Bank Handlowy w Warszawie SA

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

October 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	887 922	830 019	217 601	175 439
Fee and commission income	350 937	332 718	86 003	70 326
Profit / (loss) before tax	401 350	328 466	98 358	69 427
Net profit / (loss)	318 249	266 094	77 993	56 244
Increase of net cash	62 488	(109 870)	15 467	(24 189)
Total assets	35 270 721	-	8 730 160	-
Due to central bank	364	-	90	-
Due to financial sector	4 922 990	-	1 218 532	-
Due to non-financial sector	16 384 035	-	4 055 354	-
Shareholders' equity	5 039 281	5 881 573	1 247 316	1 294 873
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)	38,57	45,01	9,55	9,91
Capital adequacy ratio (%)	13,87	-	13,87	-
Earning per ordinary share (PLN / EUR)	2,44	2,04	0,60	0,43
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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Consolidated income statement

In thousands of PLN — For the period	*Note*	01.01.-30.06. 2005	01.01.-30.06. 2004
Interest and similar income	*4*	887 922	830 019
Interest expense and similar charges	*4*	(353 753)	(336 814)
Net interest income	*4*	**534 169**	**493 205**
Fee and commission income	*5*	350 937	332 718
Fee and commission expense	*5*	(47 399)	(37 653)
Net fee and commission income	*5*	**303 538**	**295 065**
Dividend income	*6*	1 573	8 047
Net trading income	*7*	11 757	(27 396)
Net gain on disposal of non-trading financial instruments	*8*	102 861	21
Net profit on foreign exchange	*9*	204 817	233 797
Other operating income	*10*	27 136	37 826
Operating income		**1 185 851**	**1 040 565**
General administrative expenses	*11*	(693 281)	(636 281)
Depreciation expense	*12*	(69 990)	(72 684)
Other operating expenses	*13*	(34 701)	(18 957)
Profit / (loss) on sale of tangible fixed assets	*14*	(1 073)	7 648
Net impairment losses	*15*	17 028	1 276
Operating income		**403 834**	**321 567**
Share in profits / (losses) of undertakings accounted for under the equity method		(2 484)	6 899
Profit before tax		**401 350**	**328 466**
Income tax expense	*16*	**(83 101)**	**(62 372)**
Net profit		**318 249**	**266 094**
Weighted average number of ordinary shares	*17*	130 659 600	130 659 600
Net profit per ordinary share (in PLN)	*17*	**2,44**	**2,04**
Diluted weighted average number of ordinary shares	*17*	-	-
Diluted net profit per ordinary share (in PLN)	*17*	-	-

Consolidated 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***	7 212 949	5 317 395
Financial assets available for sale	***20***	5 112 453	6 091 194
Equity investments	***21***	27 758	28 087
Equity investments accounted for under the equity method	***22***	79 546	86 674
Loans and advances	***23***	19 589 721	18 972 259
to financial sector		*8 953 932*	*8 363 780*
to non-financial sector		*10 378 948*	*9 842 595*
accrued interest		*256 841*	*765 884*
Property and equipment	***26***	739 556	723 871
land, buildings and equipment		*690 405*	*723 871*
investment property		*49 151*	*-*
Intangible assets	***27***	1 327 726	1 309 766
Deferred income tax assets	***29***	186 255	238 914
Other assets	***30***	180 305	470 332
Total assets		**35 270 721**	**34 079 606**
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	***31***	22 833 652	22 123 050
deposits from		*21 307 025*	*20 245 918*
financial sector		*4 922 990*	*3 333 770*
non-financial sector		*16 384 035*	*16 912 148*
other liabilities		*1 471 388*	*1 819 709*
accrued interest		*55 239*	*57 423*
Financial liabilities from transfers of financial assets	***32***	552 792	-
Provisions	***33***	57 668	217 808
Income tax liabilities	***29***	5 728	24 226
Other liabilities	***34***	2 412 756	1 280 823
Total liabilities		**30 231 440**	**27 840 915**
EQUITY			
Issued capital	***35***	522 638	522 638
Share premium	***35***	3 004 137	3 077 176
Revaluation reserve	***35***	31 572	19 651
Other reserves		1 116 876	2 131 460
Retained earnings (losses brought forward)		45 809	(7 197)
Profit / (loss) - current period		318 249	494 963
Total equity		**5 039 281**	**6 238 691**
Total liabilities and equity		**35 270 721**	**34 079 606**

Consolidated 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**	**3 068 974**	**(13 212)**	**2 082 580**	**286 543**		**5 947 523**
Effects of transition to IFRS with retrospective corrections		3 199		44 835	(43 470)		(4 567)
Balance as of 1 January 2004- after opening balance restatement	**522 638**	**3 072 173**	**(13 212)**	**2 127 415**	**243 073**		**5 952 087**
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	-	-	-	-	-	266 094	266 094
Dividends for payment	-	-	-	-	(241 720)	-	(241 720)
Transfers to capital	-	4 631	-	790	(5 421)	-	-
Closing balance as of 30 June 2004	**522 638**	**3 076 804**	**(108 228)**	**2 128 333**	**(4 068)**	**266 094**	**5 881 573**

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 IFRS balance at 1 January 2005 with retrospective corrections	**522 638**	**3 077 176**	**19 651**	**2 131 460**	**487 766**		**6 238 691**
Effects of transition to IFRS with retrospective corrections			2 479		34 355		36 834
Balance as of 1 January 2005- after opening balance restatement	**522 638**	**3 077 176**	**22 130**	**2 131 460**	**522 121**		**6 275 525**
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	-	-	-	-	-	318 249	318 249
Dividends for payment		(100 000)		(1 049 804)	(414 191)		(1 563 995)
Transfers to capital		26 961		35 159	(62 120)		-
Closing balance as of June 30, 2005	**522 638**	**3 004 137**	**31 572**	**1 116 876**	**45 809**	**318 249**	**5 039 281**

Consolidated statement of cash flows

In thousands of PLN **For the period**	**01.01.-30.06. 2005**	**01.01.-30.06. 2004**
A. Cash flows from operating activities		
I. Net profit (loss)	**318 249**	**266 094**
II. Adjustments to reconcile net profit or loss to net cash provided by operating activities:	**187 373**	**(333 202)**
	83 101	62 372
Current and deferred tax income, recognised in income statement	2 484	(6 899)
Amortisation	69 990	72 684
Impairment	(8 456)	60 676
Net provisions (recoveries)	(8 572)	(62 032)
Net gains/ (losses) on sale of investments	4 308	20 147
Other adjustments	(1 675 532)	(775 935)
Cash flows from operating profits before changes in operating assets and liabilities	**(1 532 677)**	**(628 986)**
Increase / decrease in operating assets (excl. cash and cash equivalents)	**(1 022 235)**	**(63 535)**
Increase / decrease in loans and receivables	(535 344)	4 948 954
Increase / decrease in assets available for sale	978 741	(4 242 303)
Equity investments	(1 932)	(3 843)
Increase / decrease in assets held for trading	(1 895 554)	(850 882)
Increase / decrease in deferred charges	40 006	(15 920)
Increase / decrease in other assets	391 848	100 459
Increase / decrease in operating liabilities (excl. cash and cash equivalents)	**2 742 285**	**359 319**
Increase / decrease in advances from central bank	(354)	(39 452)
Financial liabilities valued at amortised cost	1 148 580	980 196
Increase / decrease in liabilities held for trading	176 467	(329 707)
Increase / decrease in deferred income	(83 792)	(101)
Increase / decrease in other liabilities	1 501 384	(251 617)
Cash flows from operating activities	**505 622**	**(67 108)**
Income taxes (paid) refunded	**(23 297)**	**(52 065)**
III. Net cash flows from operating activities	**482 325**	**(119 173)**
B. Cash flows from investing activities	(52 543)	(43 329)
Cash payments to acquire tangible assets	2 989	1 908
Cash receipts from the sale of tangible assets	(33 372)	(10 567)
Cash payments to acquire intangible assets	6 157	3 004
Cash receipts from the disposal of investments in subordinated entities	1 580	8 032
Other cash receipts related to investing activities	**(75 189)**	**(40 952)**
Net cash flows from investing activities		
C. Cash flows from financing activities	19 292	103 532
Other cash proceeds related to financing activities	(363 940)	(53 277)
Other cash payments related to financing activities	**(344 648)**	**50 255**
Net cash flows from financing activities		
D. Effect of exchange rate changes on cash and cash equivalent	**3 907**	**(1 982)**
E. Increase in net cash	**62 488**	**(109 870)**
F. Cash at the beginning of reporting period	**972 156**	**1 211 881**
G. Cash at the end of reporting period	**1 034 644**	**1 102 011**

Explanatory notes to the consolidated 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.

This consolidated quarterly report shows the results of operations of the Capital Group of Bank Handlowy w Warszawie SA ("the Group"), composed of Bank Handlowy w Warszawie SA ("the Bank") as the parent and its subsidiaries ("the Group").

The Bank is a member of Citigroup Inc.

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

As of 30 June 2005, the structure of subsidiaries entities is as follows:

Company	**Registered office**	**Share in the total number of votes at the General Meeting of Shareholders*** **30.06.2005**	**31.12.2004**	**Consolidation / valuation method**
Dom Maklerski Banku Handlowego S.A.	Warsaw	100,00	100,00	full method
Citileasing Sp. z o.o.	Warsaw	100,00	100,00	full method
Handlowy Leasing S.A.	Warsaw	100,00	100,00	full method
Handlowy Zarządzanie Aktywami S.A.	Warsaw	100,00	100,00	full method
Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A.	Warsaw	100,00	100,00	full method
Handlowy Inwestycje Sp. z o.o.	Warsaw	100,00	100,00	valuation under the equity method
Handlowy Investments S.A.	Luksemburg	100,00	100,00	valuation under the equity method
Handlowy Investments II S.a.r.l.	Luksemburg	100,00	100,00	valuation under the equity method
Bank Rozwoju Cukrownictwa S.A.	Poznań	100,00	100,00	valuation under the equity method
Polskie Pracownicze Towarzystwo Emerytalne DIAMENT S.A. under liquidation	Warsaw	79,27	79,27	valuation under the equity method
PPH Spomasz Sp. z o.o. under liquidation	Warsaw	100,00	100,00	not subject to the valuation under the equity method

* direct and indirect

As of 1 January 2004 the Group increased the number of entitles that are fully consolidated to include the following entities: Citileasing Sp. z o.o., Handlowy Leasing SA, Handlowy Zarządzanie Aktywami SA (asset management company) and Towarzystwo Funduszy Inwestycyjnych Banku Handlowego SA (investment fund company). Other subsidiaries, with the exception of PPH Spomasz Sp. z o.o. under liquidation, are accounted for by the valuation under the equity method in the consolidated financial statements. The financial data of those entities are very small in relation to the financial data of the Bank – the dominant entity, and immaterial to present a true and fair view of the assets and financial situation as well as the financial results of the Group.

