CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE CAPITAL GROUP OF BANK HANDLOWY W WARSZAWIE SA FOR THIRD QUARTER 2005

NOVEMBER 2005

Selected financial data

	In PLN '000		In EUR '000	
	Year to date (current year) period from 01/01/05 to 30/09/05	Year to date (previous year) period from 01/01/04 to 30/09/04	Year to date (current year) period from 01/01/05 to 30/09/05	Year to date (previous year) period from 01/01/04 to 30/09/04
Summary consolidated financial statement data of the Capital Group				
Interest income	1 292 218	1 305 964	318 414	282 591
Fee and commission income	514 654	460 100	126 815	99 559
Profit / (loss) before tax	632 150	478 997	155 767	103 648
Net profit / (loss)	496 897	382 800	122 440	82 832
Increase of net cash	(145 289)	(222 131)	(37 096)	(50 678)
Total assets	31 567 253	-	8 059 861	-
Liabilities to central bank	355	-	91	-
Liabilities to financial sector	4 162 536	-	1 062 793	-
Liabilitites to non-financial sector	14 839 361	-	3 788 838	-
Shareholders' equity	5 184 240	6 067 409	1 323 658	1 384 242
Share capital	522 638	522 638	133 442	119 237
Number of shares	130 659 600	130 659 600	130 659 600	130 659 600
Book value per share (PLN / EUR)	39,68	46,44	10,13	10,59
Capital adequacy ratio (%)	13,42	-	13,42	-
Earning per ordinary share (PLN / EUR)*	3,80	2,93	0,94	0,63
Summary financial statement data of the Bank – parent company				
Interest income	1 269 771	1 255 428	312 882	271 655
Fee and commission income	431 977	419 308	106 443	90 732
Profit / (loss) before tax	585 518	443 973	144 277	96 069
Net profit / (loss)	461 574	356 357	113 736	77 110
Increase of net cash	(145 260)	(222 126)	(37 088)	(50 677)
Total assets	30 994 413	-	7 913 602	-
Due to central bank	355	-	91	-
Due to financial sector	4 570 632	-	1 166 990	-
Due to non-financial sector	14 762 044	-	3 769 097	-
Shareholders' equity	5 077 099	5 990 700	1 296 303	1 366 741
Share capital	522 638	522 638	133 442	119 237
Number of shares	130 659 600	130 659 600	130 659 600	130 659 600
Book value per share (PLN / EUR)	38,86	45,85	9,92	10,46
Capital adequacy ratio (%)	12,09	-	12,09	-
Earning per ordinary share (PLN / EUR)	3,53	2,73	0,87	0,59
Declared or distributed dividends per ordinary share (PLN / EUR)*	11,97	1,85	3,06	0,42

** 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	Third quarter (current year) Period from 01/07/05 to 30/09/05	Year to Date (current year) Period from 01/01/05 to 30/09/05	Third quarter (previous year) Period from 01/07/04 to 30/09/04	Year to Date (previous year) Period from 01/01/04 to 30/09/04
Interest and similar income	404 296	1 292 218	475 945	1 305 964
Interest expense and similar charges	(149 865)	(503 618)	(198 047)	(534 861)
Net interest income	**254 431**	**788 600**	**277 898**	**771 103**
Fee and commission income	182 710	514 654	147 982	460 100
Fee and commission expense	(26 759)	(74 158)	(19 061)	(56 714)
Net fee and commission income	**155 951**	**440 496**	**128 921**	**403 386**
Dividend income	508	2 081	1 006	9 053
Net trading income	66 182	77 939	34 773	7 377
Net gain on disposal of non-trading financial instruments	3 632	106 493	(5 485)	(5 464)
Net profit on foreign exchange	67 638	272 455	45 831	279 628
Other operating income	52 054	101 038	32 661	94 358
Operating income	**600 396**	**1 789 102**	**515 605**	**1 559 441**
General administrative expenses	(342 095)	(1 038 231)	(324 801)	(964 353)
Depreciation expense	(34 639)	(104 629)	(34 584)	(107 268)
Other operating expenses	(14 434)	(49 135)	(9 640)	(28 597)
Profit / (loss) on sale of tangible fixed assets	1 142	69	(3 697)	3 951
Net impairment losses	25 711	42 739	3 744	5 020
Operating income	**236 081**	**639 915**	**146 627**	**468 194**
Share in profits / (losses) of undertakings accounted for under the equity method	(5 281)	(7 765)	3 904	10 803
Profit before tax	**230 800**	**632 150**	**150 531**	**478 997**
Income tax expense	(52 152)	(135 253)	(33 825)	(96 197)
Profits/ losses of minority shareholders	**-**	**-**	**-**	**-**
Net profit	**178 648**	**496 897**	**116 706**	**382 800**
Weighted average number of ordinary shares		130 659 600		130 659 600
Net profit per ordinary share (in PLN)		**3,80**		**2,93**
Diluted weighted average number of ordinary shares		-		-
Diluted net profit per ordinary share (in PLN)		-		-

Consolidated balance sheet

	30/09/2005	31/12/2004
In thousands of PLN		
ASSETS		
Cash and balances with central bank	731 181	841 114
Financial assets held for trading	6 555 850	5 317 395
Financial assets available for sale	5 066 722	6 091 194
Equity investments	25 567	28 087
Equity investments accounted for under the equity method	74 421	86 674
Loans and advances	16 537 935	18 972 259
to financial sector	*5 754 397*	*8 363 780*
to non-financial sector	*10 488 862*	*9 842 595*
accrued interest	*294 676*	*765 884*
Property and equipment	725 024	723 871
land, buildings and equipment	*675 873*	*723 871*
investment property	*49 151*	-
Intangible assets	1 324 322	1 309 766
Deferred income tax assets	158 941	238 914
Other assets	367 290	470 332
Total assets	**31 567 253**	**34 079 606**
LIABILITIES		
Due to central bank	355	718
Financial liabilities held for trading	4 243 025	4 194 290
Financial liabilities valued at amortized cost	20 539 941	22 123 050
deposits from	*19 001 897*	*20 245 918*
financial sector	*4 162 536*	*3 333 770*
non-financial sector	*14 839 361*	*16 912 148*
other liabilities	*1 483 623*	*1 819 709*
accrued interest	*54 421*	*57 423*
Financial liabilities from transfers of financial assets	568 186	-
Provisions	55 627	217 808
Income tax liabilities	5 369	24 226
Other liabilities	970 510	1 280 823
Total liabilities	**26 383 013**	**27 840 915**
EQUITY		
Issued capital	522 638	522 638
Share premium	3 004 137	3 077 176
Revaluation reserve	(2 117)	19 651
Other reserves	1 129 418	2 131 460
Retained earnings (losses brought forward)	33 267	(7 197)
Profit / (loss) - current period	496 897	494 963
Equity of minority	-	-
Total equity	**5 184 240**	**6 238 691**
Total liabilities and equity	**31 567 253**	**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)		4 564
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	-	-	(31 801)	-	-	-	(31 801)
Adjustments in respect of deferred income tax on valuation of financial assets available for sale	-	-	6 043	-	-	-	6 043
Disposal of fixed assets	-	-	(305)	305	-	-	-
Net profit	-	-	-	-	-	382 800	382 800
Dividends for payment	-	-	-	-	(241 720)	-	(241 720)
Transfers to capital	-	5 003	-	3 547	(8 550)	-	-
Closing balance as of 30 September 2004	**522 638**	**3 077 176**	**(39 275)**	**2 131 267**	**(7 197)**	**382 800**	**6 067 409**

