ANNUAL REPORT 2005

citibank handlowy
Bank Handlowy w Warszawie SA

Ladies and Gentlemen,

In 2005, the Group of Bank Handlowy w Warszawie SA implemented significant changes to adapt its structure to the target model. It assumes that the Group will focus on development of the strategic subsidiaries. Their primary task is to ensure the effective support and enhancement of the Bank's product range, as well as the reinforcement of the competitive position of the entire Group in the financial services market.

The economic environment of the Bank was stable and exports were the main factor of growth in 2005, as in previous years. However, both corporate capital expenditure and consumer spending trends deteriorated. The previous year was very successful for the equity market. Invigorating conditions in the securities market resulted from the interest Poland had aroused in the investing community after the accession to the European Union, and numerous IPOs.

The net income of the Group for 2005 amounted to PLN 616.4 million, i.e. increased by PLN 121.4 million, or 24.5%, as compared with 2004. The factors that had contributed to the net result improvement were higher operating revenues (which included interest and commission income, result on financial instruments and f/x result), as well as other operating revenues and expenses. Operating revenues at the Group's level rose by PLN 243.4 million, or 11.8%.

Dom Maklerski Banku Handlowego S.A. (DMBH, brokerage house), which focuses on large institutional Customers, was the leader in the stock exchange equity market, with a 19.9% share in turnovers on the Warsaw Stock Exchange. For the third consecutive year DMBH won the prize of the President of the Warsaw Stock Exchange (WSE) for the largest share in turnover in shares on the Warsaw Stock Exchange. In 2005, DMBH introduced


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into trading on the WSE the first instrument denominated in the U.S. dollar – bonds of Citibank, N.A., which are exchangeable for shares of Bank Handlowy w Warszawie SA, totaling USD 435.6 million. DMBH also served the PLN 456 million IPO of Opoczno S.A. (ceramic tiles). In addition, as of the end of 2005, DMBH was the market maker for 46 companies, i.e. 18% of all the stocks traded on the WSE as well as forwards based on the WIG20 index.

The year 2005 was very successful for our leasing companies: Handlowy-Leasing SA and Citileasing Sp. z o.o. Their net assets under lease amounted to PLN 315 million, i.e. were higher by 57% as compared with the previous year. At the same time total net assets under lease for the entire leasing sector rose by only 12%. In 2005, an integrated IT system was implemented, which should accelerate lease contract processing, increase the scope of management information and support long-term relationships with Customers. On January 10, 2006 we finalized the merger of Citileasing Sp. z o.o. and Handlowy-Leasing SA. The new company operates under the name Handlowy-Leasing Sp. z o.o.

As of the end of 2005, total assets under management entrusted to Handlowy Zarządzanie Aktywami S.A. (HanZa, asset management) totaled PLN 4,004 million, which means an increase by over 64% as compared with 2004. Assets under management of Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A. (TFI Banku Handlowego, investment funds) more than doubled and reached PLN 2 billion (which gives one of the best growth rates in Poland's investment fund market). In addition to the growth in assets, investment funds also generated excellent returns on investing activity. More and more individual Customers selected CitiFunds Savings Plans – at the end of December 2005 they had nearly PLN 440 million in assets, which means an increase by 250% as compared with the previous year. The distribution of shares in foreign funds was launched (Citi Family of Funds, managed by Citigroup Asset Management). In 2005, the Bank decided to reorient its strategy towards HanZa and TFI Banku Handlowego and sell their shares, as the Bank now wants to focus on distribution of asset management products. Both companies were sold on February 1, 2006.

In 2005, the Bank also decided to sell Handlowy-Heller S.A., its factoring arm. The deal was finalized on February 2, 2006. Factoring services will be offered and developed within the structures of the Bank.

In 2006, our Group intends to reinforce the market position of its core companies, which provide brokerage and leasing services, as well as to ensure closer cooperation between them and the Bank. We assume that the market share of Handlowy-Leasing Sp. z o.o. will increase considerably, as it wants to be one of Top 10 leasing companies in Poland. We also plan to develop distribution of leasing products for the Customers of the Corporate & Investment Bank. The goals of DMBH for 2006 include to maintain its share in the segment of institutional Customers and to intensify efforts to attract individual Customers in a closer cooperation with our Consumer Bank. The Group's strategy assumes a reduction of exposure in other companies, which are to be sold. The Bank will remain one of the leading independent distributors of investment products in Poland's market. Its focus on distribution of asset management products should give the Bank's Customers access to the most diversified range of investment products.

I would like to thank profusely all the staff members of the Bank's Group for their efforts and contribution to reinforce our market position. In the name of the Bank's Management Board, I would also like to thank the Supervisory Board for wholehearted cooperation, and Customers and Shareholders for their trust in our institution.

Sławomir S. Sikora
President of the Management Board

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OPINION OF THE INDEPENDENT AUDITOR

To the Shareholders of Bank Handlowy w Warszawie SA

We have audited the accompanying consolidated financial statements of Bank Handlowy w Warszawie SA Capital Group, seated in Warszawa, Senatorska Street 16, consisting of the consolidated balance sheet as at 31 December 2005, with total assets of and total liabilities and equity of PLN 32 915 502 thousand, the consolidated profit and loss account for the year then ended with a net profit of PLN 616 384 thousand, the consolidated statement of changes in equity for the year then ended with a decrease in equity of PLN 1 005 273 thousand, the consolidated cash flow statement for the year then ended with an increase in cash amounting to PLN 33 184 thousand and supplementary notes, comprising of significant accounting policies and other explanatory notes.