As of 30 June 2005, the structure of associated entities is as follows:

Company	**Registered office**	**Share in the total number of votes at the General Meeting of Shareholders***		**Consolidation / valuation method**
		30.06.2005	**31.12.2004**	
Handlowy Heller S.A.	Warsaw	50,00	50,00	valuation under the equity method
KP Konsorcjum Sp. z o.o.	Warsaw	49,99	49,99	valuation under the equity method
Creditreform PL. Sp. z o.o.	Warsaw	-	49,03	not subject to the valuation under the equity method
Mostostal Zabrze Holding S.A.	Zabrze	-	34,44	not subject to the valuation under the equity method
NIF FUND Holdings PCC Ltd.	Guernsey	23,86	23,86	not subject to the valuation under the equity method

* direct and indirect

The Bank offers a wide range of banking service in the domestic and foreign markets for individuals and corporates. Additionally the Group operates in following segments of business though its subordinated entities.

a. brokerage operations,
b. provision of financial, lease, and factoring services,
c. investment operations.

2. Significant accounting policies

Statement of compliance

The semi-annual financial statements of the Group 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 Group 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 Group is also preparing a consolidated financial statement for the first half of 2005 in 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 Group and the cash flows.

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

When preparing these financial statements, the Group 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 Group.

Foreign currencies

Functional currency and presentation currency

The financial statements of Group companies are valued in the currency of the primary economic environment in which the given company operates. The Polish currency is currency the Group. The consolidated financial statements of the Group are presented in Polish currency.

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:

in 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 Group 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 Group did not classify assets to investments held to maturity.

The Group 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 Group 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 Group'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 Group 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 Group 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 Group determines fair value using appropriate valuation techniques.

Finance lease receivables

The Group enters into lease agreements, on the basis of these agreements the Group return a payment using or receiving benefits from assets for negotiated period.

Leases where the Group transfers substantially all the risk and rewards incidental to ownership of the leased included in the balance sheet. A receivable representing amount equal to the net investment in the lease is recognized.

The recognition of finance lease is based on an effective interest method reflecting a constant periodic rate of return on the Group's net investment in the finance lease.

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 Group 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 Group does not offset and present its financial assets and liabilities on a net basis.

Repo / reverse repo transactions

The Group 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 Group's assets and the Group 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 Group 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 Group 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 Group 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 Group, 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 Group 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 assets other than financial assets

The carrying values of the Group'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 Group 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 Group'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.

Intra-Group transactions and balances are eliminated on consolidation. Material unrealized gains and losses on transactions between Group companies are also eliminated unless a loss on an intra-Group.
Accounting policies of subsidiaries have been changed where necessary to ensure consistency in all material respects with the policies adopted by the Group.

Subordinated entities, which are not fully due to the immateriality of their financial statements in the consolidated financial statements of the Group, are presented in accordance with the equity method.

Associates - definition

Associates are those entities over which the Group 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. In the initial approach the shares in associates entities are presented in accordance with purchase price. The Group's investment in associates includes goodwill (net of any accumulated impairment write-off) determined at the acquisition date. The Group's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in Other reserves is recognized in Other reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Material unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Accounting policies of associates have been changed where necessary to ensure consistency in all material respects with the policies adopted by the Group.

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 Group'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 Group, goodwill is the excess of the acquisition cost over the Group'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 Group 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 Group 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 Group’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 Group as investment properties are presented in the financial statements as part of property and equipment. The Group applies the fair value model to their valuation.

Employee benefits

Short-term employee benefits

Short-term employee benefits of the Group 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 Group guarantees its employees retirement benefits, which depend on the length of service with the Group 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 Group enables its employees to join the pension plan, which is discussed in detail in Note 44. The Group 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 Group's balance sheet if the Group 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 Group 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 Group records accruals and prepayments of expenses, primarily in relation to the Group'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 Group 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 Group 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 Group'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 Group 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 recognized 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 Group segment since both risks and rates of return result from differences between products. The Group 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 Group.

Accounting estimates and judgments

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 Group 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 Group 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 Group assesses whether there is objective evidence of impairment of loan exposures. If so, the Group 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 Group 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 Group'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 Group 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 Group 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 Group 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 Group's operating activities have been divided into three business segments:

- *Corporate and Investment Bank.* Within the segment, the Group 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 Group'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 Group 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 Group 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 Group's accounting policies contained in the notes describing the adopted accounting policies.

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

The Group 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 Group decided not to present its results by geographical area.

The financial results of the Group 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	256 101	232 814	45 254	534 169
Net fee and commission income	186 348	114 402	2 788	303 538
Dividend income	1 573	-	-	1 573
Net trading income	9 645	2 112	-	11 757
Net gain on disposal of non-trading financial instruments	102 861	-	-	102 861
FX income	185 765	19 052	-	204 817
Other operating income	22 574	4 602	(40)	27 136
Operating income	**764 867**	**372 982**	**48 002**	**1 185 851**
General administrative expenses	(363 926)	(282 733)	(46 622)	(693 281)
Depreciation expense	(49 523)	(19 840)	(627)	(69 990)
Other operating expense	(28 654)	(6 047)	-	(34 701)
Profit/ (loss) on sale of tangible fixed assets	398	(1 471)	-	(1 073)
Net impairment losses	35 061	(10 535)	(7 498)	17 028
Share in profits / (losses) of undertakings accounted for under the equity method	(2 484)	-	-	(2 484)
Profit before tax	**355 739**	**52 356**	**(6 745)**	**401 350**
Corporate income tax				(83 101)
Net profit				**318 249**

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

Balance sheet	Corporate and Investment Bank	Consumer Bank	Citifinancial	Total
Assets	32 524 876	2 305 894	439 951	35 270 721
Liabilities	28 728 127	6 435 106	107 488	35 270 721

The financial results of the Group 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	268 957	209 412	14 836	493 205
Net fees and commissions income	181 850	112 300	915	295 065
Dividends	8 047	-	-	8 047
Net trading income	(31 838)	4 442	-	(27 396)
Net gain on disposal of non-trading financial instruments	21	-	-	21
FX income	217 387	16 410	-	233 797
Other operating income	34 419	3 477	(70)	37 826
Operating income	**678 843**	**346 041**	**15 681**	**1 040 565**
General administrative expenses	(380 477)	(234 966)	(20 838)	(636 281)
Depreciation expense	(55 697)	(16 644)	(343)	(72 684)
Other operating expense	(13 800)	(5 157)	-	(18 957)
Profit/ (loss) on sale of tangible fixed assets	7 802	(154)	-	7 648
Net impairment write downs	(1 644)	4 104	(1 184)	1 276
Share in profits / (losses) of undertakings accounted for under the equity method	6 899	-	-	6 899
Profit before tax	**241 926**	**93 224**	**(6 684)**	**328 466**
Corporate income tax				(62 372)
Net profit				**266 094**

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

Balance sheet	Corporate and Investment Bank	Consumer Bank	Citifinancial	Total
Assets	31 712 443	2 030 255	336 908	34 079 606
Liabilities	27 643 151	6 383 743	52 712	34 079 606

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:	538 887	567 376
financial sector	27 749	19 360
non-financial sector	511 138	548 016
Financial assets available-for-sale	159 520	158 737
Financial assets held for trading	50 915	55 018
	887 922	**830 019**
Interest expense and similar charges for:		
Central bank	(9)	(148)
Deposits from banks	(38 047)	(45 494)
Deposits from financial sector (excl. banks)	(34 594)	(35 002)
Deposits from non-financial sector	(263 095)	(236 755)
Loans and advances received	(17 993)	(19 400)
Others	(15)	(15)
	(353 753)	**(336 814)**
Net interest income	**534 169**	**493 205**

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 44 376 thousand (30 June 2004: PLN 125 599 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	55 453	68 484
Payment and credit cards	43 765	56 023
Custody services	38 472	26 210
Asset and liabilities management	39 994	39 736
Off-balance sheet guarantee liabilities	10 297	13 868
Off-balance sheet financial liabilities	3 277	4 742
Brokerage operations	36 530	19 770
Other	57 464	53 078
	350 937	**332 718**
Fee and commission expense		
Insurance products	(23 541)	(19 591)
Payment and credit cards	(3 628)	(4 483)

In thousands of PLN	**01.01.-30.06 2005**	**01.01.-30.06 2004**
Fees paid KDPW	(2 919)	(2 833)
Brokers fees	(1 568)	(923)
Brokerage operations	(11 781)	(5 261)
Others	(3 962)	(4 562)
	(47 399)	**(37 653)**
Net fee and commission income	**303 538**	**295 065**

6. Dividend income

In thousands of PLN	**01.01. - 30.06. 2005**	**01.01. - 30.06. 2004**
Papiery wartościowe przeznaczone do obrotu	10	63
Papiery wartościowe dostępne do sprzedaży	1 563	7 984
	1 573	**8 047**

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	7 827	(32 431)
Equity instruments and related derivatives	2 548	3 188
Commodity instruments and related derivatives	1 382	1 847
	11 757	**(27 396)**

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	344 032	31 410
Currency derivatives exchange	(139 215)	202 387
	204 817	**233 797**

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	2 863	3 229
rent income from investment property	*2 037*	*2 353*
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	15 015	19 701
	27 136	**37 826**