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 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	-	-	(29 860)	-	-	-	(29 860)
Adjustments in respect of deferred income tax on valuation of financial assets available for sale	-	-	5 673	-	-	-	5 673
Disposal of fixed assets	-	-	(60)	60			0
Net profit	-	-	-	-	-	496 897	496 897
Dividends for payment		(100 000)		(1 049 804)	(414 191)		(1 563 995)
Transfers to capital		26 961		47 702	(74 663)		-
Closing balance as of September 30, 2005	**522 638**	**3 004 137**	**(2 117)**	**1 129 418**	**33 267**	**496 897**	**5 184 240**

Summary consolidated statement of cash flows

In thousands of PLN	**Year to date (current year)** **Period form 01/01/05 to 30/09/05**	**Year to date (previous year)** **Period from 01/01/04 to 30/09/04**
Cash at the beginning of reporting period	**972 156**	**1 211 881**
Cash flows from operating activities	726 785	64 576
Cash flows from investing activities	(88 528)	(85 710)
Cash flows from financing activities	(783 546)	(200 997)
Cash at the end of reporting period	**826 868**	**989 750**
Increase / decrease in net cash	**(145 289)**	**(222 131)**

Explanatory notes to the consolidated financial statements

1. General information about the Capital Group of Bank Handlowy w Warszawie SA

Bank Handlowy w Warszawie SA ("the Bank") - parent entity 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 September 2005, the subsidiaries entities were as follows:

Company	**Registered office**	**Share in the total number of votes at the General Meeting of Shareholders***	**Consolidation / valuation method**
Dom Maklerski Banku Handlowego S.A.	Warsaw	100,00	full method
Citileasing Sp. z o.o.	Warsaw	100,00	full method
Handlowy Leasing S.A.	Warsaw	100,00	full method
Handlowy Zarządzanie Aktywami S.A.	Warsaw	100,00	full method
Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A.	Warsaw	100,00	full method
Handlowy Inwestycje Sp. z o.o.	Warsaw	100,00	valuation under the equity method
Handlowy Investments S.A.	Luxembourg	100,00	valuation under the equity method
Handlowy Investments II S.a.r.l.	Luxembourg	100,00	valuation under the equity method
Bank Rozwoju Cukrownictwa S.A.	Poznań	100,00	valuation under the equity method
Polskie Pracownicze Towarzystwo Emerytalne DIAMENT S.A. under liquidation	Warsaw	79,27	valuation under the equity method
PPH Spomasz Sp. z o.o. under liquidation	Warsaw	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 entities that are fully consolidated to include the following entities: Citileasing Sp. z o.o., Handlowy Leasing S.A., Handlowy Zarządzanie Aktywami S.A. (asset management company) and Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A. (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, 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 September 2005, the associated entities were as follows:

Company	Registered office	Share in the total number of votes at the General Meeting of Shareholders*		Consolidation / valuation method
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
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 the following segments of business though its subordinated entities.

- brokerage operations,
- provision of financial, lease, and factoring services,
- investment operations.

2. Significant accounting policies

Statement of compliance

The semi-annual financial statements of the Group for the period ended 30 September 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). The presented third quarter of 2005 report fulfil the requirements of IFS 34 related to semi – annual financial statements in which the IFRS 1 have been applied "First-time adoption of IFRS".

Basis of preparation

These financial statements have been prepared for the period from 1 January 2005 to 30 September 2005 and the third quarter of 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 September 2004.

The financial statements also meet the requirements of:
- The Regulation of the Council of Minister about current and periodical information reporting by issuers of securities of 19 October 2005 (Journal of Laws No. 50/1744);
- 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. An explanation of how the implementation of IFRS has affected equity and net income is presented at the end of this note. 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 1 January 2007.

In order to prepare financial statements in accordance with IFRS, management has to make judgments and estimates, 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 "Accounting estimates and judgements" section of this note.

Foreign currencies

Functional currency and presentation currency

Financial statements of the Group companies are valued in the currency of the primary economic environment in which the given company operates. The Polish currency is the functional currency of all the Group entities with the exception of Handlowy Investments SA and Handlowy Investments II S.a.r.l. The consolidated financial statements of the Group are presented in the Polish currency, i.e. the functional and the presentation currency of Bank Handlowy w Warszawie S.A..

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 September 2005	31 December 2004	30 September 2004
1	USD	3,2575	2,9904	3,5569
1	CHF	2,5180	2,6421	2,8217
1	EUR	3,9166	4,0790	4,3832

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 which the Group transfers to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

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

The Group creates a provision for incurred but not recognized credit losses ('IBNR"). 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 significant 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 assets not individually significant

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

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 consolidated 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

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. On acquisition the shares in associated 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 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.

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-based compensation transactions

Employees may also receive awards in the form of Citigroup stock options. In accordance with IFRS 2 (Share-based compensation), the program is deemed to be 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. 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.

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 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, income from processing data for related companies, 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 tax liabilities in the years 2007 to 2009.

Segmental reporting

A segment is a separate area of the Group'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 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 and 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 uses estimates to determine whether there is objective 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 Citigroup or option execution deadlines.

Impact of IFRS on equity and net profit at the end of reporting periods:

Consolidated financial data of the Capital Group

	As of 01/01/2005	**As of 31/12/2004**	**As of 30/09/2004**	**As of 01/01/2004**
Shareholders' equity				
Shareholders' equity according to Polish Accounting Standards	6 155 553	6 155 553	6 002 137	5 947 523
Corrections related to the introduction of IFRS/IAS, including:	119 972	83 138	65 272	4 564
- reversal of the goodwill amortization	*72 445*	*72 445*	*54 334*	
- impairment losses	*52 652*			
- change of direct acquisition costs of financial instruments	*(22 138)*			
- valuation of identified investment real estate	*6 320*			
- consolidation differences	*10 693*	*10 693*	*10 938*	*4 564*
Shareholders' equity after changes	**6 275 525**	**6 238 691**	**6 067 409**	**5 952 087**
Net profit (loss)				
Profit according to Polish Accounting Standards		416 132	321 835	
Corrections related to the introduction of IFRS/IAS, including:		78 831	60 965	
- reversal of the goodwill amortization		*72 445*	*54 334*	
- consolidation differences		*6 386*	*6 631*	
Net profit (loss) after changes		**494 963**	**382 800**	

Financial data of the Bank – parent company

	As of 01/01/2005	As of 31/12/2004	As of 30/09/2004	As of 01/01/2004
Shareholders' equity				
Shareholders' equity according to Polish Accounting Standards	6 152 785	6 152 785	5 999 292	5 946 930
Corrections related to the introduction of IFRS/IAS, including:	50 921	(10 801)	(8 592)	(45 109)
- *reversal of the goodwill amortization*	*72 445*	*72 445*	*54 334*	
- *reversing of adjustments for the equity method of accounting*	*(83 246)*	*(83 246)*	*(62 926)*	*(45 109)*
- *impairment losses*	*73 753*			
- *change of direct acquisition costs of financial instruments*	*(18 351)*			
- *valuation of identified investment real estate*	*6 320*			
Shareholders' equity after changes	**6 203 706**	**6 141 984**	**5 990 700**	**5 901 821**
Net profit (loss)				
Profit according to Polish Accounting Standards		414 214	319 840	
Corrections related to the introduction of IFRS/IAS, including:		34 308	17 972	
- *reversal of the goodwill amortization*		*72 445*	54 334	
- *reversing of adjustments for the equity method of accounting*		*(38 137)*	*(17 817)*	
Net profit (loss) after changes		**448 522**	**356 357**	

3. Segmental reporting

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

- *Corporate and Investment Bank* offers products and renders services to business entities, self-government units and the public sector. Apart from traditional banking services covering lending and deposit activities, the segment provides services in the areas of cash management, trade financing, leases, brokerage and custody services in respect of securities, offers treasury products on financial and commodity markets. In addition, 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 proprietary transactions in the capital, debt and derivative instruments market. The Corporate and Investment Bank products and services 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 electronic banking.
- *Consumer Bank* provides products and financial services to individuals and also to SME and individual entrepreneurs though the Citibusiness offer. 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 the sale of investment and insurance products. The customers of Consumer Bank have the branch network, ATMs, telephone services, and electronic banking services at their disposal and a network of financial agents offering products of this segment.
- *Citifinancial* 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 as well financial agents.

