442	497,792
Total equity		**6,152,785**	**50,921**	**6,203,706**
Total liabilities and equity		**33,819,932**	**(119,997)**	**33,699,935**

Explanation of adjustments

a) Withdrawal of equity method

1)	Decrease of equity investments	(102,773)
2)	Increase of deferred income tax	19,527
3)	Decrease of retained earnings	(83,246)

b) Reversal of goodwill amortization

1)	Increase of goodwill	72,445
2)	Increase of retained earnings	72,445

c) Change of definition of the direct costs of obtaining financial instruments

1)	Increase of loans and advances	22,218
2)	Increase of deferred income tax	4,304
3)	Decrease of other assets	(44,873)
4)	Decrease of retained earnings	(18,351)

d) Application of effective interest rate and valuation of debt securities available for sale as amortized cost

1)	Increase of revaluation reserve	2,479
2)	Decrease of retained earnings	(2,479)

e) Impairment

1)	Decrease of loans and advances	(76,472)
2)	Decrease of incurred interest	(715,580)

3)	Decrease of deferred income tax	(6,626)
4)	Decrease of provisions	(156,851)
5)	Decrease of other liabilities	(715,580)
6)	Increase of retained earnings	73,753

f) Valuation of identified investment properties

1)	Increase of tangible fixed assets	7,803
2)	Decrease of deferred income tax	(1,483)
3)	Increase of retained earnings	6,320

Presentational changes

g) Reclassification of outstanding commission, less the direct costs of obtaining financial instruments

1)	Decrease of loans and advances	(49,680)
2)	Decrease of other commitments	(49,680)

h) Presentation of offsetting of receivables and liabilities in separate items

1)	Increase of loans and advances	751,193
2)	Increase of financial liabilities from transfers of financial assets	751,277
3)	Decrease of provisions	(84)

i) Identification of investment properties

1)	Increase of tangible fixed assets	23,425
2)	Decrease of other assets	23,425

The amount of real estate taken over for debts and reclassified as investments is presented in the note. Moreover, the Bank identified own real estate as investment properties amounting to PLN 23,695 thousand. Investment properties are shown in the “Tangible fixed assets” item.

Impact on settlements in respect of deferred income tax and retained earnings

Assets *in respect of deferred income tax*

1)	Impact of withdrawal of equity method	19,527
2)	Impact of change of definition of the direct costs of obtaining financial instruments	4,304
3)	Impact of recognition of receivables’ impairment	(6,626)
4)	Impact of valuation of identified investment properties	(1,483)
	Total impact	15,722

Retained earnings

1)	Impact of withdrawal of equity method	(83,246)
2)	Impact of reversal of goodwill amortization	72,445
3)	Impact of change of definition of the direct costs of obtaining financial instruments	(18,351)
4)	Impact of recognition of receivables' impairment	73,753
5)	Impact of valuation of identified investment properties	6,320
	Total impact	50,921

Income statement for the period between 1 January 2004 to 30 June 2004

In thousands of PLN	*Note*	PAS	Adjustment	IFRS
Interest and similar income		791,089		791,089
Interest expense and similar charges		(338,103)		(338,103)
Net interest income		**452,986**		**452,986**
Fee and commission income		302,633		302,633
Fee and commission expense		(32,159)		(32,159)
Net fee and commission income		**270,474**		**270,474**
Dividend income		7,984		7,984
Net trading income		(27,755)		(27,755)
Net gain on disposal of non-trading financial instruments		21		21
Net profit on foreign exchange		242,934		242,934
Other operating income		35,347		35,347
Operating income		**981,991**		**981,991**
General administrative expenses		(613,939)		(613,939)
Depreciation expense		(72,252)		(72,252)
Other operating expense	*(b)*	(53,302)	36,223	(17,079)
Profit / (loss) on sale of tangible fixed assets		7,268		7,268
Net impairment losses	*(a)*	26,534	(22,532)	4,002
Profit before tax		**276,300**	**13,691**	**289,991**
Corporate income tax		(55,121)	4,281	(50,840)
Net profit		**221,179**	**17,972**	**239,151**