The Management of the Parent Entity is responsible for the preparation and true and fair presentation of the consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and in respect to matters that are not regulated by the above standards, in accordance with the accounting principles as set out in the Accounting Act dated 29 September 1994 (Official Journal from 2002, No. 76, item 694 with subsequent amendments) and respective bylaws and regulations, the requirements for issuers of securities admitted or sought to be admitted to trading on an official stock-exchange listing market. Our responsibility, based on our audit, is to express an opinion on these consolidated financial statements.

We conducted our audit in accordance with section 7 of the Accounting Act dated 29 September 1994, the professional standards established by the Polish National Council of Certified Auditors and International Standards on Auditing. Those standards require that we plan and perform the audit to obtain a reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence, accounting records and consolidation documentation supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles applied in the Group and significant estimates made by the Management of the Parent Entity, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements of Bank Handlowy w Warszawie SA Capital Group present fairly, in all material respects, the financial position of the Capital Group as at 31 December 2005, the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, and in respect to matters that are not regulated by the above standards, in accordance with the accounting principles as set out in the Accounting Act dated 29 September 1994 and respective bylaws and regulations and the requirements for issuers of securities admitted or sought to be admitted to trading on an official stock-exchange listing market and the provisions of law that apply to the consolidated financial statements, applicable to the Capital Group.

As required under the Accounting Act dated 29 September 1994 we also report that the Report on activities of the Capital Group of Bank Handlowy w Warszawie SA includes, in all material respects, the information required by Art. 49 of the Act and by the Decree of the Ministry of Finance dated 19 October 2005 on current and periodic information provided by issuers of securities (Official Journal from 2005, No. 209, item 1744) and the information is consistent with the consolidated financial statements.

Signed on the Polish original

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Certified Auditor No 9941/7390
Bożena Graczyk

Signed on the Polish original

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For KPMG Audyt Sp. z o.o.
ul. Chłodna 51; 00-867 Warsaw
Certified Auditor No. 9941/7390
Bożena Graczyk
Member of the Management Board

Signed on the Polish original

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For KPMG Audyt Sp. z o.o.
ul. Chłodna 51; 00-867 Warsaw
Robert J. Widdowson
Partner

Warsaw, 27 March 2006

Capital Group of Bank Handlowy w Warszawie SA

Report supplementing the auditor's opinion on the consolidated financial statements

Financial year ended 31 December 2005

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1. General

1.1 Identification of the Capital Group

1.1.1 Name of the Capital Group

Bank Handlowy w Warszawie SA Capital Group.

1.1.2 Registered office of the Parent Entity of the Capital Group

Senatorska Street 16
00-923 Warszawa
Poland

1.1.3 Registration of the Parent Entity in the National Court Register

Seat of the court:	Regional Court in Warsaw, XII Commercial Department
Date:	22 February 2001
Registration number:	KRS 0000001538

1.1.4 Registration of the Parent Entity in the Tax Office and Statistical Office

NIP:	526-030-02-91
REGON:	000013037

1.2 Information about entities included in the Capital Group

1.2.1 Entities included in the consolidated financial statements

As at 31 December 2005 the following entities belonging to the Capital Group were subject to consolidation:

Parent Bank:

- Bank Handlowy w Warszawie SA

Subsidiaries consolidated on the 'full consolidation' basis:

- Citileasing Sp. z o.o.
- Dom Maklerski Banku Handlowego S.A.
- Handlowy Leasing S.A.
- Handlowy Zarządzanie Aktywami S.A.
- PPH Spomasz Sp. z o.o. in liquidation
- Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A.

As at 31 December 2004 Dom Maklerski Banku Handlowego S.A. was subject to consolidation on a 'full consolidation' basis.

1.2.2 Entities excluded from consolidation

As at 31 December 2005 the following subsidiaries not belonging to the Capital Group have not been consolidated on a 'full consolidation' basis:

- Bank Rozwoju Cukrownictwa S.A.
- Handlowy Investments S.A.
- Handlowy Investments II S.a.r.l.,
- Handlowy Inwestycje Sp. z o.o.

These entities are insignificant in relation to the consolidated financial statements taken as a whole and represent 0.5% of total Capital Group assets and 0.5% of total Capital Group net profit without elimination of intercompany transactions.

1.3 Auditor information

KPMG Audyt Sp. z o.o.
ul. Chłodna 51
00-867 Warsaw

KPMG Audyt Sp. z o.o. is registered as a company authorised to audit financial statements (number 458).

1.4 Legal status

1.4.1 Share capital

The Parent Entity was established under the Notarial Deed dated 13 April 1870.

The share capital of the Parent Entity amounted to PLN 522 638 400 as at 31 December 2005 divided into 130 659 600 ordinary shares with a nominal value of PLN 4 each.