The valuation of the segment assets and liabilities, income and segment results are based on the Group's 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 has decided not to present its results by geographical area.

Consolidated income statement by business segment for three quarters of 2005

In thousands of PLN	**Corporate and Investment Bank**	**Consumer Bank**	**Citifinancial**	**Total**
Net interest income	371 539	340 877	76 184	788 600
Net fee and commission income	261 744	173 735	5 017	440 496
Dividend income	2 081	-	-	2 081
Net trading income	73 069	4 870	-	77 939
Net gain on disposal of non-trading financial instruments	106 493	-	-	106 493
FX income	245 626	26 829	-	272 455
Other operating income	89 619	11 419	-	101 038
Operating income	**1 150 171**	**557 730**	**81 201**	**1 789 102**
General administrative expenses	(540 168)	(429 359)	(68 704)	(1 038 231)
Depreciation expense	(73 993)	(29 693)	(943)	(104 629)
Other operating expense	(38 541)	(10 594)	-	(49 135)
Profit/ (loss) on sale of tangible fixed assets	1 201	(1 132)	-	69
Net impairment losses	71 134	(15 508)	(12 887)	42 739
Share in profits / (losses) of undertakings accounted for under the equity method	(7 765)	-	-	(7 765)
Profit before tax	**562 039**	**71 444**	**(1 333)**	**632 150**
Corporate income tax				(135 253)
Net profit				**496 897**

Consolidated balance sheet by business segment as of 30 September 2005

In thousands of PLN	**Corporate and Investment Bank**	**Consumer Bank**	**Citifinancial**	**Total**
Assets	28 749 732	2 288 913	528 608	31 567 253
Liabilities	25 215 749	6 229 886	121 618	31 567 253

Consolidated income statement by business segment for third quarter 2005

In thousands of PLN	**Corporate and Investment Bank**	**Consumer Bank**	**Citifinancial**	**Total**
Net interest income	115 438	108 063	30 930	254 431
Net fee and commission income	91 292	62 430	2 229	155 951
Dividend income	508	-	-	508
Net trading income	63 424	2 758	-	66 182
Net gain on disposal of non-trading financial instruments	3 632	-	-	3 632
FX income	59 861	7 777	-	67 638
Other operating income	48 294	3 720	40	52 054
Operating income	**382 449**	**184 748**	**33 199**	**600 396**
General administrative expenses	(173 387)	(146 626)	(22 082)	(342 095)
Depreciation expense	(24 470)	(9 853)	(316)	(34 639)
Other operating expense	(9 887)	(4 547)	-	(14 434)
Profit/ (loss) on sale of tangible fixed assets	803	339	-	1 142
Net impairment losses	36 073	(4 973)	(5 389)	25 711
Share in profits / (losses) of undertakings accounted for under the equity method	(5 281)	-	-	(5 281)
Profit before tax	**206 300**	**19 088**	**5 412**	**230 800**
Corporate income tax				(52 152)
Net profit				**178 648**

Consolidated income statement by business segment for three quarters of 2004

In thousands of PLN	**Corporate and Investment Bank**	**Consumer Bank**	**Citifinancial**	**Total**
Net interest income	423 577	318 334	29 192	771 103
Net fee and commission income	236 483	165 235	1 668	403 386
Dividend income	9 053	-	-	9 053
Net trading income	4 533	2 844	-	7 377
Net gain on disposal of non-trading financial instruments	(5 464)	-	-	(5 464)
FX income	251 529	28 099	-	279 628
Other operating income	87 140	7 218	-	94 358
Operating income	**1 006 851**	**521 730**	**30 860**	**1 559 441**
General administrative expenses	(594 750)	(335 211)	(34 392)	(964 353)
Depreciation expense	(81 427)	(25 264)	(577)	(107 268)
Other operating expense	(21 220)	(7 377)	-	(28 597)
Profit/ (loss) on sale of tangible fixed assets	4 118	(167)	-	3 951
Net impairment losses	4 275	2 629	(1 884)	5 020
Share in profits / (losses) of undertakings accounted for under the equity method	10 803	-	-	10 803
Profit before tax	**328 650**	**156 340**	**(5 993)**	**478 997**
Corporate income tax				(96 197)
Net profit				**382 800**

Consolidated balance sheet by business segment as of 31 December 2004

In thousands of PLN	**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

Consolidated income statement by business segment for third quarter of 2004

In thousands of PLN	**Corporate and Investment Bank**	**Consumer Bank**	**Citifinancial**	**Total**
Net interest income	154 620	108 922	14 356	277 898
Net fee and commission income	74 564	53 603	754	128 921
Dividend income	1 006	-	-	1 006
Net trading income	36 371	(1 598)	-	34 773
Net gain on disposal of non-trading financial instruments	(5 485)	-	-	(5 485)
FX income	34 142	11 689	-	45 831
Other operating income	29 518	3 073	70	32 661
Operating income	**324 737**	**175 689**	**15 180**	**515 605**
General administrative expenses	(211 002)	(100 245)	(13 554)	(324 801)
Depreciation expense	(25 730)	(8 620)	(234)	(34 584)
Other operating expense	(7 420)	(2 220)	-	(9 640)
Profit/ (loss) on sale of tangible fixed assets	(3 684)	(13)	-	(3 697)
Net impairment losses	5 919	(1 475)	(700)	3 744
Share in profits / (losses) of undertakings accounted for under the equity method	3 904	-	-	3 904
Profit before tax	**86 723**	**63 116**	**692**	**150 531**
Corporate income tax				(33 825)
Net profit				**116 706**

4. Financial highlights of the Bank's Capital Group in the third quarter of 2005

For the first three quarters of 2005, the Bank's Capital Group reported net profit of PLN 497 million, up PLN 114 million (i.e. 29.8%) compared to the figure reported for the corresponding period of the previous year. Net profit for the third quarter of 2005 amounted to PLN 179 million in comparison to PLN 117 million in the corresponding period of the previous year.

Cumulative gross profit (i.e. for the period between January to September) amounted to PLN 632 million, representing an increase of PLN 153 million (i.e. 31.9%) in comparison to the corresponding period of the previous year and gross profit for the third quarter of 2005 amounted to PLN 231 million in comparison to PLN 150 million in the third quarter of 2004.

The result on banking activity generated in the third quarter of 2005 showed an increase of PLN 85 million (i.e. 16.4%) over the corresponding period of the previous year.

The result on banking activity generated by the Bank's Capital group in the current reporting period as compared to the third quarter of 2004 was primarily impacted by:

- increase in net commission income of PLN 27 million (i.e. 21.0%), mainly relating to commissions on custody services, on insurance products and other Consumer Bank products and brokerage commission.

- increase in net income from tradable financial assets and liabilities of PLN 31 million mainly due to higher income from derivatives

- increase in net profit on foreign exchange of PLN 22 million (i.e. 47,6) mainly due to higher income from operations involving FX financial instruments and negative impact of exchange rate differences (revaluation).