11. General administrative expenses

In thousands of PLN	**01.01.-30.06 2005**	**01.01.-30.06 2004**
Staff expenses:		
Wages and salaries	(266 595)	(231 052)
Social security contributions and other benefits	(53 186)	(45 185)
Retirement benefits	(24 602)	(6 425)
Provision for restructuring	-	(25 131)
Payments related to own equity instruments	(6 324)	(8 919)
Others	(78)	(92)
	(350 785)	**(316 804)**
Administrative expenses		
Telecommunication expenses	(90 015)	(89 136)
Service expenses	(68 451)	(64 337)
Building maintenance	(29 200)	(29 532)
Rent	(28 215)	(29 185)
Advisory, audit and consulting services expenses	(27 685)	(16 379)
Marketing expenses	(19 976)	(13 316)
Postal services	(8 788)	(9 110)
IT expenses	(7 967)	(6 099)
Training and education	(5 591)	(3 744)
Insurance expenses	(2 573)	(1 114)
Charges for KIR, BRIR	(2 270)	(3 178)
Bank Guarantee Fund expenses	(1 851)	(3 976)
Other	(49 914)	(50 341)
	(342 496)	**(319 477)**
	(693 281)	**(636 281)**

In the first half of 2005 the Bank – parent entity 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	(54 593)	(56 217)
Intangible assets	(15 397)	(16 467)
	(69 990)	**(72 684)**

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	(11 053)	(7 168)
	(34 701)	**(18 957)**

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	1 206
Investments in subordinated entities	740	7 542
End of finance lease agreements	204	368
	1 977	**9 116**
Losses on:		
Tangible fixed assets	(3 050)	(438)
Investments in subordinated entities	-	(1 030)
	(3 050)	**(1 468)**
Profit / (loss) on sale o tangible fixed assets	**(1 073)**	**7 648**

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	-	-
Loans and receivables valued at amortized cost (including finance leases)	(339 322)	(464 127)
Other	(25 332)	(2 118)
	(364 654)	**(466 245)**
Reversals of impairment write-downs:		
Equity investments	-	1 500
Loans and receivables valued at amortized cost (including finance leases)	369 309	400 300
Other	3 801	3 769
	373 110	**405 569**
Net impairment write-downs of receivables	**8 456**	**(60 676)**

Net (charges to) / releases of provisions for liabilities

In thousands of PLN	01.01.-30.06 2005	01.01.-30.06 2004
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**
	17 028	**1 276**

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	**(196 508)**	**(140 043)**
Current year	(195 539)	(140 043)
Adjustments for prior years	(969)	0
Deferred tax expense	**113 407**	**77 671**
Origination and reversal of temporary differences	109 164	66 929
Other, including:	4 243	10 742
Movement in receivables arising from tax deductions	(2 093)	10 742
Total income tax expense in income statement	**(83 101)**	**(62 372)**

Reconciliation of effective tax rate

In thousands of PLN	01.01. - 30.06. 2005	01.01. - 30.06. 2004
Profit before tax	**401 350**	**328 466**
Income tax using the domestic corporation tax rate	(76 256)	(62 408)
Non-deductible expenses	(12 600)	(1 509)
Deductible expenses not mentioned in income statement	25 346	20 890
Non taxable income	4 554	143
Taxable income not mentioned in income statement	(25 185)	(20 182)
Tax exempt revenues	1 040	694
Ogółem obciążenie wyniku	**(83 101)**	**(62 372)**

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	**2,44**	**2,04**

The calculation of earnings per share at 30 June 2005 was based on profit attributable to ordinary shareholders of PLN 318 249 thousand (30 June 2004: PLN 266 094 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 Group 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 Group 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 Group 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	149 750	191 166
Government	2 607 054	860 197
Other debt instruments:		
Banks	28 775	8 520
	2 877 482	**1 212 090**
Listed	*2 563 898*	*841 709*
Unlisted	*313 584*	*370 381*
Derivative instruments	**4 332 480**	**4 105 123**
Capital instruments	**2 987**	**182**
Listed	*2 987*	*182*
Unlisted	-	-

In thousands of PLN	**01.01.-30.06 2005**	**01.01.-30.06 2004**
	7 212 949	**5 317 395**
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 Group's liabilities arising from the deposits accepted in relation repurchase transactions on securities (31 December 2004: PLN 250 990 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	**62 850 807**	**70 204 193**	**78 755 396**	**18 535 886**	**230 346 282**	**3 761 282**	**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*	694 859	717 517	-	-	1 412 376	150	177
Future contracts-sale*	608 369	-	-	-	608 369	55	381
Currency instruments	**32 459 975**	**15 442 984**	**880 141**	-	**48 783 100**	**555 274**	**581 488**
FX forward	3 030 168	2 267 238	260 056		5 557 462	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	**99 379 779**	**85 788 094**	**79 666 043**	**18 535 886**	**283 369 802**	**4 332 480**	**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**	**2 433 878**	**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	2 060 566
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	**19 653 517**	**18 668 194**	**4 080 356**	-	**42 402 067**	**1 651 938**	**1 572 406**
FX forward	1 090 031	2 085 222	866 760		4 042 013	149 200	226 650
FX swap	14 755 346	11 540 330	2 642 009		28 937 685	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	**43 145 346**	**65 175 003**	**68 989 642**	**14 597 615**	**191 907 606**	**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	3 437 562	3 519 955
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	3 306 904
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	7 547 473
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	11 013 161
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	268 343	264 898
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 Group'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 Group 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 Group'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	-	329
Stocks and shares in other entities	67 055	67 055
Impairment	(39 297)	(39 267)
	27 758	**28 087**
Listed instruments	*344*	*344*
Unlisted instruments	*27 414*	*27 743*

The movement in equity investments is as follows:

In thousands of PLN	**Associated entities**	**Other entities**	**Total**
As of 1 January 2005	**329**	**27 758**	**28 087**
Increases (in respect of)			
revaluation	467	-	467
Decrease (in respect of)			
purchases	(796)	-	(796)
As of 30 June 2005	**-**	**27 758**	**27 758**

In thousands of PLN	**Associated entities**	**Other entities**	**Total**
As of 1 January after opening balance transformation	**6 329**	**23 643**	**29 972**
Increases (in respect of)			
purchases	-	476	476
revaluation	811	-	811
reclassified from associated shares	-	4 715	4 715
Decreases (in respect of)			
purchases	(2 096)	(1 076)	(3 172)
reclassified to minority shares	(4 715)	-	(4 715)
As of 31 December 2004	**329**	**27 758**	**28 087**

22. Equity investment accounted for under the equity method

In thousands of PLN	**30.06.2005**	**31.12.2004**
Stocks and shares in subordinated entities	61 986	68 503
Stocks and shares in associated entities	17 560	18 171
	79 546	**86 674**
Listed instruments	-	-
Unlisted instruments	*79 546*	*86 674*

The movement in equity investments is as follows:

In thousands of PLN	**Associated entities**	**Subordinated entities**	**Total**
As of 1 January 2005	**68 503**	**18 171**	**86 674**
Increases (in respect of)			
purchases	467	-	467
revaluation	12 095	389	12483
FX differences	3 439	-	3439
Decreases (in respect of)			
sales	(471)	-	(471)
revaluation	(8 160)	(1 000)	(9 160)
FX differences	(3 807)	-	(3 807)
settlement of capital contribution	(10 080)	-	(10 080)
As of 30 June 2005	**61 986**	**17 560**	**79 546**

In thousands of PLN	**Associated entities**	**Subordinated entities**	**Total**
As of 1 January 2004	**63 509**	**11 382**	**74 891**
Increases (in respect of)			
revaluation	17 180	9 248	26 428
FX differences	2 788	-	2 788
Decreases (in respect of)			
sales	(6 154)	(2 459)	(8 613)
revaluation	(8 820)	-	(8 820)
As of 31 December 2004	**68 503**	**18 171**	**86 674**

Financial information on subordinates 30.06.2005

Subordinated entities consolidated under the full method

In thousands of PLN

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Relationship other than mentioned in basis for control / significant influence	Assets	Liabilities	Equity	Revenues	Profit/(loss)
CITILEASING Sp. z o.o. [1/]	Warsaw	Leasing	Subsidiary undertaking	97.47		183 672	12 532	171 140	5 134	4 009
DOM MAKLERSKI BANKU HANDLOWEGO SA	Warsaw	Brokerage	Subsidiary undertaking	100.00		657 544	567 252	90 292	44 633	13 826
TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH BH S.A.	Warsaw	Investment activity	Subsidiary undertaking	100.00		31 933	1 934	28 725	20 199	5 280
HANDLOWY ZARZĄDZANIE AKTYWAMI S.A.	Warsaw	Brokerage	Subsidiary undertaking	100.00		6 036	1393	4 643	4 387	76
HANDLOWY LEASING S.A.	Warsaw	Leasing, rent and hire purchase of real estate	Subsidiary undertaking	100.00		744 499	733 606	10 893	29 179	9 831

Other entities

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)
BANK ROZWOJU CUKROWNICTWA S.A.	Poznań	Banking	Subsidiary undertaking	100.00		41 599	44 543	318	41 599	1 843	1 040
HANDLOWY- INVESTMENTS S.A. [1/]	Luksembourg	Investment activity	Subsidiary undertaking	100.00		-	89 141	157 504	(68 363)	-	2 594
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)
HANDLOWY INWESTYCJE Sp. z o.o. [2/]	Warsaw	Investment activity	Subsidiary undertaking	100.00		4 677	16 296	6 256	10 040	-	682
POLSKIE PRACOWNICZE TOWARZYSTWO EMERYTALNE DIAMENT S.A. w likwidacji	Warsaw	Insurance	Subsidiary undertaking	79.27		19	Entity under liquidation				

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 HELLER S.A.	Warsaw	Factoring	Joint-venture	25.00	Indirect relationship- see note below the table	7 060	451 092	422 853	28 239	21 641	3 469
KP KONSORCJUM Sp. z o.o.	Warsaw	Investment fund management	Associated undertaking	49.99		10 500	22 052	4 055	17 997	3 157	(54)

The explanation of indirect relationships:

1/ 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	34 605	23 982	10 623	-	(468)
NIF FUND HOLDINGS PCC Ltd.	Guernsey	Investment activity	Associated undertaking	23.86		17 308	bd	bd	bd	bd	bd

2/ 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		-	183 672	12 532	171 140	5 134	4 009
HANDLOWY HELLER S.A.	Warsaw	Factoring	Joint-venture	25.00		7 060	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