As at 31 December 2005, the shareholder structure was as follows:

Name of the Shareholder	Number of shares	Number of voting rights (in %)	Book value of shares (PLN '000)	Percentage of share capital (in %)
Citibank Overseas Investment Corporation, USA	97 994 700	75.0	391 979	75.0
International Finance Associates, USA	18 722 874	14.3	74 891	14.3
Other shareholders	13 942 026	10.7	55 768	10.7
Total	**130 659 600**	**100.0**	**522 638**	**100.0**

1.4.2 Management of the Parent Entity

The Management Board is responsible for management of the Parent Entity.

At 31 December 2005, the Management Board of the Parent Entity was comprised of the following members:

- Sławomir Sikora - President of the Management Board
- Reza Ghaffari - Vice-president of the Management Board
- Sanjeeb Chaudhuri - Vice-president of the Management Board
- Lidia Jabłonowska-Luba - Member of the Management Board
- Michał H. Mrożek - Member of the Management Board

In 2005 the following changes in composition of the Parent Entity Management Board took place:

- on 3 February 2005 David J. Smith, Vice-president of the Bank's Management Board resigned from his position;
- on 4 February 2005 Reza Ghaffari was appointed as a Vice-president of the Bank's Management Board;
- on 31 March 2005 Sunil Sreenivasan, Vice-president of the Bank's Management Board resigned from his position;
- on 26 October 2005 Philip King resigned from the position of Vice-president of the Bank's Management Board;
- on 28 October 2005 Sanjeeb Chaudhuri was appointed as a Vice-president of the Bank's Management Board.

In 2006 up to the date of issuing the opinion and report on the audit of the consolidated financial statements for the year ended 31 December 2005 the following changes in composition of the Parent Enity Management Board took place:

- on 1 January 2006 Witold Zieliński was appointed as a Vice-president of the Bank's Management Board;
- on 22 February 2006 Vice-president of the Bank's Management Board Reza Ghaffari resigned from his position.

1.4.3 Scope of activities

The business activities listed in the Parent Entity's Statute include the following:

- accepting deposits payable on request or on a given date and account operation for such deposits,
- operation of other bank accounts,
- performing cash settlements,
- extending credits and cash loans,
- conducting operations which involve checks, bills of exchange and warrants,
- issuing and confirming sureties,
- issuing and confirming bank guarantees and open letters of credit,
- performing FX operations,
- provision of agency services in money transfers abroad by residents and settlements with non-residents in Poland,
- issuing of banking securities,
- commissioned operations related to issue of securities,
- safe-keeping of valuable objects and securities and safe-box services,
- issuing of payment cards and processing of operations executed with use of such cards,
- purchase and sale of receivables,
- processing of forward transactions,

and other.

The business activities of the subsidiaries, included in the Capital Group, according to the Statutes include the following:

- Citileasing Sp. z o.o. – leasing
- Dom Maklerski Banku Handlowego S.A. – brokerage
- Handlowy Zarządzanie Aktywami S.A. – brokerage
- Handlowy Leasing SA – leasing, rent and hire purchase of real estate
- PPH Spomasz Sp. z o.o. in liquidation – production of machinery and equipment
- Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A. – investment activity.

1.5 Prior period consolidated financial statements

The consolidated financial statements for the period ended 31 December 2004 were audited by KPMG Audyt Sp. z o.o. and received an unqualified opinion.

The consolidated financial statements were approved at the General Meeting on 21 June 2005.

The closing balances as at 31 December 2004 have been properly recorded as the opening balances of the audited year prior to International Financial Reporting Standards adjustments.

Due to the changes in the applied accounting policies, resulting from the adoption of the accounting policies that are in compliance with International Financial Reporting Standards as adopted by the European Union the related corresponding figures for 31 December 2004 have been restated by the Parent Entity together with the opening balances of the audited year. Furthermore, in accordance with IFRS 1 "First-time Adoption of International Financial Reporting Standards", the Parent Entity has elected not to restate the corresponding figures in order to comply with IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement". The adjustments resulting from changes in accounting policies, in order to comply with IAS 32 and IAS 39, have been made to the opening balance of equity as at 1 January 2005.

The consolidated financial statements were submitted to the Registry Court on 1 July 2005 and were published in Monitor Polski B No. 1707 dated 31 October 2005.

1.6 Audit scope and responsibilities

This report of the independent auditor was prepared for the Shareholders of the Bank Handlowy w Warszawie SA, seated in Warszawa, Senatorska Street 16, and relates to the consolidated financial statements comprising of: the consolidated balance sheet as at 31 December 2005, with total assets of and total liabilities and equity of PLN 32 915 502 thousand, the consolidated profit and loss account for the year then ended with a net profit of PLN 616 384 thousand, the consolidated statement of changes in equity for the year then ended with a decrease in equity of PLN 1 005 273 thousand, the consolidated cash flow statement for the year then ended with an increase in cash amounting to PLN 33 184 thousand, and supplementary notes, comprising of significant accounting policies and other explanatory notes.

The consolidated financial statements have been audited on the basis of the decision of Supervisory Board dated 24 May 2005 on the appointment of the auditor.

The consolidated financial statements have been audited in accordance with the contract dated 22 November 2005.

We conducted the audit in accordance with section 7 of the Accounting Act dated 29 September 1994 (Official Journal from 2002, No. 76, item 694 with subsequent amendments), the professional standards established by the Polish National Council of Certified Auditors and International Standards on Auditing.

We have audited the consolidated financial statements in the Parent Entity's head office during the period from 28 November 2005 to 24 March 2006.