- increase in other operating income of PLN 19 million (i.e. 59.4%) mainly due to higher income from sale of investment real estate and debt.

- increase in net income from financial assets and liabilities of PLN 9 million, mainly as a result of higher net income from sales of available-for-sale debt securities – Treasury bonds;

- decrease in net interest income of PLN 23 million (i.e. 8,4%) mainly due to lower interest income on disposal debt financial instruments despite a significant increase in interest income in CitiFinancial.

Operating and general management expenses in the third quarter of 2005 increased by PLN 17 million (i.e. by 5.3%) compared to the corresponding period of the previous year and at the same time, the dynamics of these expenses in different segments of the Group reflects the different stages of their development.

In the current reporting quarter there was a reversal of (net) write-offs for impairment of financial assets by PLN 22 million (i.e. 141,2%) in comparison to the corresponding period of the previous year. It was due to higher release of loans and advances impairment estimated at amortized cost in compliance with regulations specified in IAS.

5. Activities of the Bank's Capital Group in the third quarter of 2005

1. Corporate and Investment Bank

Summary

In Q3, 2005, the Corporate and Investment Bank generated a pre-tax profit of PLN 206 million, which represents a 137% increase as compared with Q3, 2004.

Operating profit for Q3, 2005 was PLN 382 million, i.e. 18% higher than in Q3, 2004. The increase in operating income was mainly due to an increase in income on treasury products and an increase in commission income offset by a decrease in net interest income.

Net interest income amounted to PLN 115 million and was lower by 25% in comparison with Q3, 2004. A significant factor in the decrease of interest income was a decrease in interest income on Treasury securities, as part of that portfolio was sold in Q2, 2005, and a decrease in interest income on the credit portfolio in connection with a decrease in interest rates.

Operating profit improved as a result of the stable growth trend of net commission income, which in Q3, 2005 rose by 22% as compared with Q3, 2004, i.e. to PLN 91 million. The main sources of growth in commission income were brokerage and custody operations of the Bank including income from the custody operations of ABN Amro Bank (Polska SA), which was acquired in Q1, 2005.

The result on the trading portfolio amounted to PLN 63 million in Q3, 2005, as compared with PLN 36 million in Q3, 2004. The high level of derivatives income caused the increase in trading portfolio income. The FX result was equal to PLN 60 million in Q3, 2005, while in Q3, 2004 it amounted to PLN 34 million in comparison with the previous period. The result for Q3, 2005 was the sum of a positive result on FX financial instruments and a negative revaluation of on-balance sheet items due to the appreciation of Poland's currency.

The result on financial instruments available for sale was PLN 4 million in Q3, 2005, as compared with a loss of PLN 5 million in Q3, 2004. The loss in Q3, 2004, as compared with Q3, 2005, resulted from a realized loss on Treasury bonds and bills in a period of increasing interest rates.

The expenses of the Corporate and Investment Bank segment in Q3, 2005 amounted to PLN 173 million, representing a decrease of 18% as compared with Q3, 2004. The main factor that allowed cost savings, in addition to permanent cost discipline in all areas, was lower headcount and cost cuts attributable to the optimization of the branch network. Q3 2004 was burdened by the cost of severance pay as a result of group lay offs. Corporate and Investment Bank's share in total general administrative expenses decreased in 2005.

In Q3, 2005, the segment released loan provisions of PLN 36 million due to the collection of some irregular loans and the lower cost of credit on new loans. In Q3, 2004, the Commercial and Investment Bank segment released provisions of PLN 6 million.

In Q3, 2005, the result of the Commercial and Investment Bank segment was also affected by a negative result on shares in companies subject to the equity method, which was generated by a provision for the impairment loss of shares in one of the companies.

a) GTS

Trade finance products

One of the key tasks of the Bank for Q3, 2005 in the area of trade finance products and service was a project to prepare and launch a comprehensive offer, including a marketing campaign, under a provisional brand name *Trade with us*. The campaign and proposal focused on manufacturing and commercial businesses that want the Bank to provide a perfect operating service, a flexible approach to financing, primarily for trade transactions, as well as solutions to mitigate commercial and fx risk. The proposal prepared by the Bank includes guarantees, letters of credit, discount of bills of exchange and invoices, assignment of LoC receivables, factoring on the basis of a policy issued by KUKE S.A., Handlowy Revolving Loan, as well as the supplier financing program.

A new lending program for small and medium-sized enterprises was developed under the Bank's risk management regulations. It includes, in particular, specific aspects of trade finance and service products.

One of the most significant achievements was the implementation of four large-scale trade finance programs on the basis of the PayLink card. They were tailored to the need of companies that specialize in manufacturing and sales of heating systems and agricultural equipment and spare parts, as well as fuel companies.

In the area of transaction services, the list of key deals included numerous performance bonds and custom duty guarantees issued by the Bank, for which the amount of a single instrument exceeded PLN 10 million.

Cash management products

In August 2005, the Bank launched a new bank account product for institutional customers – escrow account. The escrow account provides additional security for a transaction since it guarantees the accurate execution of payment orders and secures funds kept on the account against third party claims. The Bank has already signed pilot agreements with customers for the maintenance of such bank accounts.

Card products

In Q3, 2005, the Bank issued the first benefit cards for the Community Family Assistance Centers in Łódź and Białystok. This is another innovative application of prepaid cards, which have been issued by the Bank since 2002. This solution significantly reduces expenses incurred to pay out benefits.

Electronic banking products

As of 1 July 2005, the Bank introduced the automatic verification of IBAN accounts entered by customers into payment orders. In the case of an error, the system returns a payment in the customer's account, which allows for the elimination of such errors in data sent to the Elixir interbank settlement system.

In the beginning of August 2005, in connection with new legal requirements for social insurance and tax payment orders, the Bank implemented new principles of verification of payments to the social insurance and tax authorities in the electronic banking systems Citidirect and Goniec. Now the Bank's customers may also handle such payments in these e-banking systems.

EU products

In Q3, 2005, the EU Unit carried out an extensive marketing campaign aimed at existing customers of the Bank. Due to a wide-ranging product offer, it attracted about 300 customers interested in the financing of their projects in the form of EU loans or leases.

As part of activities initiated to expand the target group of customers interested in the Bank's services in the area of EU project finance, the Bank has established cooperation with distributors of agricultural equipment, which offer quick loans to farmers for projects supported with the EU's assistance funds.

As of 7 July 2005, Poznań hosted a conference for representatives of local government. Its topic was "Investment projects financed by local government. Methods of securing own funds by communities to implement investment projects co-financed by the EU." Such conferences will be held cyclically in each of the regions.

Bank's products offered by other financial institutions

In Q3, 2005, the Bank has been developing cooperation with businesses that realize international contracts under the "Italian Desk" project. Extensive cooperation to sell the Bank's products, as well their joint development and modification, generates important benefits to the Bank, which attracts new customers.

b) Capital markets and corporate and investment banking

Treasury products

In Q3, 2005, the Bank achieved excellent results on sales of treasury products. The key drivers were the result on trading in FX options and sales of Market Linked Deposits (MLDs).

In Q3, 2005 the Bank noted a high increase on the debt financial instruments market, the Bank achieved 22% market share. The higher activity was noted on the structured products market as well as trade swaps.

Dom Maklerski Banku Handlowego S.A. (brokerage house, "DMBH") – a subsidiary

In Q3, 2005, the brokerage house of the Bank (Dom Maklerski Banku Handlowego SA) kept its leading position in the brokerage services market. As a broker, it arranged 20.2% of the transactions in stocks in the secondary market. In this period, the turnover generated by DMBH in the equity market of the Warsaw Stock Exchange totaled PLN 9,740 million – a new all-time high – while the turnover in the market rose by 50.1%.