Subordinated entities consolidated under the equity method

In thousands of PLN

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Relationship other than mentioned in basis for control / significant influence	Assets	Liabilities	Equity	Revenues	Profit/(loss)
CITILEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	97.47	Indirect relationship- see note below the table	189 273	21 308	167 410	13 122	3 580
DOM MAKLERSKI BANKU HANDLOWEGO SA	Warsaw	Brokerage	Subsidiary undertaking	100.00		361 542	261 653	93 266	62 876	18 261
TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH BH S.A.	Warsaw	Investment activity	Subsidiary undertaking	100.00		26 839	2 796	23 446	24 577	6 315
HANDLOWY ZARZĄDZANIE AKTYWAMI S.A.	Warsaw	Brokerage	Subsidiary undertaking	100.00		6 352	630	4 567	6 524	(412)
HANDLOWY LEASING S.A.	Warsaw	Leasing, rent and hire purchase of real estate	Subsidiary undertaking	100.00		755 202	727 980	25 671	98 895	21 920

Other entities

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		Equity	Revenues	Profit/(loss)
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. [1/]	Luksembourg	Investment activity	Subsidiary undertaking	100.00		-	118 777	189 567	(70 790)		(18 193)
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

Name of subordinate	Location	Activity	Capital relationship	equity [%]	Relationship other than mentioned in basis for control / significant influence	Book value of investment	Assets	Liabilities		Revenues	Profit/(loss)
HANDLOWY INWESTYCJE II Sp. z o.o.	Warsaw	Investment activity	Subsidiary undertaking	100.00			4 100	26	4 074	-	175
HANDLOWY INWESTYCJE Sp. z o.o. 2/	Warsaw	Investment activity	Subsidiary undertaking	100.00		3 751	15 307	6 054	9 253	-	706
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	6 671	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		11 500	28 017	9 966	18 051	15 533	(5 510)
CREDITREFORM PL Sp. z o.o.	Warsaw	Business investigation agency	Associated undertaking	49.03		329	627	318	308	5 173	132

The explanation of indirect relationships:

1/ 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

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)
NIF FUND HOLDINGS PCC Ltd.	Guernsey	Investment activity	Associated undertaking	23.86		17 475	83 928	3 316	80 612	29 644	26 669

2/ 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		-	189 273	21 308	167 410	13 122	3 580
HANDLOWY HELLER S.A.	Warsaw	Factoring	Joint-venture	25.00		6 671	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.

23. 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	48 079	90 450
Loans, placements and advances, including:	8 565 798	7 892 900
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	468 787	209 723
	9 098 162	8 498 883
Impairment write-offs	(144 230)	(135 103)
	8 953 932	**8 363 780**
Loans and advances to non-financial sector		
Loans and advances	11 929 236	11 265 874
Purchased receivables	211 573	163 989
Realised guarantees	65 240	66 781
Other receivables	27 375	11 142
	12 233 424	11 507 786
Impairment write-offs	(1 854 476)	(1 665 191)
	10 378 948	**9 842 595**
Accrued interest	**256 841**	**765 884**
Loans and other receivables	**19 589 721**	**18 972 259**

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)

The total receivables form financial sector as of 30 June 2005 include PLN 76 084 thousand representing pledges and assignments of Group (31 December 2004: PLN 9 150 thousand), including:

- funds in the Stock Exchange Guarantee Fund amounting to PLN 70 156 thousands representing pledges and assignments of operations on securities of Group (31 December 2004 PLN 2 505 thousand),
- deposit hedging forward contracts with the National Depository of Securities amounting PLN 5 928 thousand (31 December 2004 PLN 6 645 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	6 337 363	6 819 027
1 month- 3 months	457 145	725 737
3 months- 1 year	1 502 299	643 718
1 year- 5 years	714 356	297 692
over 5 years	86 999	12 709
	9 098 162	**8 498 883**
Loans and advances to non-financial sector		
up to 1 month	7 123 722	6 687 048
1 month- 3 months	719 300	642 043
3 months- 1 year	1 563 604	1 752 649
1 year- 5 years	2 638 039	2 285 398
over 5 years	188 759	140 648
	12 233 424	**11 507 786**
Loans and advances- gross	**21 331 586**	**20 006 669**

24. Impairment of loans and advances

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

In thousands of PLN	**2005**	**2004**
1 January	**1 800 294**	**1 674 500**
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	1 790 543	1 662 304
Effects of transition to IFRS	76 556	-
1 January - after restatement of opening balance	1 876 850	1 674 500
Change of impairment write downs	121 856	125 794
Charges	347 019	916 151
Write-offs	(11 629)	(152 600)
Amounts released	(377 006)	(641 181)
Other	163 472	3 424
Closing balance	**1 998 706**	**1 800 294**
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	1 987 269	1 790 543

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	474 381
Individual impairment loss	1 442 962
Incurred but not reported losses	81 363

In comparable periods the Group 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.

25. Finance lease receivables

The Group operates on the leasing market through its subordinated companies Citileasing Sp. z o.o. and Handlowy – Leasing SA. The Group focused on the finance lease of vehicles, machines and equipment. The items "Loans and advances from non-financial sector" contains the following amounts relating to finance lease obligations:

In thousands of PLN	**30.06.2005**	**31.12.2004**
Gross finance lease receivables	682 440	774 673
Unearned finance income	(1 297)	-
Net finance lease receivables	681 143	774 673
Gross finance lease receivables maturity		
Less then 1 year	289 267	291 064
between 1 and 5 years	393 173	483 609
over 5 years	-	-
	682 440	774 673
Net finance leass receivables maturity		
Less then 1 year	287 970	291 064
between 1 and 5 years	393 173	483 609
over 5 years	-	-
	681 143	774 673

As of 30 June 2005 provisions for unrecoverable finance lease receivables are presented in Note 24 „Impairment of loans and advances" and amounted to 66 516 thousand (31 December 2004: 67 846 thousand). Finance lease income is presented in interest income.

26. Property and equipment

Land, buildings and equipment

In thousands of PLN

	Land and buildings	Machines and equipment	Vehicles	Other	Under construction	Total
Cost						
Balance as of 1 January 2004	**769 741**	**1 410**	**56 626**	**673 575**	**18 201**	**1 519 553**
Additions:						
Purchases	2 149	85	382	33 112	61 464	97 192
Reclassification	17 348		18 161	18 957	-	54 466
Other increases				3 068		3 068
Disposals:						
Disposals	(176)	(99)	(11 792)	(2 440)		(14 507)
Reclassification	-	-	-	-	(74 643)	(74 643)
Other decreases	(13 383)	(2)	(318)	(62 803)		(76 506)
Balance as of 31 December 2004	**775 679**	**1 394**	**63 059**	**663 469**	**5 022**	**1 508 623**
Balance as of 1 January 2005	**775 679**	**1 394**	**63 059**	**663 469**	**5 022**	**1 508 623**
Effects of transition to IFRS	(41 249)		-	-	-	(41 249)
As of 1 January - after restatement of opening balance	**734 430**	**1 394**	**63 059**	**663 469**	**5 022**	**1 467 374**
Additions:						
Purchases	750	5	124	22 521	30 439	53 839
Reclassification	8 523		11 685	5 519	-	25 727
Other increases	-	-	-	3 310	-	3 310
Disposals:						
Disposals	-	(23)	(7 767)	(1 292)	-	(9 082)
Reclassification	-	-	-	-	(28 117)	(28 117)
Other decreases	(5 178)	(1)	(78)	(24 194)	(262)	(29 713)
Balance as of 30 June 2005	**738 525**	**1 375**	**67 023**	**669 333**	**7 082**	**1 483 338**
Depreciation and amortization						
Balance as of 1 January 2004	**177 841**	**1 150**	**23 811**	**540 560**	**-**	**743 362**
Increases:						
Depreciation charge for the period	38 524	151	11 445	70 462		120 582
Other increases				2 232		2 232
Decreases:						
Disposals	(175)	(95)	(9 050)	(2 430)		(11 750)
Other decreases	(9 325)	(1)	(114)	(61 925)		(71 365)
Balance as of 31 December 2004	**206 865**	**1 205**	**26 092**	**548 899**	**-**	**783 061**
Balance as of 1 January 2005	**206 865**	**1 205**	**26 092**	**548 899**	**-**	**783 061**
Effects of transition to IFRS	(17 554)		-	-		(17 554)
As of 1 January - after restatement of opening balance	**189 311**	**1 205**	**26 092**	**548 899**	**-**	**765 507**
Increases:						
Depreciation charge for the year	19 492	51	6 321	28 803		54 667
Other increases	238		-	3 318		3 556
Decreases:						
Disposals		(16)	(5 834)	(511)		(6 361)
Other decreases	(3 360)	(1)	(64)	(22 702)		(26 127)
Balance at 30 June 2005	**205 681**	**1 239**	**26 515**	**557 807**	**-**	**791 242**

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	590 447	260	32 815	132 777	18 201	774 500
At 31 December 2004	567 361	189	36 966	114 331	5 022	723 871
At 1 January 2005	543 666	189	36 967	114 332	5 022	700 176
At 30 June 2005	531 391	136	40 508	111 288	7 082	690 405

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 Group 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.

27. 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**	**1 678**	**167 672**	**379**	**288**	**1 618 924**
Additions:						
Purchases		74	16 145	31		16 250
Investments					5 907	5 907
Reclassification			21 136			21 136
Disposals:						
Disposals					(5 289)	(5 289)
Other decreases					(799)	(799)
Balance as of December 2004	**1 448 907**	**1 752**	**204 953**	**410**	**107**	**1 656 129**
Balance as of 1 January 2005	**1 448 907**	**1 752**	**204 953**	**410**	**107**	**1 656 129**
Additions:						
Purchases	4 876		4 155	20 589		29 620
Investments					3 751	3 751
Reclassification			175			175
Disposals:						
Other decreases					(186)	(186)
Balance as of 30 June 2005	**1 453 783**	**1 752**	**209 283**	**20 999**	**3 672**	**1 689 489**
Depreciation and amortization						
Balance as of 1 January 2004	**205 262**	**1 322**	**116 897**	**366**	**-**	**323 847**
Increases:						
Depreciation charge for the period	-	154	22 341	21	-	22 516
Balance as of 31 December 2004	**205 262**	**1 476**	**139 238**	**387**	**-**	**346 363**
Balance as of 1 January 2005	**205 262**	**1 476**	**139 238**	**387**		**346 363**
Increases:						
Depreciation charge for the period		64	14 324	1 012		15 400
Balance as of 30 June 2005	**205 262**	**1 540**	**153 562**	**1 399**	**-**	**361 763**
Carrying amounts						
At 1 January 2004	1 243 645	356	50 775	13	288	1 295 077
At 31 December 2004	1 243 645	276	65 715	23	107	1 309 766
At 1 January 2005	1 243 645	276	65 715	23	107	1 309 766
At 31 June 2005	1 248 521	212	55 721	19 600	3 672	1 327 726

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 Group 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 organized part of enterprise from ABN AMRO Bank (Poland) S.A.