Explanation of adjustments

a) Withdrawal of equity method

1)	Decrease of (net) impairment write-downs	(22,532)
2)	Decrease of corporate income tax liabilities	4,281

b) Reversal of goodwill amortization

1)	Increase of profit on other operating income/expenses	36,223

Income statement for the period between 1 January 2004 to 31 December 2004

In thousands of PLN	*Note*	PAS	Adjustment	IFRS
Interest and similar income		1,713,903		1,713,903
Interest expense and similar charges		(753,892)		(753,892)
Net interest income		**960,011**		**960,011**
Fee and commission income		595,113		595,113
Fee and commission expense		(65,390)		(65,390)
Net fee and commission income		**529,723**		**529,723**
Dividend income		8,984		8,984
Net trading income		69,611		69,611
Net gain on disposal of non-trading financial instruments		(16,816)		(16,816)
Net profit on foreign exchange		360,352		360,352
Other operating income		88,303		88,303
Operating income		**2,000,168**		**2,000,168**
General administrative expenses		(1,258,609)		(1,258,609)
Depreciation expense		(142,179)		(142,179)
Other operating expense	*(b)*	(118,823)	72,445	(46,378)
Profit / (loss) on sale of tangible fixed assets		4,214		4,214
Net impairment losses	*(a)*	(53,111)	(47,389)	5,722
Profit before tax		**537,882**	**25,056**	**562,938**
Corporate income tax		(123,668)	9,252	(114,416)
Net profit		**414,214**	**34,308**	**448,522**

Explanation of adjustments

a) Withdrawal of equity method

1)	Decrease of (net) impairment write-downs	(47,389)
2)	Decrease of corporate income tax liabilities	9,252

b) Reversal of goodwill amortization

1)	Increase of profit on other operating income/expenses	72,445

Cash flow

Value adjustments related to cash flow statement results directly from adjustments of items in balance sheet and income statement.

Differences between the information disclosed in these financial statements and previously published in the report for the second quarter of 2005.

The semi-annual financial statements for 2005 include changes as compared to the previously quarterly report for the second quarter of 2005, following verification of the financial data.

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

In thousands of PLN	**30.06.2005**	**31.12.2004**
Total assets		
Previously published	34,706,744	33,631,063
Effect of changes	50,221	178,068
Total assets after changes	**34,756,965**	**33,809,131**
Net profit		
Previously published	277,709	
Effect of changes	3,757	
Net profit after changes	**281,466**	
Shareholders' capital		
Previously published	4,926,923	
Effect of changes	3,757	
Shareholders' capital-after change	**4,930,680**	

46. Capital adequacy

The capital adequacy ratio was calculated according to the rules stated in the Resolution No. 4/2004 of the Commission for Banking Supervision of 8 September 2004 on the scope and detailed rules of stating capital requirements with respect to particular types of risk (...) (NBP Official Gazette No. 15, item 25 as amended).

	30.06.2005	**31.12.2004**
Total capital requirement	1,868,683	1,735,363
Funds held by the entity, including:	2,956,154	4,010,189
Primary funds (including reductions)	3,290,352	4,364,234
Counterpart funds	31,572	19,650
Reductions of the total primary and counterpart funds	365,770	373,695
Capital adequacy ratio	12.66	18.49

The decrease in the capital adequacy ratio mainly results from a decrease in the Bank's own equity as a result of allocation of part of supplementary capital and revaluation reserve amounting to PLN 1,149,804 thousand for dividend payment (see Note 33). The rest of the dividend amount of PLN 414,191 thousand originating from profit from 2004, which has not been taken into account in the calculation of the Bank's own equity.

Signatures of all Management Board Members

Date	Name	Position / function	Signature
26.09.2005	Sławomir Sikora	President of Management Board	
26.09.2005	Philip Vincent King	Vice- President of Management Board	
26.09.2005	Reza Ghaffari	Vice- President of Management Board	
26.09.2005	Lidia Jabłonowska-Luba	Member of Management Board	
26.09.2005	Michał H. Mrożek	Member of Management Board	