Handlowy Zarządzanie Aktywami S.A. (asset management, "HanZA") – a subsidiary

As of September 30, 2005, assets under management of Handlowy Zarządzanie Aktywami S.A. totaled PLN 3,705 million, i.e. increased by 162% from September 30, 2004, when HanZA managed assets of PLN 1,411 million.

Assets entrusted by individual customers were PLN 1,482 million on September 30, 2005, with a vast majority attributable to CitiFunds' assets, which are operated by Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A. (investment funds company), while assets managed by HanZA totaled PLN 1,269 million. Assets of institutional customers amounted to more than PLN 2,223 million, of which PLN 687 in assets of CitiFunds. The other funds were entrusted mostly by insurance companies and other financial institutions.

In Q3, 2005, the portfolios managed by HanZA generated results approximately at the level of their benchmarks. The highest rate of return in the period from July to September was offered by the equity portfolio: +18.04% (as compared with a +19.30% benchmark). The mixed portfolios (funds invested both in equities and debentures) also brought excellent outcomes. The balanced mixed portfolios generated a return of +9.60% (benchmark: +9.40%), while the stable mixed portfolios: + 3,40% (benchmark: +3.17%). The debt securities portfolios, which are the most frequent choice of institutional customers, offered a +1.25% return, comparing with a +1.50% benchmark, and the money market portfolios generated +1.33%, comparing with a +1.21% benchmark.

Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A. (investment funds management, "TFI BH") – a subsidiary

The value of assets under management of Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A. was PLN 1,957 million as of September 30, 2005, as compared with PLN 881 million as of September 30, 2004, representing an increase of 122%.

The largest fund, in terms of assets, was the CitiBalanced Central Europe Open-End Investment Fund, which recorded a dynamic growth of assets under management during the quarter (more than 39%). As of September 30, 2005, they totaled over PLN 622 million (in comparison with more than PLN 152 million as of September 30, 2004). It is notable that individuals contributed almost all the assets under management of that fund, which confirms that Polish individual investors appreciate the investment strategy of the fund. It was modified in September 2004 and now offers a broader spectrum of investing opportunities, including stocks from Central Europe markets. Despite the fact that the investment strategy was changed over a year ago it is still the most popular fund in TFI BH's offer, which simultaneously was one of the top balanced funds in the entire market in Poland (in terms of return).

The second largest fund was the CitiSenior Specialized Open-End Investment Fund. Its assets under management increased by 21.7% in Q3, 2005 and amounted to more than PLN 448,3 million as of September 30, 2005. It should be noted the that fund regularly attracts more and more assets, and increase very fast. For example, its assets under management more than doubled in comparison with their total as of September 30, 2004. Slightly over 50% of assets are funds entrusted by institutional customers, mainly entities for which TFI BH operates Employee Pension Plans. It should be mention that the growth rate for assets of customers of that fund has shown an accelerating trend for several reporting periods. Their share in the assets of CitiSenior SOIF jumped to 50% as compared with 23% as of September 30, 2004.

Despite frequent fluctuations in the market, all the open-end investment funds that are managed by TFI BH generated profits for investors in Q3, 2005. That was a particularly good period for funds investing in equities: CitiEquity OIF generated a return of +16.81% in that period, CitiBalanced Central Europe OIF increased by +9.31%, CitiSenior by + 4.05% and PKP Employee Ownership SOIF by +6.17%. The third quarter saw relatively low earnings of the funds that invest only in debt securities: CitiBonds OIF offered a return of +0.55%, while CitiMoney Market OIF increased by +1,04% and CitiLiquidity SOIF by +1.19%.

c) Credit products

Corporate finance

In September 2005, the Bank signed agreements for a PLN 400 million program of short-term corporate bills with a company from the wood and paper sector. Under the program, the Bank is the lead manager, dealer, payment agent and depositary.

In addition, in Q3, 2005 the Bank signed agreements for a PLN 250 million program of medium-term corporate bonds with a food company. The Bank is the lead manager and dealer.
As at September 30, 2005, the Bank was the leader in the short-term corporate debt instruments market, with a share of 20.6 %.

Handlowy-Leasing S.A. / Citileasing Sp. z o.o. – subsidiaries

In Q3, 2005, the product range was significantly extended as well as matched to the market requirements. The companies focused mainly on the establishment and development of cooperation with suppliers of leased assets, as one of the most significant distribution channels.

Particular emphasis was placed on the internal restructuring of the company. Multifunctional teams were created with the aim to prepare and implement proposals that will enable the company to harmonize its operations with more and more demanding market environment. As an outcome, a "fast track transaction processing" was constructed.

The company continued acquisition efforts in the large and medium transaction segment. One of the most successful projects was a joint program with Kreditanstalt fur Wiederaufbau, focused on the utilization of EU funds.

As compared with Q3, 2004, net assets under leases increased by 28.4% - one of the highest growth ratios in the market.

2. Consumer Bank

Summary

The operating income of the segment was PLN 185 million, representing an increase of 5% as compared with Q3, 2004. The higher income in Q3,2004 in comparison with Q3, 2004 was achieved due to improved commission income on insurance and investment products. Net commission income showed a 16% increase in Q3, 2005 as compared with the corresponding period in 2004, to PLN 62 million. Net interest income has not changed due to decrease of interest rates on credit cards that make the Bank's offer more competitive.

In Q3, 2005, the Consumer Bank generated a pre-tax profit of PLN 19 million, representing a 70% decrease as compared with the same quarter in 2004.

In Q3, 2005, general and administrative expenses and depreciation amounted to PLN 147 million and PLN 10 million, respectively, which represents an increase of 46% and 14% in comparison with Q3, 2004. The main drivers of the increase in expenses were the continued development of distribution channels and an increased headcount in sales functions. Additionally expenses increased due to a severance provision booked as a result of further planned changes in the employment structure. Changes are implemented due to the reorganization of certain areas and introduction of new technology and organizational solutions. As a result of the changes the Bank is expecting an improvement in quality and effectiveness of customer service.

In the third quarter of 2005 the Bank recorded PLN 5 million of net loan impairment, mainly in the area of financing of small enterprises – "Citibusiness".

a) Credit cards

As of September 30, 2005, the credit card portfolio reached 565,000, i.e. it showed an 8% increase in comparison with the same period of the previous year.

As a result of changes including introduction of the prestigious Citibank Platinum card as well as widening the target market criteria for Gold and Silver cards, the Bank started to send Citibank Gold and Platinum Credit Card offers to selected customers. Under that scheme its customers may replace a Silver card with a Gold card and a Gold card with a Platinum card.

Q3, 2005 was another good quarter for "Komfort" Installment Plans.

b) Retail banking

Consumer cards

In Q3, 2005, the Bank maintained the record level of acquisition of credit products, which was achieved in Q2, 2005, on the basis of the potential offered by existing customers, as well as by way of attracting new ones due to some changes in its credit policy. Those changes resulted in a broader target market, while the top quality of the loan portfolio was maintained.

In August 2005, the Bank enriched the range of insurance products offered together with the Citibank Loan by adding new, optional insurance packages to the credit. The new insurance options include: loss of job, total permanent disability to work, total temporary disability to work and death of the borrower (which was distributed previously). The new insurance options were launched in cooperation with MetLife Towarzystwo Ubezpieczeń na Życie SA (insurance company).

In the area of mortgage loans, the Bank continued its cooperation with GE Money Bank and Nykredit/Realkredit AS. In September 2005, the Bank and Nykredit carried out a joint informational campaign to inform the market that a new loan offered by Nykredit is now available at Citibank Handlowy's branches. It should be emphasized that Nykredit is the only bank in Poland that offers a fixed-rate mortgage loan for as long as 30 years.