28. 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 organized 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.

29. Deferred income tax assets and liabilities

In thousands of PLN	**30.06.2005**	**31.12.2004**
Deferred income tax assets*		
Current	11 344	11 304
Deferred	174 911	227 610
	186 255	**238 914**

In thousands of PLN	**30.06.2005**	**31.12.2004**
Deferred income tax liabilities*		
Current	5 728	24 226
Deferred	-	-
	5 728	**24 226**

* 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	65 029	46 095
Loan loss provisions	185 874	175 621
Other	99 848	59 972
Unrealised premium	6 380	5 629
Unrealised financial instruments valuation expenses	834 174	738 804
Income collected in advance	8 530	11 556
Provisions for shares	17 198	29 594
Adjustments of fixed assets revaluation	1 063	-
Commission	16 888	14 542
Settlement of retained tax loss	1 580	1 580
Valuation of shares under for equity method	(171)	228
FX differences for liabilities valuation	89	115
Differences between balance and tax value of lease portfolio	2 280	926
Deferred tax assets	**1 238 762**	**1 084 662**

Deferred tax provisions are attributable to the following:

In thousands of PLN	**30.06.2005**	**31.12.2004**
Interest accrued (income)	28 886	27 375
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	3 079	10 711
Valuation of shares under for equity method	2 574	2 690
FX differences for liabilities valuation	6 944	12 249
Differences between balance and tax value of lease portfolio	3 091	2 806
Deferred tax provisions	**1 063 851**	**857 052**

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	54 364	(8 269)	-	46 095
Loan loss provisions	153 246	22 375	-	175 621
Other	39 229	22 941	-	62 170
Unrealised premium	5 222	428	-	5 650
Unrealised financial instruments valuation expenses	631 117	107 665	-	738 782
Income collected in advance	7 427	4 129	-	11 556
Provisions for shares	58 457	(28 863)	-	29 594
Commission	16 063	(1 521)	-	14 542
Debt securities available for sale	(10 023)		7 825	(2 198)
Settlement retained tax loss	818	762		1 580
Valuation of shares under for equity method	189	39		228

FX differences for liabilities valuation	18 651	(18 535)		116
Differences between balance and tax value of lease portfolio		926		926
	974 760	**102 077**	**7 825**	**1 084 662**

In thousands of PLN	Balance 1 Jan 2004	Recognised in income	Recognised in equity	Balance 31 Dec 2004
Interest accrued (income)	18 238	9 136	-	27 374
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	5 429	5 283	-	10 712
Valuation of shares under for equity method	1 400	1 290		2 690
FX differences for liabilities valuation	26	12 224		12 250
Differences between balance and tax value of lease portfolio	19 588	(16 783)		2 805
	752 325	**104 727**	**-**	**857 052**

In thousands of PLN	Balance 1 Jan 2005	Recognised in income	Recognised in equity	Balance 30 Jun 2004
Interest accrued and other expense	46 095	18 934	-	65 029
Loan loss provisions	179 171	6 703	-	185 874
Other	62 170	38 290	-	100 460
Unrealised premium	5 629	751	-	6 380
Unrealised instruments valuation expenses	738 804	95 370	-	834 174
Income collected in advance	11 556	(3 026)	-	8 530
Provisions for shares	29 594	(12 396)	-	17 198
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)
Settlement retained tax loss	1 580			1 580
Valuation of shares under for equity method	228	(399)		(171)
FX differences for liabilities valuation	115	(26)		89
Differences between balance and tax value of lease portfolio	926	1 354		2 280
	1 088 212	**148 964**	**1 586**	**1 238 762**

In thousands of PLN	Balance 1 Jan 2005	Recognised in income	Recognised in equity	Balance 30 Jun 2004
Interest accrued (income)	27 375	1 509	-	28 884
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	10 714	(7 633)	-	3 081
Valuation of shares under for equity method	2 690	(116)	-	2 574
FX differences for liabilities valuation	12 249	(5 305)	-	6 944
Differences between balance and tax value of lease portfolio	2 805	286	-	3 091
	857 054	**39 800**	**-**	**1 063 851**

30. 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	5 619	23 580
Staff loans out of the Social Fund	38 915	39 581
Sundry debtors	72 547	64 174
Prepayments	41 911	82 024
Other assets	8 788	356
	180 305	**470 332**

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).

31. 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:	3 726 958	2 612 283
term deposits of banks and other monetary financial institutions	*1 638 702*	*849 460*
	4 922 990	**3 333 770**
Non-financial sector		
Current accounts, including:	4 943 384	4 185 250
corporate customers	*1 700 107*	*1 383 080*
individual customers	*2 570 832*	*2 284 398*
Term deposits, including:	11 440 651	12 726 898
corporate customers	*3 487 092*	*4 032 425*
individual customers	*7 153 135*	*7 833 795*
	16 384 035	**16 912 148**
Deposits	**21 307 025**	**20 245 918**
Other liabilities		
Loans and advances received	513 661	822 199
Liabilities in respect of securities subject to sale and repurchase agreements	63 008	408 361
Other liabilities, including:	894 719	589 149
cash collateral	*402 901*	*345 110*
Other liabilities	**1 471 388**	**1 819 709**
Accrued interest	**55 239**	**57 423**

In thousands of PLN	**30.06.2005**	**31.12.2004**
	22 833 652	**22 123 050**

As of 30 June 2005 the total amount of non-financial sector deposits was PLN 489 915 thousand. The amount was related to central and local government institutions deposits (31 December 2004: PLN 531 008 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	4 346 152	3 664 929
1 month - 3 months	277 921	65 090
3 months - 1 year	1 120 725	617 031
1 year - 5 years	127 463	183 545
over 5 years	39 065	81 663
	5 911 326	**4 612 258**
Non-financial sector		
up to 1 month	14 277 235	14 191 278
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
	16 867 087	**17 453 369**
	22 778 413	**22 065 627**

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.

32. 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 Group 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 Group 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 Group effects return transfers (repayment of loans). When performing a Cash Pooling agreement, the Group is authorized, under an instruction received by the Group, 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.

33. Provisions

In thousands of PLN	**30.06.2005**	**31.12.2004**
For disputes	19 822	14 456
For off-balance sheet commitments	37 846	39 352
For general risk	-	164 000
	57 668	**217 808**

As of 1 January 2005, following the adoption of IFRS, the Group 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	**30.06.2005**	**31.12.2004**
Balance at 1 January 2005	**217 808**	**448 422**
Provisions for:		
Disputes	14 456	3 403
Off-balance sheet commitments	39 352	145 019
General risk	164 000	300 000
Effects of transition to IFRS	(156 935)	-
As of 1 January after opening balance transformation	**60 873**	**448 422**
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)	(430 038)
for off-balance sheet liabilities	(27 926)	(291 675)
for litigations	(316)	(2 363)
for general risk	-	(136 000)
Balance at 30 June 2005	**57 668**	**217 808**
Provisions for:		
Litigations	19 822	14 456
Off-balance sheet liabilities	37 846	39 352
General risk	-	164 000

34. Other liabilities

In thousands of PLN	**30.06.2005**	**31.12.2004**
Staff benefits	69 752	67 632
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)	12 326	6 533
Sundry creditors	1 652 552	127 187
Accruals and deferred income:	272 113	168 301
provision for employee payments	94 522	97 230

In thousands of PLN	**30.06.2005**	**31.12.2004**
provision for employees retirement and jubilee payments	45 261	27 981
Other	132 330	43 090
Deferred income and suspense	90 995	845 008
	2 412 756	**1 280 823**

As of 30 June 2005 the amount of sundry creditors includes the amount of PLN 1 563 995 thousand consisting the Group's liabilities arising from the approved dividend payment for the year 2004 (see the Note 35)

35. 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	726 876	1 741 460
General risk reserve	390 000	390 000
	1 116 876	**2 131 460**

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 Group'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.

36. Repurchase and reverse repurchase agreements

The Group 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	one week	243 935
Available for sale instruments	164 591	164 704	one 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 Group 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	one 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).

37. 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 Group has used the exemption from the requirement to disclose comparable data in respect of fair value.

	30.06.2005	
In thousands of PLN	**Carrying amount**	**Fair value**
Assets		
Inwestycje kapitałowe	27 758	32 367
Inwestycje kapitałowe wyceniane metodą praw własności	79 546	79 546
Loans and other receivables	19 589 721	19 597 829
Liabilities		

Financial liabilities valued at amortized cost	22 833 652	22 835 636

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: Listed minority shares are valued at market price. For other shares, the Group 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.

Equity investments accounted for under the equity method: 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

Loans and advances: in the balance sheet loans are valued at amortized cost less diminution in value. 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

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 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.

38. Contingent liabilities

Information on pending proceedings

As of 30 June 2005, no proceedings relating to the liabilities or receivables of the Group or its subsidiaries, the value of which would correspond to at least 10% of the Group's shareholders' equity, were pending before any court, administrative authority or an arbitration court.
The total value of all pending court proceedings involving the Group or its subsidiaries and related to their receivables exceeded 10% of the Group'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	158 534	8 August 1996 –	Case pending. The

Handlowy w Warszawie SA.		declaration of bankruptcy.	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 Group and related to its liabilities did not exceed 10% of the Group'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	121 938	184 636
Guarantees granted	2 346 036	2 349 806
including to related parties	-	855
Credit lines granted	7 548 232	9 047 107
including to related parties	16 679	73 817

In thousands of PLN	**30.06.2005**	**31.12.2004**
Deposits to be issued	-	121 359
	10 016 206	**11 702 908**

In thousands of PLN	**30.06.2005**	**31.12.2004**
Letters of credit by categories		
Import letters of credit issued	98 177	167 528
Export letters of credit confirmed	23 761	17 108
	121 938	**184 636**

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)

39. 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
Loan and advantages		
from financial sector	76 084	9 150

In thousands of PLN	**30.06.2005**	**31.12.2004**
Other assets		
Settlements related to operations on derivative instruments	669	215 578
	168 067	**685 864**

40. Trust activities

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The Group 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 Group maintained 8 274 securities accounts.