The Management of the Parent Entity is responsible for the preparation and true and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and in respect to matters that are not regulated by the above standards, in accordance with the accounting principles as set out in the Accounting Act dated 29 September 1994 and respective bylaws and regulations, the requirements for issuers of securities admitted or sought to be admitted to trading on an official stock-exchange listing market.

Our responsibility is to express an opinion, with a supplementing report, on these financial statements.

On 27 March 2006, the Management Board of the Parent Entity submitted a statement as to the true and fair presentation of the consolidated financial statements presented for audit, which confirmed that there were no undisclosed matters which could significantly influence the information presented in the consolidated financial statements for the audited year.

All our requests for additional documents and information necessary for expressing our opinion and preparing the report have been fulfilled by the Management of the Parent Entity.

KPMG Audyt Sp. z o.o., the members of its Management Board and Supervisory Board and other persons involved in the audit of the consolidated financial statements fulfil independence requirements from the entities included in the Capital Group. The scope of the work planned and performed has not been limited in any way. The method and scope of our audit is detailed in working papers prepared by us and retained in the offices of KPMG Audyt Sp. z o.o.

1.7 Information on audits of the financial statements of consolidated entities

1.7.1 Parent Entity

The financial statements of the Parent Entity for the year ended 31 December 2005 has been audited by KPMG Audyt Sp. z o.o., certified auditor number 458, and received an unqualified opinion.

1.7.2 Other consolidated entities

Entity's name	Authorised auditor	Financial year end	Type of the auditor's opinion
Citileasing Sp. z o.o.	KPMG Audyt Sp. z o.o.	31 December 2005	audit in progress
Dom Maklerski Banku Handlowego S.A.	KPMG Audyt Sp. z o.o.	31 December 2005	audit in progress
Handlowy Leasing S.A.	KPMG Audyt Sp. z o.o.	31 December 2005	audit in progress
Handlowy Zarządzanie Aktywami S.A.	KPMG Audyt Sp. z o.o.	31 December 2005	audit in progress
PPH Spomasz Sp. z o.o. w likwidacji	was not subject to audit for the year ended 31 December 2005		
Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A.	KPMG Audyt Sp. z o.o.	31 December 2005	audit in progress

2 Financial analysis of the Capital Group

2.1 Summary of the financial statements

2.1.1 Consolidated balance sheet

ASSETS	31.12.2005 PLN '000	% of total	31.12.2004 PLN '000	% of total
Cash and balances with central bank	922 649	2.80%	841 114	2.47%
Financial assets held for trading	5 883 358	17.87%	5 317 395	15.60%
Debt securities available-for-sale	7 171 157	21.79%	6 091 194	17.87%
Equity investments	20 615	0.06%	28 087	0.09%
Equity investments accounted for under the equity method	61 884	0.19%	86 674	0.26%
Loans and advances	16 074 250	48.84%	18 771 295	55.08%
to financial sector	*6 467 157*	*19.65%*	*8 286 804*	*24.32%*
to non-financial sector	*9 607 093*	*29.19%*	*10 484 491*	*30.76%*
Property and equipment	700 212	2.13%	723 871	2.12%
land, buildings and equipment	*659 264*	*2.00%*	*723 871*	*2.12%*
investment property	*40 948*	*0.13%*	-	-
Intangible assets	1 313 799	3.99%	1 309 766	3.84%
Deferred income tax assets	299 290	0.91%	238 914	0.70%
Other assets	430 574	1.31%	671 296	1.97%
Non-current assets held-for-sale	37 714	0.11%	-	-
TOTAL ASSETS	**32 915 502**	**100.00%**	**34 079 606**	**100.00%**

EQUITY AND LIABILITIES	31.12.2005 PLN '000	% of total	31.12.2004 PLN '000	% of total
Liabilities				
Due to central bank	-	-	718	0.00%
Financial liabilities held for trading	3 420 219	10.39%	4 194 290	12.31%
Financial liabilities valued at amortized cost	23 084 589	70.13%	21 927 582	64.34%
deposits from	*22 485 156*	*68.31%*	*20 287 050*	*59.53%*
financial sector	*5 223 503*	*15.87%*	*3 338 777*	*9.80%*
non-financial sector	*17 261 653*	*52.44%*	*16 948 273*	*49.73%*
other liabilities	*599 433*	*1.82%*	*1 640 532*	*4.81%*
Provisions	56 251	0.17%	217 808	0.64%
Income tax liabilities	163 311	0.50%	24 226	0.07%
Other liabilities	918 991	2.79%	1 476 291	4.33%
Liabilities held for sale	7 329	0.02%	-	-
Total liabilities	**27 650 690**	**84.00%**	**27 840 915**	**81.69%**
Equity				
Issued capital	522 638	1.59%	522 638	1.53%
Share premium	3 010 452	9.15%	3 077 176	9.04%
Revaluation reserve	(64 554)	-0.20%	(9 371)	-0.03%
Other reserves	1 128 860	3.43%	2 130 962	6.25%
Retained earnings	667 416	2.03%	517 286	1.52%
Total equity	**5 264 812**	**16.00%**	**6 238 691**	**18.31%**
TOTAL EQUITY AND LIABILITIES	**32 915 502**	**100.00%**	**34 079 606**	**100.00%**