Bank accounts

In Q3, 2005, the Bank ran various promotional campaigns to attract new customers for personal accounts time deposits in the segment of affluent persons, including a special offering for existing credit card customers.

Investment products

In July, the Bank introduced a new regular savings plan: Regular Savings 'Pension with the Lion' Program, which includes investment funds operated by ING. This is the third plan in the Bank's product range.
In Q3, 2005, the Bank issued 6 subscriptions of structured bonds and 8 subscriptions of Citibank Market Linked Deposits.

Insurance products

Q3, 2005 saw the growth of sale of insurance products linked with investment funds. The product acquisition efforts were supported by a local press campaign in southern Poland.
Additionally, in Q3 2005, the Bank commenced to sell insurance products for holders of Citibank credit cards via CitiPhone (call center), and developed the sale of the CreditShield insurance through that distribution channel.

Electronic banking

The number of users that logged in to the Citibank Online service exceeded 309,000 on September 30, 2005, which means that it rose by 52% during the last twelve months. Transactions initiated through

Citibank Online accounted for more than 81% of total transactions of Consumer Bank in September 2005. The expansion of that distribution channel is propelled by an appropriate pricing policy, extended functionality and special offers, for example T-Deposits with attractive interest rates, which are only available on Citibank Online.

In addition, the Bank is actively promoting the Statement Online service. As a result of its endeavors, the number of users is growing and the Bank generates significant cost savings. As of September 30, 2005, about 12% of all account holders were users of Statement Online. The number of CitiGSM customers - who receive SMSs with their balance – showed an 18% increase as compared with September 30, 2004.

Customers of Commercial Bank and Corporate Bank also use the electronic banking system. At the end of Q3, 2005, the number of customers covered by that service was 4,733.

3. CitiFinancial

Summary

In Q3, 2005, CitiFinancial posted a pre-tax profit of over PLN 5 million, representing an almost 8 times increase as compared with Q3, 2004.

In Q3, 2005, the operating profit of the segment grew by more than 200% in comparison with Q3, 2004, while net interest income increased to PLN 31 million (by 115%) and net commission income amounted to PLN over 2 million (increase by 196%). At the same time, expenses rose by 63%, to PLN 22 million, in Q3, 2005, mainly as a result of the expansion of the distribution network (4 new outlets operational in Q3, 2005). During the dynamic phase of investment it should be mentioned the high level of operational leverage that is the difference between revenues and costs.

Net changes in provisions for credit risk amounted to PLN 5.0 million in Q3, 2005, which is below the expected level for the market in which CitiFinancial operates, in relation to the acquired assets. In Q3, 2004, such changes in provisions totaled PLN 1.0 million.

Marketing

Q3, 2005 was the period of a continued increase of sales of cash loan products. CitiFinancial continued the campaign to promote the "Installment Reduction Center," which generated dynamic growth in sale of loans, and the suitable pricing policy strengthened the competitive attractiveness of CitiFinancial's offering.

4. Reorganization of the branch network

In Q3, 2005, the Bank continued the expansion and reorganization of its branch network to optimize its cost effectiveness and availability to retail and corporate customers. The branch network added 22 outlets as compared with Q3, 2004. As of September 30, 2005, it consisted of 184 outlets, as follows:

- 41 branches and subbranches of Corporate Bank (23 of them also serve retail customers);
- 87 branches of Consumer Bank, including 1 Investment Center and 12 outlets dedicated to CitiGold Wealth Management customers (11 branches of Consumer Bank also serve corporate customers);
- 56 branches of CitiFinancial (located in shopping centers and near to housing districts).

Both Corporate Bank and Consumer Bank outlets may serve CitiBusiness customers.

The above structure comprises differentiated solutions to ensure optimized access to services for all the existing and prospective customers of the Bank.

6. Seasonality or cyclical nature of business activity

The business activity of the Bank's Capital Group is not significantly influenced by seasonal or cyclical factors.

7. Issue, buyout and repayment of debt and equity securities

No debt or equity securities were issued, bought out or repaid in the third quarter of 2005.

8. 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 combined amount intended for payment as a dividend was PLN 1,563,995,412 which means that the combined dividend per one share standed at PLN 11.97
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
The Bank did not issue any preference shares.

9. Major events after the balance sheet date not included in the financial statements

On 2nd November 2005 the Bank, Handlowy-Inwestycje Sp. z o.o. (a subsidiary of the Bank) and ING Commercial Finance B.V. concluded a preliminary sale agreement for shares in the company Handlowy-Heller S.A., in accordance with which the Bank and Handlowy-Inwestycje Sp. z o.o. have undertaken to sell to ING Commercial Finance B.V. shares in Handlowy-Heller S.A. constituting 50% of its share capital. The final sale agreement is to be concluded after having satisfied the qualifying conditions, including in particular obtaining the consent of the President of the Office for Consumer Protection and Competition.

10. Changes in the Company's structure

In the third quarter of 2005, there were no changes in the Company's structure that took place at the Bank or units of the Bank's Capital Group including mergers, acquisitions or sale of entities making up the Group, long-term investment, restructuring and discontinuance of business activity.

11. Movements in off balance sheet commitments

As of 30 September a significant change in unused credit lines in comparison with the end of 2004 was noted. The unused credit lines decreased by PLN 942 million of which PLN 751 million was a result of changes in liabilities and receivables related to the Cash Pooling product. This was due to a change in the presentation of these liabilities and receivables in accordance with IFRS following implementation on 1 January 2005. In 2004 these exposures were presented as off balance exposures. Since 1 January 2005 these exposures are presented on the balance sheet as separate receivables without netting of related liabilities.

Other changes in off balance sheet items were associated especially with liabilities related to the execution of purchase/sale operations i.e. growth in the volume of term transactions - pertaining to FRAs.

Information relating to off balance sheet liabilities as of 30 September 2005 and 31 December 2004 is presented below.

In thousand of PLN	**30/09/2005**	**31/12/2004**
Contingent liabilities		
Granted liabilities		
a) financial	*8 235 096*	9 335 994
Import letters of credit issued	*106 574*	*167 528*
Lines of credit granted	*8 105 522*	*9 047 107*
Deposits to be distributed	*23 000*	*121 359*
b) guarantees	*2 379 621*	2 366 914
Guarantees	*2 352 941*	*2 349 806*
Export letters of credit confirmed	*26 680*	*17 108*
	10 614 717	**11 702 908**
Received liabilities		
a) financial	*1 350*	335 975
b) guarantees	*3 028 207*	2 616 366
Guarantess received	*3 028 207*	*2 616 366*
	3 029 557	**2 952 341**
Current off-balance sheet transactions	**8 452 592**	**9 669 494**
Term of balance sheet transactions	**224 603 147**	**182 238 185**
	246 700 013	**206 562 928**

12. Foreign currency translation

Selected financial data presented at the beginning of the consolidated quarterly report has been quoted in two currencies – in PLN and euro. The principles of translating PLN into euro are as follows:

1. individual items of balance-sheet assets and liabilities are translated into euro based on the average exchange rate obtaining on the balance-sheet date, as announced by the National Bank of Poland, at PLN 3.9166 as on 30 September 2005 and PLN 4.3832 as on 30 September 2004;
2. individual items of the income statement are translated into euro according to the exchange rate representing the arithmetic mean of average exchange rates announced by the National Bank of Poland, obtaining on the last day of each completed month of the periods covered by the quarterly report which, in relation to the third quarter of 2005, stands at PLN 4.0583, on an aggregate basis; in relation to the third quarter of 2004 stands at PLN 4.6214, on an aggregate basis.