41. Operating leases

Leases where the Bank is the lessee

The Group has not operating lease contracts with entities that do not belong to the Group. The Bank, parent company, signed operating lease contracts in the first half of 2005 with subsidiary that is full consolidated amounted PLN 2 515 thousand. The contracts have been signed for 3 years. Lease payments are determined at a fixed interest rate for the entire lease period. Mutual transaction amounts of signed operation lease contracts are eliminated in consolidated financial statement.

42. 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)	220 192	293 026
	1 034 644	**1 102 011**

43. Related entities

Transactions with related entities

The Group has a related party relationship with entities of Citigroup Inc., subsidiaries and associates (see Note No. 22) 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**

In thousands of PLN	**30.06.2005**	**31.12.2004**
Receivables, including:	4 037 741	4 899 694
Placements	3 928 518	4 877 390
Liabilities, including:	738 753	1 044 497
Deposits	489 582	456 866
Loans received	240 095	580 194
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*	59 361	31 222
Interest and commission expense in the first half of 2005/2004*	8 545	16 089

*not including derivative transactions

Furthermore the Group incurs costs and receives income of an operational nature from agreements concluded between Citigroup Inc. entities and the Group 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 84 304 thousand (in the first half of 2004: PLN 67 629 thousand) and related in particular to the costs arising from the provision of services related to the maintenance of the Group's information systems and advisory support for the Group; income in the amount of PLN 27 339 thousand (in the first half of 2004: 20 221 thousand) arose from the provision of data processing services by the Group.

Transactions with subordinated entities

In thousands of PLN	**30.06.2005**		**31.12.2004**	
	Subsidiaries	**Associates**	**Subsidiaries**	**Associates**
Loans, advances and other receivables				
Current accounts (in respect of):	450 030	111 054	488 405	102 212
consolidated subordinated undertakings	*450 029*	-	-	-
subordinated undertakings accounted under for the equity method	-	*111 054*	*488 405*	*100 323*
Loans granted (in respect of):	26 134	-	41 809	2 849
consolidated subordinated undertakings	*13 829*		-	-
subordinated undertakings accounted under for the equity method	*12 305*		*41 809*	-
Subordinated loans (in respect of):	79 398	-	117 957	-
consolidated subordinated undertakings	-		-	
subordinated undertakings accounted under for the equity method	*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 (in respect of):	411 873	475	490 308	314
consolidated subordinated undertakings	*388 228*		*2 509*	-
subordinated undertakings accounted under for the equity method	*23 645*	*475*	*347 400*	*145*
Term deposits (in respect of):	51 149	-	50 211	-
consolidated subordinated undertakings	*16 303*			
subordinated undertakings accounted under for the equity method	*34 846*		*50 211*	

In thousands of PLN	30.06.2005		31.12.2004	
	Subsidiaries	**Associates**	**Subsidiaries**	**Associates**
	463 022	**475**	**540 519**	**314**
Deposits				
Opening balance	540 833	314	314 226	26 045
Closing balance	463 022	475	540 519	314
Contingent liabilities granted				
Letters of credit (in respect of):	8 428	-	545	-
consolidated subordinated undertakings	*8 428*		-	
subordinated undertakings accounted under for the equity method			545	
Guarantees granted (in respect of):	1 500	-	1 500	855
consolidated subordinated undertakings	*1 500*		1 500	-
subordinated undertakings accounted under for the equity method			-	347
Credit lines granted (in respect of):	198 191	16 678	57 911	73 816
consolidated subordinated undertakings	*198 191*		-	-
subordinated undertakings accounted under for the equity method		*16 678*	57 911	73 816
	208 119	**16 678**	**59 956**	**74 671**
Interest and commission income in the first half of 2005/2004 (in respect of):	10 934	3 479	9 880	1 156
consolidated subordinated undertakings	10 137	-	64	-
subordinated undertakings accounted under for the equity method	797	3 479	9 816	1 145
Interest and commission expenses in the first half of 2005/2004 (in respect of):	9 422	0	6 229	4
consolidated subordinated undertakings	9 191	-	2 581	-
subordinated undertakings accounted under for the equity method	231	0	3 648	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 471400.00 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	38 946	-	-	39 581	-	-
Prepayments	140	-	-	104	-	-
	109 262	**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 – parent entity				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.

Remuneration paid to persons managing subordinated and associated entities in the first half of 2005 amounted to PLN 4 604 thousand.

Renumeration paid to persons having supervisory functions in subordinated and associated entities in the first half of 2005 amounted to PLN 143 thousand.

The total amount of salaries, awards and benefits paid or payable to the current and former members of the Bank Management Board in the first half of 2005:

In thousands of PLN

	Salaries, awards and benefits received in the Bank – parent entity				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 the first half of 2004	2 559	89	1 121	30 000	19
Management Board members who ceased performing their functions in the first half of 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

Remuneration paid to persons managing subordinated and associated entities in the first half of 2004 amounted to PLN 4 289 thousand.

Renumeration paid to persons having supervisory functions in subordinated and associated entities in the first half of 2004 amounted to PLN 2 185 thousand.

44. 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 Group 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 Group 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 Group’s pension plan is a pre-determined-premium program in accordance with IAS 19. The Group 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 Group’s funds. 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	66 256	75 288
Provisions for employees’ retirement and jubilee payments	45 261	27 981
Provisions for employees’ equity compensation	28 266	21 942
Provisions for personnel restructuring expense	-	6 307
	139 783	**131 518**

In the first half of 2005, the Group’s expenses in respect of premiums for the employee pension plan amounted to PLN 7 322 thousand (in the first half of 2004: PLN 6 329 thousand).

In the first half of 2005, the average number of employees at the Group was 5 612 (in the first half of 2004: 5 260).

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) (2) 21 (3) 22 (4) 31 (5) 179
Number of options / shares	(1) (2) 5,361 (3) 193,294 (4) 175,806 (5) 110,939 (6) 12,946	(1) (2) 6,308 (3) 35,984 (4) 28,094 (4) 104,697

	SOP	CAP
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 %
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	-	-	-

45. 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 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.

On 29 September 2005 the Supervisory Board of Bank Handlowy adopted a resolution regarding the approval for the sale of all shares in the share capital of Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A. /Bank Handlowy Investment Funds Company/ and Handlowy Zarządzanie Aktywami S.A. /Handlowy Asset Management/ (hereinafter referred to as "the Subsidiaries") by Bank Handlowy w Warszawie SA to Citigroup Inc or entity designated by Citigroup Inc., while it is assumed that the entity will be Legg Mason Inc. or one or more its affiliates, on condition that the sale conditions will be at least as favorable to Bank Handlowy as included in the offer made by Citigroup Inc. Citigroup Inc. offers Bank Handlowy USD 44 550 000 (in words: forty-four million five hundred and fifty thousand American dollars) for the Subsidiaries' shares held by Bank Handlowy, constituting 100% of the initial capital of the Companies. Conclusion of the agreement on sale of the Companies' shares by Bank Handlowy to Citigroup Inc. or entity designated by Citigroup Inc. is subject to the favorable conclusion of the sale negotiations.

On 19 October 2005 Citigroup Inc. informed the Management Board, that Legg Mason Inc. will be a designate entity in case of sale transaction of subsidiaries entities shares.

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.

46. Risk management

Derivative instruments

The Group 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 Group 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 Group 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 Group's liquidity and position on nostro accounts.

Currency option contracts

The object of FX option contracts is the sale or purchase by the Group 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 Group'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 Group 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 Group 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 Group 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 Group 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 Group does not carry out trade in futures-type FX contracts.

Market risk

The Group manages market risk in line with the principles and procedures approved by ALCO and the Bank's and Management Board for Bank and lease companies' and Chairman of Board of DMBH SA, 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 Group 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 Group'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 and lease companies' 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 and lease companies' 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	29 440 828
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	24 561	(1 774 404)
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	(111 023)	(1 989 826)

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	30 730 725
Balance sheet gap in the period	1 859 730	581 752	26 375	(84 539)	(2 383 318)
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)	(2 321 536)

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

The liquidity analyzes concern the Bank – parent entity and lease companies. The level of liquidity risk of other Group's entity is immaterial for the Group.

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 and lease companies. 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 and leasing companies applly 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 and lease companies' 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 and leasing companies. 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

Exposures on FX risk, interest risk and debt securities issues risk in DMBH may be taken in exceptional situations, which should be justified by needs related to principal activity.

Equity instruments risk

The main entitle, which is created to manage risk of equity instruments in the Group, is DMBH. According to its operational activity DMBH is entitled to take pricing risk of trade portfolio of shares, subscription rights which are listed on The Stock Exchange in Warsaw (GPW) or Centralna Tabela Ofert (CTO) as well WIG 20 future contracts and Index Shareholders' Units and shares of companies whose shares are listened both on polish stock exchange and foreign stock exchanges.

Effective interest rate

The amounts below present the weighted averages of effective interest rate accounted for receivables and liabilities by segments of the Group'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	7.05	3.82	3.27	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	7.46	4.37	2.59	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	24 370 171	24 129 433
EUR	3 272 543	3 043 947
USD	6 804 388	6 045 413
GBP	77 145	139 102
CHF	556 987	429 386
Other currencies	189 487	292 325
	35 270 721	**34 079 606**

Liabilities		
PLN	28 908 856	28 366 978
EUR	3 247 399	2 647 169
USD	2 497 510	2 644 959
GBP	172 505	141 865
CHF	355 198	139 505
Other currencies	89 253	139 130
	35 270 721	**34 079 606**

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 Group 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 Group to ensure that the credit portfolio overall is at an acceptable risk level;
– each customer of the Group 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 Group 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 Group 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 Group. 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 Group'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 Group 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 Group 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 Group 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 Group 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 Group's equity, amounted to PLN 1 271 968 thousand, i.e. 42.5% of these funds (31 December 2004: PLN 431 521 thousand, i.e. 10.8%).