2.1.2 Consolidated profit and loss account

	01.01.2005 - 31.12.2005 PLN '000	01.01.2004 - 31.12.2004 PLN '000
Interest and similar income	1 674 491	1 727 312
Interest expense and similar charges	(648 614)	(749 486)
Net interest income	**1 025 877**	**977 826**
Fee and commission income	697 469	625 507
Fee and commission expense	(98 836)	(77 440)
Net fee and commission income	**598 633**	**548 067**
Dividend income	2 095	9 053
Net income on financial instruments valued at fair value through profit and loss account	121 912	44 491
Net gain on investment (deposit) securities	137 385	36 596
Net profit on foreign exchange	346 282	360 345
Other operating income	134 374	146 243
Other operating expenses	(61 246)	(60 725)
Net other operating income	**73 128**	**85 518**
General administrative expenses	(1 403 046)	(1 311 655)
Depreciation expense	(140 296)	(143 097)
Profit/(loss) on sale of tangible fixed assets	3 324	5 769
Net impairment losses	33 823	(2 179)
Operating income	**799 117**	**610 734**
Shares in profits (losses) of undertakings accounted for under the equity method	(5 686)	11 790
Profit before tax	**793 431**	**622 524**
Income tax expenses	(177 047)	(127 561)
Net profit	**616 384**	**494 963**
Weighted average number of ordinary shares	130 659 600	130 659 600
Net profit per ordinary share (in PLN)	4.72	3.79
Diluted net profit per ordinary share (in PLN)	4.72	3.79

2.2 Selected financial ratios

	31.12.2005	31.12.2004
Total assets (PLN '000)	32 915 502	34 079 606
Gross profit (PLN '000)	793 431	622 524
Net profit (PLN '000)	616 384	494 963
Total equity* (PLN '000)	4 648 428	5 743 728
Return on equity*	13.26%	8.62%
Capital adequacy ratio	14.63%	20.09%
Receivables to total assets	48.83%	55.08%
Income generated assets to total assets	88.86%	88.89%
Interest bearing liabilities to total liabilities	80.55%	76.65%

**excluding current year net profit*

2.3 Interpretation of selected financial ratios

Changes in the most significant items of the consolidated balance sheet and the consolidated profit and loss account are described below.

The total assets of the Capital Group decreased by PLN 1 164 104 thousand (or 3.4%) in comparison with 31 December 2004. The decrease in assets resulted mainly from a decrease in loans and advances of PLN 2 697 045 thousand (or 14.4%), partially compensated by an increase in debt securities available-for-sale of PLN 1 079 963 thousand (or 17.7%) and increase in financial assets held for trading of PLN 565 963 thousand (or 10.6%).

The decrease in liabilities mainly relates to financial liabilities valued at amortized cost which decreased by PLN 1 157 007 thousand (or 5.3%) and total equity, which decreased by PLN 973 879 thousand (or 15.6%). The decrease in total equity relates to dividend paid by the Bank from prior year earnings in the amount of PLN 1 563 995 thousand.

Profit before tax of the Capital Group for the year ended 31 December 2005 amounted to PLN 793 431 thousand and increased by PLN 170 907 thousand (or 27.5%) in comparison with the year ended 31 December 2004. The increase in gross profit results mainly from net gain on investment (deposit) securities of PLN 100 789 thousand (or 275.4%) and net income on financial instruments valued at fair value through profit and loss account of PLN 77 421 thousand (or 174.0%).

Net profit of the Capital Group for the year ended 31 December 2005 amounted to PLN 616 384 thousand and increased by PLN 121 421 thousand (or 24.5%) in comparison with the year ended 31 December 2004.

3 Detailed report

3.1 Accounting principles

The Parent Entity maintains current documentation describing the accounting principles applied in the Capital Group, approved by the Management Board of the Parent Entity.

The accounting principles are described in the supplementary notes, comprising of significant accounting policies and other explanatory notes to the consolidated financial statements to the extent required by International Financial Reporting Standards as adopted by the European Union.

Entities included in the Capital Group apply in all material respects common accounting principles consistent with accounting principles applied by the Parent Entity.

The financial statements of the consolidated entities were prepared at the same balance sheet date as the financial statements of the Parent Entity.

3.2 Basis for the preparation of the consolidated financial statements

The consolidated financial statements of the Bank Handlowy w Warszawie SA Capital Group were prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and in respect to matters that are not regulated by the above standards, in accordance with the accounting principles as set out in the Accounting Act dated 29 September 1994 (Official Journal from 2002, No. 76, item 694 with subsequent amendments) and respective bylaws and regulations, the requirements for issuers of securities admitted or sought to be admitted to trading on an official stock-exchange listing market.

The consolidated financial statements were based on consolidation documentation including in particular:

- financial statements of the subordinated entities,
- consolidation adjustments and eliminations, necessary to prepare the consolidated financial statements,
- calculation of fair value of net assets of subsidiary entities.

3.3 Method of consolidation

The method of consolidation has been described in note 2 of the supplementary notes, comprising of significant accounting policies.

3.4 Consolidation of equity

The share capital of the Capital Group is equivalent to the share capital of the Parent Entity.