13. Achievement of 2005 forecast results

The Bank, as the dominant entity, did not disclose its forecast results for the year 2005.

14. Information about shareholders

The structure of major shareholdings has not changed since the submission of the previous quarterly report. As of 30 September 2005, the following shareholders of the Bank held, directly or indirectly through subsidiaries, a minimum of 5% of votes at the General Meeting of Shareholders of Bank Handlowy w Warszawie SA:

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

2) International Finance Associates (IFA), a subsidiary of COIC, held 14.3% of votes at the General Meeting of Shareholders of Bank Handlowy w Warszawie SA and 18,722,874 votes, i.e. 14.3% of total votes at the Bank's General Meeting of Shareholders.

There were no changes in the structure of major shareholdings of the Bank since the submission of the previous quarterly report.

15. Changes in ownership of issuer's shares by managing and supervising officers

As of the submission date of the consolidated quarterly report, to the best knowledge of the Bank parent entity, persons holding management and supervisory positions held 752 shares of the Bank. Mr Andrzej Olechowski – a member of Supervisory Board, holds these shares. Other managing persons did not declare ownership of Bank' shares.

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

16. Information on pending proceedings

In the third quarter of 2005, no proceedings relating to the liabilities or receivables of the Bank or its subsidiaries, the value of which would correspond to at least 10% of the Bank's shareholders' equity, were pending before any court, administrative authority or an arbitration court.

In the third quarter of 2005, the total value of all pending court proceedings involving the Bank or its subsidiaries and related to their receivables exceeded 10% of the Bank's shareholders' equity and amounted to PLN 1,578,634 thousand. The Bank's position regarding this matter is as follows:

The overwhelming majority of the receivables of the Bank and its subsidiaries has arisen from the persistently high number of composition and bankruptcy proceedings in which Bank Handlowy w Warszawie SA or its subsidiaries participate in the capacity of a creditor, as well as proceedings by writ of payment and for appending the enforcement clause to bank executory titles. The aforementioned proceedings resulted from deteriorating financial standing of the Bank's borrowers, especially customers of the Bank's Consumer Bank Sector.

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

Under applicable laws and regulations, Bank Handlowy w Warszawie SA is obliged to establish provisions for non-performing assets (receivables) as soon as the risk level related to the economic performance of a given receivable increases, and therefore, in practice, as of the date of commencement of composition or bankruptcy proceedings the provision for the receivable has already been established for the relevant amount.

Meanwhile, when bankruptcy proceedings or proceedings for appending an enforcement clause to bank executory title come to an end, the Bank usually recovers at least part of the payment due and is then able to release relevant provisions in whole or in part. The same happens in the case of concluded composition proceedings, where after the debt has been reduced, the debtor repays that part of its liabilities towards the Bank that was not written off.

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

Parties to Proceedings	Litigation Value (in thousands of PLN)	Proceedings Commencement Date	Description of Case
Creditor: Bank Handlowy w Warszawie SA.	158 534	8 August 1996 – declaration of bankruptcy.	Case pending. The Bank submitted the receivable to repay it from the bankrupt's assets for arrangement. The official receiver expects to complete the bankruptcy proceeding by the end of 2006.
Creditor: Bank Handlowy w Warszawie SA	65 947	In 2000, the court declared the borrower bankrupt.	Within the framework of the pending proceedings, the Bank submitted a receivable. The Bank's receivable is classified as category VI and may remain unpaid.
Plaintiff: Bank Handlowy w Warszawie SA	33 976	Suit for payment under loan liability.	Case pending. The writ of payment was issued on 8 September 2003. The defendant has raised objections to the writ for payment.
Creditor: Bank Handlowy w Warszawie SA	47 054	On 22 June 2001, the court declared the debtor bankrupt.	Case pending. The Bank submitted its receivables to the proceedings.
Plaintiff: Bank Handlowy w Warszawie SA	14 025	Suit for payment under a bill of exchange. 21 April 2005.	The Bank obtained the writ for payment. Case pending.
Creditor: Bank Handlowy w Warszawie SA	30 953	The court declared the debtor bankrupt in March 2004.	The Bank submitted the receivable to repay it from the bankrupt's assets for arrangement. Case pending (loan-related receivable).

In the third quarter of 2005, the total value of litigations involving the Bank or its subsidiaries and related to their liabilities did not exceed 10% of the Bank's shareholders' equity.

17. Information about significant transactions with related entities

In the third quarter of 2005, the Bank and its subsidiaries did not enter into any transactions with related entities, which were on non-market terms. Transactions with related entities result from the ongoing operating activities of the Bank and its subsidiaries.

18. Information about major loan and advance surety or guarantee agreements

At the end of the third quarter of 2005, the total value of sureties and guarantees extended by the Bank or its subsidiaries to a single entity did not exceed 10% of the Bank's consolidated shareholders' equity.

19. Other material information

Personal changes in the Bank

As of 26 September 2005 Mr. Philip King resigned from the position of Vice-president of the Management Board of Bank Handlowy w Warszawie and his mandate as member of the Management Board expired.

As of 28 October 2005 the Supervisory Board of Bank Handlowy w Warszawie SA appointed Mr. Sanjeeba Chaudhuri to the position of Vice-president of the Management Board of Bank Handlowy w Warszawie.

Other Information

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.

20. Description of factors and events with potential impact on future financial performance

The key factors that may have an impact on the level of the results of the Bank's Capital Group include:

- The foreseen accelerated growth in the economy in the last quarter of 2005 and in 2006 should contribute to an increase in demand for banking products. In line with intensified investment activities, companies will demonstrate a higher demand for loans, which may translate into the expansion of the Bank's lending activities. As for now, Poland's utilization of funds provided by the European Union has been lower than expected. The projected inflow of structural funds in 2006 may be another factor that will raise demand for credit.

- The increased domestic demand will be followed by the incremental growth of imports and improvement of financial situation of importers served by the Bank. The situation on the foreign trade market will depend on the situation on the FX market. The polish currency may be influenced by the uncertain political situation in the nearest months. This situation may influence the financial situation of Bank.

- The risk of unexpected changes in fiscal policy may be influenced by the uncertain political situation in Poland. It could lead to changes in tax expenses and fiscal expenses influencing the disposal income of households and competitiveness of polish companies.

- An improved situation in the labor market will lead to higher growth of salaries and wages in 2006. An increase in income of households will fuel a higher demand for financial services offered to individual customers. Simultaneously, in the light of higher economic growth, the Monetary Policy Council should incline to end the interest rate reduction cycle. This, in turn, should stabilize interest rates at a low level, but may also hamper individual customers' desire to place their funds as deposits with the Bank.