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	248 889	211 090	459 979	29	492 733	492 762
Customer 2	258 097	153 892	411 989	75 742	407 989	483 731
Customer 3	400 000	0	400 000	122 769	202 071	324 840
Customer 4	128 619	146 182	274 801	198 425	80 902	279 327
Customer 5	228 217	33 135	261 352	127 672	148 712	276 384
Customer 6	25	229 485	229 510	0	254 341	254 341
Customer 7	130 957	89 731	220 688	1 294	219 738	221 032
Customer 8	156 057	43 505	199 562	158 028	54 759	212 787
Customer 9	70 877	114 627	185 504	6 020	136 638	142 658
Customer 10	69 453	111 796	181 249	113 688	8 595	122 283
Total 10	**1 691 191**	**1 133 443**	**2 824 634**	**803 667**	**2 006 478**	**2 810 145**

**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 Group monitors its exposure in individual sectors of the economy, defining the areas where the Group's exposure should grow and the areas where opportunities for development are poor, and where the exposure should be reduced. The policy of the Group'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 Group'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 Group'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 Group.

The Group'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 Group '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	19,49	20,52
Generation and distribution of electrical energy, gas, steam, and hot water	9,47	9,05
Financial intermediary excluding insurance and pension funds	6,87	8,21
Production of food and beverages	6,41	6,97
Production of chemicals	4,00	3,90
Production of motor vehicles, trailers and semitrailers	3,62	2,03
Construction	3,38	3,83
Retail sale excluding motor vehicles and motor cycles, repair of household items and consumer products	3,28	2,35
Production of paper and paper products	3,27	0,95
Manufacture of machines and equipment not classified elsewhere	3,01	3,66
Top 10 sectors	***62,80***	***61,47***

Sector of the economy according to PKD	30.06.2005 in %	31.12.2004. in %
Production of other means of transport	2,98	2,82
Production of coke and refinig products of crude oil and nuclear fuels	2,96	2,17
Production of rubber and plastic products	2,67	2,32
Post and telecommunications	2,67	3,55
Sale, service, and repair of mechanical vehicles and motorcycles, retail sale of fuel for motor vehicles	2,52	3,21
Other economic activities	2,23	2,55
Production of furniture; manufacturing activities not classified elsewhere	2,08	2,23
Production of wood and wood products excluding furniture	1,76	1,31
Land transport, transport by pipelines	1,47	1,64
Production of radio, television, and communication hardware and equipment	1,45	2,41
Top 20 sectors	***85,59***	***85,68***
Other sectors	*14,41*	*14,32*
	100,00	***100,00***

The Group operates exclusively in the territory of Poland. No significant connection between the location of the Group'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 Group 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 Group'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 Group 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.

47. Explanation of transition to IFRS

These financial statements of the Group 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 Group, except IAS 39 (Financial Instruments: Recognition and Measurement) and IAS 32 (Financial Instruments: Recognition and Presentation), for which the Group 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 Group that were published previously were prepared in accordance with Polish GAAP.

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

– Goodwill recognized in the Group’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 Group 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 Group adopted early the IFRS 2, *Share-based Payment* in respect of manager option programs offered to the Group’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 Group ceased to make write-downs of goodwill, and replaced them with the impairment test.

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 Group 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 Group. In view of the above, as at 1 January 2005, the Group 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 Group 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 Group'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 Group evaluated the amounts receivable for impairment estimated in accordance with IAS 39. At the same time, as mentioned in Note 11, the Group 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.

Change of in scope of consolidation

As of 1 January 2004 the Group increased the number of entitles that are fully consolidated to include the following entities: Citileasing Sp. z o.o., Handlowy Leasing SA, Handlowy Zarządzanie Aktywami SA (asset management company) and Towarzystwo Funduszy Inwestycyjnych Banku Handlowego SA (investment fund company). Other subsidiaries, with the exception of PPH Spomasz Sp. z o.o. under liquidation, are accounted for by the valuation under the equity method in the consolidated financial statements. The financial data of those entities are very small in relation to the financial data of the Bank – the dominant entity, and immaterial to present a true and fair view of the assets and financial situation as well as the financial results of the Group.

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

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

Consolidated balance sheet as of 1 January 2004

In thousands of PLN	*Note*	**PAS**	**Extension of consolidation**	**IFRS adjustment**	**IFRS**
ASSETS					
Cash and balances with central bank		1 186 514	-	-	1 186 514
Financial assets held for trading		4 745 314	-	-	4 745 314
Financial assets available for sale		2 723 471	-	-	2 723 471
Equity investments		39 159	(9 187)	-	29 972
Equity investments accounted for under the equity method		259 340	(184 448)	-	74 892
Loans and advances		22 352 576	454 306	-	22 806 882
Financial assets held to maturity		70 159	-	-	70 159
Tangible fixed assets		764 609	9 891	-	774 500
Intangible assets, of which:		1 295 051	27	-	1 295 078
Income tax assets		348 282	11 672	-	359 954
Other assets		250 502	17 085	-	267 587
Total assets		**34 034 977**	**299 346**	-	**34 334 323**

In thousands of PLN	*Note*	**PAS**	**Extension of consolidation**	**IFRS 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	(a)	22 804 261	241 710	-	23 045 971
Financial liabilities from transfers of financial assets		-	-	-	-
Provisions	(a)	447 331	20	-	447 351
Income tax liabilities	*(a)*	-		-	-
Other liabilities	(a)	1 143 522	53 052	-	1 196 574
Total liabilities		**28 087 454**	**294 782**	-	**28 382 236**
EQUITY					
Share capital		522 638	-	-	522 638
Share premium	(a)	3 068 974	3 199	-	3 072 173
Revaluation reserve		(13 212)	-	-	(13 212)
Other reserves	(a)	2 082 580	44 835	-	2 127 415
Retained earnings (losses brought forward)	*(a)*	286 543	(43 470)	-	243 073
Total equity		**5 947 523**	**4 564**	-	**5 952 087**
Total liabilities and equity		**34 034 977**	**299 346**	-	**34 334 323**

Explanation of IFRS adjustments

Adjustments that concern impact of the scope of consolidation on selected balance sheet exposures and equity that were presented in the previous consolidated financial statement in accordance with PAS are presented in the table.

Consolidated balance sheet as of 30 June 2004

In thousands of PLN	*Note*	**PAS**	**Extension of consolidation**	**IFRS adjustment**	**IFRS**

ASSETS					
Cash and balances with central bank		808 986	-	-	808 986
Financial assets held for trading		5 596 195	-	-	5 596 195
Financial assets available for sale		6 965 774	-	-	6 965 774
Equity investments	*(b)*	36 744	(8 657)	-	28 087
Equity investments accounted for under the equity method	*(b)*	281 266	(199 477)	-	81 789
Loans and advances	*(b)*	18 760 875	318 305	-	19 079 180
Financial assets held to maturity		67 559	-	-	67 559
Tangible fixed assets	*(b)*	735 690	15 889	-	751 579
Intangible assets	*(a)(b)*	1 259 156	40	36 223	1 295 419
Income tax assets	*(b)*	333 531	8 772	-	342 303
Other assets	*(b)*	293428	4 432	-	297 860
Total assets		**35 139 204**	**139 304**	**36 223**	**35 314 731**

In thousands of PLN	*Note*	**PAS**	**Extension of consolidation**	**IFRS 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	*(b)*	23 784 780	104 160	-	23 888 940
Financial liabilities from transfers of financial assets					
Provisions		279 754	-	-	279 754
Income tax liabilities	*(b)*		944	-	944
Other liabilities	*(b)*	1 916 287	24 052	-	1 940 339
Total liabilities		**29 304 002**	**129 156**	-	**29 433 158**
EQUITY					
Share capital		522 638	-	-	522 638
Share premium	*(b)*	3 068 974	7 830	-	3 076 804
Revaluation reserve		(108 228)	-	-	(108 228)
Other reserves		2 086 404	-	-	2 086 404
Retained earnings (losses brought forward)	*(b)*	40 598	(44 666)	-	(4 068)
Profit-current period	*(a)(b)*	224 816	5 055	36 223	266 094
Total equity		**5 835 202**	**10 148**	**36 223**	**5 881 573**
Total liabilities and equity		**35 139 204**	**139 304**	**36 223**	**35 314 731**

Explanation of IFRS adjustments

a) Withdrawal of goodwill amortization

1)	Decrease of goodwill	36 223
2)	Decrease of current period profit	36 223

Explanation of other adjustments

b) Extension of consolidation

Adjustments that concern impact of the scope of consolidation on selected balance sheet exposures and equity that were presented in the previous consolidated financial statement in accordance with

PAS are presented in the table.

Consolidated balance sheet as of 31 December 2004

In thousands of PLN	*Note*	**PAS**	**Extension of consolidation**	**IFRS adjustment**	**IFRS**
ASSETS					
Cash and balances with central bank		841 114	-	-	841 114
Financial assets held for trading		5 317 395	-	-	5 317 395
Financial assets available for sale		6 091 194	-	-	6 091 194
Equity investments	*(b)*	37 529	(9 442)	-	28 087
Equity investments accounted for under the equity method	*(b)*	302 681	(216 007)	-	86 674
Loans and advances	*(b)*	18 713 955	258 304	-	18 972 259
Tangible fixed assets		713 024	10 847	-	723 871
Intangible assets	*(a)(b)*	1 237 294	27	72 445	1 309 766
Income tax assets	*(b)*	223 658	15 256	-	238 914
Other assets	*(b)*	470 243	89	-	470 332
Total assets		**33 948 087**	**59 074**	**72 445**	**34 079 606**

In thousands of PLN	*Note*	**PAS**	**Extension of consolidation**	**IFRS adjustment**	**IFRS**
LIABILITIES					
Due to central bank		718	-	-	718
Financial liabilities held for trading		4 194 290	-	-	4 194 290
Financial liabilities at amortized cost	*(b)*	22 090 841	32 209	-	22 123 050
Financial liabilities from transfers of financial assets					
Provisions	*(b)*	217 038	770	-	217 808
Income tax liabilities	*(b)*	23 509	717	-	24 226
Other liabilities	*(b)*	1 266 138	14 685	-	1 280 823
Total liabilities		**27 792 534**	**48 381**	**-**	**27 840 915**
EQUITY					
Share capital		522 638	-	-	522 638
Share premium	*(b)*	3 047 807	29 369	-	3 077 176
Revaluation reserve		19 651	-	-	19 651
Other reserves	*(b)*	2 113 356	18 104	-	2 131 460
Retained earnings (losses brought forward)	*(b)*	35 969	(43 166)	-	(7 197)
Profit-current period	*(a)(b)*	416 132	6 386	72 445	494 963
Total equity		**6 155 553**	**10 693**	**72 445**	**6 238 691**
Total liabilities and equity		**33 948 087**	**59 074**	**72 445**	**34 079 606**

Explanation of IFRS adjustments

a) Withdrawal of goodwill amortizaton

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

Explanation other of adjustments

b) Extension of consolidation

Adjustments that concern impact of the scope of consolidation on selected balance sheet exposures and equity that were presented in the previous consolidated financial statement in accordance with PAS are presented in the table.