Other equity items of the Capital Group were determined by adding the equity balances of subsidiaries included in the consolidated financial statements, in the proportion reflecting the percentage share of the Parent Entity in the subsidiaries' equity as at the balance sheet date to the corresponding positions of the equity of the Parent Entity.

Only the portion of equity of the subsidiaries, resulting after control of the Parent Entity, is included in the equity of the Capital Group.

3.5 Consolidation eliminations

Intercompany balances within the Capital Group were eliminated in consolidation. Consolidation eliminations included inter alia: current accounts, deposits, interest income and expenses.

The consolidation eliminations are based on and agreed with the accounting records of Bank Handlowy w Warszawie SA and subsidiaries.

3.6 Compliance with banking regulations

Based on our audit we have not identified any significant deviations in the Parent Entity's compliance with the banking regulatory norms pertaining among others to loan concentration, obligatory reserve and capital adequacy ratio.

3.7 Audit materiality

We have planned and applied an appropriate level of precision in conducting our audit procedures in order to obtain reasonable assurance about whether the consolidated financial statements taken as a whole are free of material misstatements.

3.8 Supplementary notes, comprising of significant accounting policies and other explanatory notes

All information included in the supplementary notes, comprising of significant accounting policies and other explanatory notes is presented accurately and completely in all material respects. This information should be read in conjunction with the consolidated financial statements taken as a whole.

3.9 Report on activities of the Capital Group of Bank Handlowy w Warszawie SA

The Report on activities of the Capital Group of Bank Handlowy w Warszawie SA includes, in all material respects, the information required by Art. 49 of the Accounting Act dated 29 September 1994 and by the Decree of the Ministry of Finance dated 19 October 2005 on current and periodic information provided by issuers of securities (Official Journal from 2005, No. 209, item 1744) and the information is consistent with the consolidated financial statements.

3.10 Information on the opinion of the independent auditor

Based on our audit of the consolidated financial statements of the Capital Group as at and for the year ended 31 December 2005, we have issued an unqualified opinion.

Signed on the Polish original

....
Certified Auditor No 9941/7390
Bożena Graczyk

Signed on the Polish original

....
For KPMG Audyt Sp. z o.o.
ul. Chłodna 51; 00-867 Warsaw
Certified Auditor No. 9941/7390
Bożena Graczyk
Member of the Management Board

Signed on the Polish original

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For KPMG Audyt Sp. z o.o.
ul. Chłodna 51; 00-867 Warsaw
Robert J. Widdowson
Partner

Warsaw, 27 March 2006

The Annual Financial Statements of the Capital Group of Bank Handlowy w Warszawie SA as at 31 December 2005

Selected financial data

	In PLN '000		In EUR '000	
	End of 2005	End of 2004	End of 2005	End of 2004
	period from 01.01.05 to 31.12.05	period from 01.01.04 to 31.12.04	period from 01.01.05 to 31.12.05	period from 01.01.04 to 31.12.04
Interest income	1,674,491	1,727,312	416,198	382,301
Fee and commission income	697,469	625,507	173,357	138,442
Profit before tax	793,431	622,524	197,209	137,781
Net profit	616,384	494,963	153,204	109,549
Increase/decrease of net cash	33,184	(239,725)	8,597	(58,771)
Total assets	32,915,502	34,079,606	8,527,774	8,354,892
Due to central bank	-	718	-	176
Financial liabilities valued at amortized cost	23,084,589	21,927,582	5,980,773	5,375,725
Shareholders' equity	5,264,812	6,238,691	1,364,012	1,529,466
Share capital	522,638	522,638	135,405	128,129
Number of shares	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN/EUR)	40.29	47.75	10.44	11.71
Capital adequacy ratio (%)	14.63	20.09	14.63	20.09
Earnings per ordinary share (PLN/EUR)	4.72	3.79	1.17	0.84
Diluted net profit per ordinary share (in PLN)	4.72	3.79	1.17	0.84
Declared or distributed dividends per ordinary share (PLN/EUR)*	3.60	11.97	0.93	2.93

**The presented ratios are related to, respectively: declared dividends from the appropriation of the 2005 profit as well as from dividends distributed in 2005 from the appropriation of the 2004 profit and from retained earnings.*

Consolidated income statement

in thousands of PLN	Note	2005	2004
Interest and similar income	4	1,674,491	1,727,312
Interest expense and similar charges	4	(648,614)	(749,486)
Net interest income	4	**1,025,877**	**977,826**
Fee and commission income	5	697,469	625,507
Fee and commission expense	5	(98,836)	(77,440)
Net fee and commission income	5	**598,633**	**548,067**
Dividend income	6	2,095	9,053
Net income on financial instruments valued at fair value through profit and loss account	7	121,912	44,491
Net gain on investment (deposit) securities	8	137,385	36,596
Net profit on foreign exchange	9	346,282	360,345
Other operating income		134,374	146,243
Other operating expenses		(61,246)	(60,725)
Net other operating income	10	**73,128**	**85,518**
General administrative expenses	11	(1,403,046)	(1,311,655)
Depreciation expense	12	(140,296)	(143,097)
Profit/(loss) on sale of tangible fixed assets	13	3,324	5,769
Net impairment losses	14	33,823	(2,179)
Operating income		**799,117**	**610,734**
Share in profits (losses) of undertakings accounted for under the equity method		(5,686)	11,790
Profit before tax		**793,431**	**622,524**
Income tax expenses	15	(177,047)	(127,561)
Net profit		**616,384**	**494,963**
Weighted average number of ordinary shares	16	130,659,600	130,659,600
Net profit per ordinary share (in PLN)	16	4.72	3.79
Diluted net profit per ordinary share (in PLN)	16	4.72	3.79