Summary Financial Statements of Parent Company

Income statement of the Bank – parent company

In thousands of PLN	**Third quarter (current year)** **Period from 01/07/05 to 30/09/05**	**Year to date (current year)** **Period from 01/01/05 to 30/09/05**	**Third quarter (previous year)** **Period from 01/07/04 to 30/09/04**	**Year to date (previous year)** **Period from 01/01/04 to 30/09/04**
Interest and similar income	399 267	1 269 771	464 339	1 255 428
Interest expense and similar charges	(152 021)	(509 284)	(199 860)	(537 963)
Net interest income	**247 246**	**760 487**	**264 479**	**717 465**
Fee and commission income	151 052	431 977	137 275	419 308
Fee and commission expense	(20 633)	(55 612)	(17 129)	(49 288)
Net fee and commission income	**130 419**	**376 365**	**120 146**	**370 020**
Dividend income	18 948	21 094	5 257	13 241
Net trading income	65 947	77 101	34 668	6 913
Net gain on disposal of non-trading financial instruments	3 632	106 493	(5 485)	(5 464)
Net profit on foreign exchange	63 179	265 558	62 206	305 140
Other operating income	48 163	95 220	29 074	88 292
Operating income	**577 534**	**1 702 318**	**510 345**	**1 495 607**
General administrative expenses	(328 600)	(1 001 195)	(319 133)	(936 343)
Depreciation expense	(34 432)	(104 069)	(34 344)	(106 596)
Other operating expenses	(12 007)	(43 599)	(8 371)	(25 450)
Profit / (loss) on sale of tangible fixed assets	1 015	(257)	(3 214)	4 054
Net impairment losses	21 180	32 320	8 699	12 701
Profit before tax	**224 690**	**585 518**	**153 982**	**443 973**
Income tax expense	(44 582)	(123 944)	(36 776)	(87 616)
Net profit	**180 108**	**461 574**	**117 206**	**356 357**
Weighted average number of ordinary shares		130 659 600		130 659 600
Net profit per ordinary share (in PLN)		**3,53**		**2,73**
Diluted weighted average number of ordinary shares		-		-
Diluted net profit per ordinary share (in PLN)		-		-

Balance sheet of the Bank – parent company

	30/09/2005	31/12/2004
In thousands of PLN		
ASSTES		
Cash and balances with central bank	731 181	841 114
Financial assets held for trading	6 554 429	5 316 962
Financial assets available for sale	5 066 722	6 091 194
Equity investments	321 372	332 511
Loans and advances	15 753 879	18 498 769
to financial sector	*5 626 761*	*8 675 599*
to non-financial sector	*9 849 111*	*9 057 286*
accrued interest	*294 676*	*765 884*
Property and equipment	712 332	711 710
land, buildings and equipment	*663 181*	*711 710*
investment property	*49 151*	*-*
Intangible assets	1 323 749	1 309 578
Deferred income tax assets	153 784	237 205
Other assets	360 296	470 088
Total assets	**30 994 413**	**33 809 131**
LIABILITIES		
Due to central bank	355	718
Financial liabilities held for trading	4 243 025	4 194 290
Financial liabilities valued at amortized cost	20 097 494	21 974 328
deposits from	*19 332 676*	*20 667 770*
financial sector	*4 570 632*	*3 814 669*
non-financial sector	*14 762 044*	*16 853 101*
other liabilities	*710 156*	*1 248 838*
accrued interest	*54 662*	*57 720*
Financial liabilities from transfers of financial assets	568 186	-
Provisions	54 536	216 717
Income tax liabilities	3 358	23 509
Other liabilities	950 360	1 257 585
Total liabilities	**25 917 314**	**27 667 147**
EQUITY	522 638	522 638
Issued capital	522 638	522 638
Share premium	2 944 585	3 044 585
Revaluation reserve	(2 117)	19 651
Other reserves	1 101 977	2 116 561
Retained earnings (losses brought forward)	48 442	(9 973)
Profit / (loss) - current period	461 574	448 522
Total equity	**5 077 099**	**6 141 984**
Total liabilities and equity	**30 994 413**	**33 809 131**

Statement of changes in equity of the Bank – parent company

In thousands of PLN	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings / (losses brought forward)	Net profit / (loss) (current year)	**Total equity**
Previous GAAP balance at 1 January 2004	**522 638**	**3 044 585**	**(13 212)**	**2 115 273**	**277 646**	**-**	**5 946 930**
Effects of transition to IFRS with retrospective corrections					(45 109)	-	(45 109)
Balance as of 1 January 2004- after opening balance restatement	**522 638**	**3 044 585**	**(13 212)**	**2 115 273**	**232 537**	**-**	**5 901 821**
Differences from current valuation at fair value of financial assets available for sale	-	-	(31 801)	-	-	-	(31 801)
Adjustments in respect of deferred income tax on valuation of financial assets available for sale	-	-	6 043	-	-	-	6 043
Disposal of fixed assets	-	-	(305)	305	-	-	-
Net profit	-	-	-	-	-	356 357	356 357
Dividends for payment	-	-	-	-	(241 720)	-	(241 720)
Transfers to capital	-	-	-	790	(790)	-	-
Closing balance as of 30 September 2004	**522 638**	**3 044 585**	**(39 275)**	**2 116 368**	**(9 973)**	**356 357**	**5 990 700**

Statement of changes in equity of the Bank – parent company

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**	**3 044 585**	**19 651**	**2 116 561**	**438 549**	-	**6 141 984**
Effects of transition to IFRS with retrospective corrections			2 479		59 243	-	61 722
Balance as of 1 January 2005- after opening balance restatement	**522 638**	**3 044 585**	**22 130**	**2 116 561**	**497 792**	-	**6 203 706**
Differences from current valuation at fair value of financial assets available for sale	-	-	(29 860)	-	-	-	(29 860)
Adjustments in respect of deferred income tax on valuation of financial assets available for sale	-	-	5 673	-	-	-	5 673
Disposal of fixed assets	-	-	(60)	60			-
Net profit	-	-	-	-	-	461 574	461 574
Dividends for payment	-	(100 000)	-	(1 049 804)	(414 191)	-	(1 563 995)
Transfers to capital	-	-	-	35 159	(35 159)	-	-
Closing balance 30 September 2005	**522 638**	**2 944 585**	**(2 117)**	**1 101 977**	**48 442**	**461 574**	**5 077 099**

Summary statement of cash flows of the Bank – parent company

In thousands of PLN	**Year to date (current year)**	**Year to date (previous year)**
	Period from 01/01/05 to 30/09/05	**Period from 01/01/04 to 30/09/04**
Cash at the beginning of reporting period	**972 013**	**1 211 860**
Cash flows from operating activities	562 341	164 430
Cash flows from investing activities	(69 789)	(72 719)
Cash flows from financing activities	(637 812)	(313 837)
Cash at the end of reporting period	**826 753**	**989 734**
Increase / Decrease in net cash	**(145 260)**	**(222 126)**

Notes to the Abbreviated Financial Statements of Bank Handlowy w Warszawie SA ("the Bank") for the third quarter of 2005

The notes to the consolidated financial statements for the third quarter of 2005 contain all material information constituting also the explanatory data for the Bank's abbreviated financial statements. Below is presented in supplement a summary of the Bank's financial results for the third quarter of 2005.

The Bank's financial results

For the first three quarters of 2005, the Bank's Capital Group reported a net profit of PLN 462 million, representing an increase of PLN 105 million (i.e. 29.5%) over the corresponding period of the previous year. Net profit for the third quarter of 2005 amounted to PLN 180 million in comparison to PLN 117 million in the corresponding period of the previous year

Cumulative gross profit (i.e. for the period of January to June) amounted to PLN 586 million, which is an increase of PLN 142 million (i.e. 31.9%) in comparison to the corresponding period of the previous year. Gross profit generated in the third quarter of 2005 amounted to PLN 225 million compared to PLN 154 million in corresponding period of the previous year.

The amount of the Bank's net profit for the third quarter of 2005 was primarily influenced by the result on banking activity and other operating income, which improved by PLN 67 million (i.e. 13.2%). It was mainly due to an increase in income from tradable financial assets and liabilities, net interest income, dividend income and other operating income.

The extended consolidated quarterly report for the third quarter of 2005 will be made available on the website of Bank Handlowy w Warszawie SA at **www.citibankhandlowy.pl**

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

10.11.2005
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Signature of the Management Board Member
Chief Financial Officer
Date and signature

10.11.2005
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