Consolidated balance sheet as of 1 January 2005

In thousands of PLN	*Note*	PAS	Extension of consolidation	IFRS adjustment	IFRS
ASSETS					
Cash and balances with central bank		841 114	-	-	841 114
Financial assets held for trading		5 317 395	-	-	5 317 395
Financial assets available for sale		6 091 194	-	-	6 091 194
Equity investments	(i)	37 529	(9 442)	-	28 087
Equity investments accounted for under the equity method	(i)	302 681	(216 007)	-	86 674
Loans and advances	(b)(d)(f)(g)(i)	18 713 955	258 304	(96 758)	18 875 501
Tangible fixed assets	*(e)(h)(i)*	713 024	10 847	31 228	755 099
Intangible assets	*(a)(i)*	1 237 294	27	72 445	1 309 766
Income tax assets	*(b)(d)(e)(i)*	223 658	15 256	(256)	238 658
Other assets	*(b)(h)(i)*	470 243	89	(68 298)	402 034
Total assets		**33 948 087**	**59 074**	**(61 639)**	**33 945 522**

In thousands of PLN	*Note*	PAS	Extension of consolidation	IFRS adjustment	IFRS
LIABILITIES					
Due to central bank		718	-	-	718
Financial liabilities held for trading		4 194 290	-	-	4 194 290
Financial liabilities at amortized cost	*(i)*	22 090 841	32 209	-	22 123 050
Financial liabilities from transfers of financial assets	*(g)*		-	751 277	751 277
Provisions	*(d)(g)(i)*	217 038	770	(156 935)	60 873
Income tax liabilities	*(i)*	23 509	717	-	24 226
Other liabilities	*(d)(f)(i)*	1 266 138	14 685	(765 260)	515 563
Total liabilities		**27 792 534**	**48 381**	**(170 918)**	**27 669 997**
EQUITY					
Share capital		522 638	-	-	522 638
Share premium	*(i)*	3 047 807	29 369	-	3 077 176
Revaluation reserve	*(c)*	19 651	-	2 479	22 130
Other reserves, of which:	*(i)*	2 113 356	18 104	-	2 131 460
Retained earnings (losses brought forward)	*(a)(b)(c)(d)(e)(i)*	452 101	(36 780)	106 800	522 121
Total equity		**6 155 553**	**10 693**	**109 279**	**6 275 525**
Total liabilities and equity		**33 948 087**	**59 074**	**(61 639)**	**33 945 522**

Explanation of adjustments

a) Withdrawal of goodwill amortizaton

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

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

1)	Increase of loans and advances	17 543
2)	Increase of deferred income tax	5 192
3)	Decrease of other assets	(44 873)
4)	Decrease of retained earnings	(22 138)

c) 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)

d) Impairment

1)	Decrease of loans and advances	(100 234)
2)	Decrease of incurred interest	(715 580)
3)	Decrease of deferred income tax	(3 965)
4)	Decrease of provisions	(156 851)
5)	Decrease of other liabilities	(715 580)
6)	Increase of retained earnings	52 652

e) 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

f) 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)

g) 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)

h) 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.

Explanation of other adjustments

i) Extension of consolidation

Adjustments that concern impact of the scope of consolidation on selected balance sheet exposures and equity that were presented in the previous consolidated financial statement in accordance with PAS are presented in the table.

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

Assets *in respect of deferred income tax*

1)	Impact of change of definition of the direct costs of obtaining financial instruments	5 192
2)	Impact of recognition of receivables' impairment	(3 965)
3)	Impact of valuation of identified investment properties	(1 483)
	Total impact	(256)

Retained earnings

1)	Impact of withdrawal of goodwill amortization	72 445
2)	Impact of change of definition of the direct costs of obtaining financ instruments	(22 138)
3)	Impact of recognition of receivables' impairment	52 652
4)	Impact of valuation of identified investment properties	6 320
5)	Impact of application of effective interest rate and valuation of debt securities available for sale as amortized cost	(2 479)
	Total impact	106 800

Consolidated income statement for the period between 1 January 2004 to 30 June 2004

In thousands of PLN	*Note*	**PAS**	**Extension of consolidation**	**IFRS adjustment**	**IFRS**
Interest and similar income	*(b)*	791 089	38 930	-	830 019
Interest expense and similar charges	*(b)*	(335 759)	(1 055)	-	(336 814)
Net interest income		**455 330**	**37 875**	**-**	**493 205**
Fee and commission income	*(b)*	322 966	9 752	-	332 718
Fee and commission expense	*(b)*	(37 683)	30	-	(37 653)
Net fee and commission income		**285 283**	**9 782**	**-**	**295 065**

In thousands of PLN	*Note*	**PAS**	**Extension of consolidation**	**IFRS adjustment**	**IFRS**
Dividend income	*(b)*	7 984	63	-	8 047
Net trading income	*(b)*	(27 329)	(67)	-	(27 396)
Net gain on disposal of non-trading financial instruments		21	-	-	21
Net profit on foreign exchange	*(b)*	242 934	(9 137)	-	233 797
Other operating income	*(b)*	35 858	1 968	-	37 826
Operating income		**1 000 081**	**40 484**	**-**	**1 040 565**
General administrative expenses	*(b)*	(622 415)	(13 866)	-	(636 281)
Depreciation expense	*(b)*	(72 526)	(158)	-	(72 684)
Other operating expenses	*(a)(b)*	(54 003)	(1 177)	36 223	(18 957)
Profit / (loss) on sale of tangible fixed assets	*(b)*	7 268	380	-	7 648
Net impairment losses	*(b)*	1 403	(127)	-	1 276
Operating income		**259 808**	**25 536**	**36 223**	**321 567**
Share in profits / (losses) of undertakings accounted for under the equity method	*(b)*	21 398	(14 499)	-	6 899
Profit before tax		**281 206**	**11 037**	**36 223**	**328 466**
Income tax expense	*(b)*	(56 390)	(5 982)	-	(62 372)
Net profit		**224 816**	**5 055**	**36 223**	**266 094**

Explanation of adjustments

a) Withdrawal of goodwill amortization

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

Explanation of other adjustments

b) Extension of consolidation

Adjustments that concern impact of the scope of consolidation on selected balance sheet exposures and equity that were presented in the previous consolidated financial statement in accordance with PAS are presented in the table.

Consolidated income statement for the period between 1 January 2004 to 31 December 2004

In thousands of PLN	*Note*	**PAS**	**Extension of consolidation**	**IFRS adjustment**	**IFRS**
Interest and similar income	*(b)*	1 713 903	32 880	-	1 746 783
Interest expense and similar charges	*(b)*	(748 842)	7 469	-	(741 373)
Net interest income		**965 061**	**40 349**	**-**	**1 005 410**
Fee and commission income	*(b)*	649 524	10 327	-	659 851
Fee and commission expense	*(b)*	(78 148)	4 481		(73 667)
Net fee and commission income		**571 376**	**14 808**	**-**	**586 184**
Dividend income	*(b)*	8 984	(4 257)	-	4 727

In thousands of PLN	*Note*	**PAS**	**Extension of consolidation**	**IFRS adjustment**	**IFRS**
Net trading income	*(b)*	70 400	(11)	-	70 389
Net gain on disposal of non-trading financial instruments		(16 816)	-	-	(16 816)
Net profit on foreign exchange	*(b)*	360 349	(4)	-	360 345
Other operating income	*(b)*	90 127	43 708	-	133 835
Operating income		**2 049 481**	94 593	**-**	**2 144 074**
General administrative expenses	*(b)*	(1 280 470)	(31 299)	-	(1 311 769)
Depreciation expense	*(b)*	(142 834)	(263)	-	(143 097)
Other operating expenses	*(a)(b)*	(122 299)	(29 885)	72 445	(79 739)
Profit / (loss) on sale of tangible fixed assets	*(b)*	4 214	1 555	-	5 769
Net impairment losses	*(b)*	(8 676)	(85)	-	(8 761)
Operating income		**499 416**	**34 616**	**72 445**	**606 477**
Share in profits / (losses) of undertakings accounted for under the equity method	*(b)*	42 818	(27 077)	-	15 741
Profit before tax		**542 234**	**7 539**	**72 445**	**622 218**
Income tax expense	*(b)*	(126 102)	(1 153)	-	(127 255)
Net profit		**416 132**	**6 386**	**72 445**	**494 963**

Explanation of adjustments

a) Withdrawal of goodwill amortization

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

Explanation of other adjustments

b) Extension of consolidation

Adjustments that concern impact of the scope of consolidation on selected balance sheet exposures and equity that were presented in the previous consolidated financial statement in accordance with PAS are presented in the table.

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 consolidated financial statements and previously published in the consolidated report for the second quarter of 2005.

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

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

In thousands of PLN	**30.06.2005**	**31.12.2004**
Total assets		
Previously published	35 220 167	33 889 704
Effect of changes	50 554	189 902
Total assets after changes	**35 270 721**	**34 079 606**
Net profit		
Previously published	314 492	
Effect of changes	3 757	
Net profit after changes	**318 249**	
Shareholders' capital		
Previously published	5 035 524	
Effect of changes	3 757	
Shareholders' capital-after change	**5 039 281**	

48. 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	1 865 726	1 700 022
Funds held by the entity, including:	3 234 362	4 268 586
Primary funds (including reductions)	3 361 734	4 414 311
Counterpart funds	31 572	19 651
Reductions of the total primary and counterpart funds	158 944	165 376
Capital adequacy ratio (%)	13,87	20,09

The decrease in the capital adequacy ratio mainly results from a decrease in the Group'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 35). 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 Groups's own equity.

Signatures of all Management Board Members

Date	Name	Position / function	Signature
26.10.2005	Sławomir Sikora	President of Management Board	
26.10.2005	Philip Vincent King	Vice- President of Management Board	
26.10.2005	Reza Ghaffari	Vice- President of Management Board	
26.10.2005	Lidia Jabłonowska-Luba	Member of Management Board	
26.10.2005	Michał H. Mrożek	Member of Management Board	