Consolidated balance sheet

In thousands of PLN	Note	31.12.2005	31.12.2004
ASSETS			
Cash and balances with central bank	17	922,649	841,114
Financial assets held for trading	18	5,883,358	5,317,395
Debt securities available-for-sale	19	7,171,157	6,091,194
Equity investments	20	20,615	28,087
Equity investments accounted for under the equity method	21	61,884	86,674
Loans and advances	22	16,074,250	18,771,295
to financial sector		*6,467,157*	*8,286,804*
to non-financial sector		*9,607,093*	*10,484,491*
Property and equipment	24	700,212	723,871
land, buildings and equipment		*659,264*	*723,871*
investment property		*40,948*	-
Intangible assets	25	1,313,799	1,309,766
Deferred income tax assets	27	299,290	238,914
Other assets	28	430,574	671,296
Non-current assets held-for-sale	29	37,714	-
Total assets		**32,915,502**	**34,079,606**
LIABILITIES			
Due to central bank		-	718
Financial liabilities held for trading	18	3,420,219	4,194,290
Financial liabilities valued at amortized cost	30	23,084,589	21,927,582
deposits from		*22,485,156*	*20,287,050*
financial sector		*5,223,503*	*3,338,777*
non-financial sector		*17,261,653*	*16,948,273*
other liabilities		*599,433*	*1,640,532*
Provisions	31	56,251	217,808
Income tax liabilities	27	163,311	24,226
Other liabilities	32	918,991	1,476,291
Liabilities held-for-sale	29	7,329	-
Total liabilities		**27,650,690**	**27,840,915**
EQUITY			
Issued capital	33	522,638	522,638
Share premium	33	3,010,452	3,077,176
Revaluation reserve	33	(64,554)	(9,371)
Other reserves	33	1,128,860	2,130,962
Retained earnings		667,416	517,286
Total equity		**5,264,812**	**6,238,691**
Total liabilities and equity		**32,915,502**	**34,079,606**

Consolidated statement of changes in equity

In thousands of PLN	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total equity
Balance as at 1 January 2004	**522,638**	**3,068,974**	**(13,212)**	**2,082,580**	**286,543**	**5,947,523**
Effects of transition to IFRS*	-	3,199	(29,520)	44,835	(13,950)	4,564
Balance as at 1 January 2004 – after restatement	**522,638**	**3,072,173**	**(42,732)**	**2,127,415**	**272,593**	**5,952,087**
Valuation of financial assets available-for-sale	-	-	79,213	-	-	79,213
Transfer of valuation of sold financial assets available-for--sale to profit and loss account	-	-	(38,027)	-	-	(38,027)
Deferred income tax on valuation of financial assets available-for-sale	-	-	(7,825)	-	-	(7,825)
Net profit	-	-	-	-	494,963	494,963
Dividends paid	-	-	-	-	(241,720)	(241,720)
Transfers to capital	-	5,003	-	3,547	(8,550)	-
Closing balance as at 31 December 2004	**522,638**	**3,077,176**	**(9,371)**	**2,130,962**	**517,286**	**6,238,691**

**with the exception of IAS 32 and IAS 39*

Consolidated statement of changes in equity

In thousands of PLN	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total equity
Balance as at 1 January 2005	**522,638**	**3,077,176**	**(9,371)**	**2,130,962**	**517,286**	**6,238,691**
Effects of transition to IFRS*	-	-	2,479	-	28,915	31,394
Balance as at 1 January 2005 – after restatement	**522,638**	**3,077,176**	**(6,892)**	**2,130,962**	**546,201**	**6,270,085**
Valuation of financial assets available-for-sale	-	-	50,653	-	-	50,653
Transfer of valuation of sold financial assets available-for-sale to profit and loss account	-	-	(121,841)	-	-	(121,841)
Deferred income tax on valuation of financial assets available-for-sale	-	-	13,526	-	-	13,526
Net profit	-	-	-	-	616,384	616,384
Dividends paid	-	(100,000)	-	(1,049,804)	(414,191)	(1,563,995)
Transfers to capital	-	33,276	-	47,702	(80,978)	-
Closing balance as at 31 December 2005	**522,638**	**3,010,452**	**(64,554)**	**1,128,860**	**667,416**	**5,264,812**

**in respect of IAS 32 and IAS 39*

Consolidated statement of cash flows

In thousands of PLN	2005	2004
A. Cash flows from operating activities		
I. Net profit/(loss)	**616,384**	**494,963**
II. Adjustments to reconcile net profit or loss to net cash provided by operating activities:	**1,602,057**	**(152,929)**
Current and deferred tax income, recognised in income statement	177,047	127,561
Share in profits (losses) of undertakings accounted for under the equity method	5,686	(11,790)
Amortisation	140,296	143,097
Impairment	(23,984)	106,757
Net provisions (recoveries)	(9,839)	(104,578)
Income on sale of investments	(8,519)	21,373
Received interest	1,545,975	1,396,508
Retained interest	(657,132)	(775,986)
Other adjustments	(1,027,816)	(979,057)
Cash flows from operating profits before changes in operating assets and liabilities	**141,714**	**(76,115)**
Increase/decrease in operating assets (excl. cash and cash equivalents)	**1,001,934**	**149,376**
Increase/decrease in loans and receivables	2,456,046	4,056,000
Increase/decrease in assets available-for-sale	(1,100,132)	(3,318,003)
Increase/decrease in equity investments	11,304	(36,672)
Increase/decrease in assets held for trading	(529,460)	(564,666)
Increase/decrease in assets available-for-sale	(67,978)	
Increase/decrease in other assets	232,154	12,717
Increase/decrease in operating liabilities (excl. cash and cash equivalents)	**458,409**	**(226,190)**
Increase/decrease in advances from central bank	(718)	(40,427)
Increase/decrease in financial liabilities valued at amortised cost	1,847,828	(615,235)
Increase/decrease in liabilities held for trading	(774,071)	543,095
Increase/decrease in other liabilities	(614,630)	(113,623)
Cash flows from operating activities	**2,218,441**	**342,034**
Income taxes (paid) refunded	**(54,329)**	**(124,895)**
III. Net cash flows from operating activities	**2,164,112**	**217,139**
B. Cash flows from investing activities		
Cash payments to acquire tangible assets	(82,921)	(96,071)
Cash receipts from the sale of tangible assets	16,286	4,208
Cash payments to acquire intangible assets	(42,486)	(22,126)
Cash receipts to acquire of investments in subordinated entities	-	(476)
Cash receipts from the disposal of investments in subordinated entities	36,812	4,426
Dividends received	4,294	8,984
Other inflows from investing activities	15	-
Net cash flows from investing activities	**(68,000)**	**(101,055)**
C. Cash flows from financing activities		
Dividends paid	(1,563,995)	(241,720)
Other cash proceeds related to financing activities	83,818	104,882
Other cash payments related to financing activities	(582,751)	(218,971)
Net cash flows from financing activities	**(2,062,928)**	**(355,809)**
D. Effect of exchange rate changes on cash and cash equivalent	**(1,367)**	**(15,533)**
E. Increase in net cash	**33,184**	**(239,725)**
F. Cash at the beginning of reporting period	**972,156**	**1,211,881**
G. Cash at the end of reporting period	**1,005,340**	**972,156**

Explanatory notes to the consolidated financial statements

1. General information about the Issuer

This consolidated annual 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 subordinated entities.

Bank Handlowy w Warszawie SA 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, XII Commercial Department in Warsaw, under KRS number 0000001538.

The Group is a member of Citigroup Inc. Citibank Overseas Investments Corporation, a subsidiary of Citibank N.A., is the parent of the Bank.

The Bank is a universal bank that offers a wide range of banking services for individuals and corporate customers in the domestic and foreign markets. Additionally the Group operates in the following segments of business through its subordinated entities:

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

The Group consists of the following subordinated entities:

Subsidiaries	Registered office	% of votes at the General Meeting of Shareholders*	
		31.12.2005	31.12.2004
Entities fully consolidated			
Dom Maklerski Banku Handlowego S.A.	Warsaw	100.00	100.00
Citileasing Sp. z o.o.	Warsaw	100.00	100.00
Handlowy Leasing S.A.	Warsaw	100.00	100.00
Handlowy Zarządzanie Aktywami S.A.	Warsaw	100.00	100.00
Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A.	Warsaw	100.00	100.00
PPH Spomasz Sp. z o.o. in liquidation	Warsaw	100.00	100.00
Entities accounted for under the equity method			
Handlowy Inwestycje Sp. z o.o.	Warsaw	100.00	100.00
Handlowy Inwestycje II Sp. z o.o.	Warsaw	-	100.00
Handlowy Investments S.A.	Luxembourg	100.00	100.00
Handlowy Investments II S.a.r.l.	Luxembourg	100.00	100.00
Bank Rozwoju Cukrownictwa S.A.	Poznań	100.00	100.00
Polskie Pracownicze Towarzystwo Emerytalne DIAMENT S.A. (under liquidation)	Warsaw	-	79.27

**direct and indirect*

Financial data of subsidiaries that are not fully consolidated are immaterial for consolidated financial statement. As at 31 December 2005 total assets of subsidiaries that are not fully consolidated (before elimination intra-group transactions) represents 0,5% of the Group's assets and 0,5% of the Group's net profit.

The Group holds shares in the following associates:

Associates	Registered office	Share in the total number of votes at the General Meeting of Shareholders*	
		31.12.2005	31.12.2004
Entities accounted for under the equity method			
Handlowy Heller S.A.	Warsaw	50.00	50.00
KP Konsorcjum Sp. z o.o.	Warsaw	-	49.99
Entities accounted for at cost			
Creditreform PL. Sp. z o.o.	Warsaw	-	49.03
Mostostal Zabrze Holding S.A.	Zabrze	-	34.44
NIF FUND Holdings PCC Ltd.	Guernsey	-	23.86

**direct and indirect*

The changes in the holding of shares in subordinated entities in 2005 result from the sale or liquidation of these entities. Detailed information about these transactions is presented in Note 41.

2. Significant accounting policies

Statement of compliance

The annual consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and in respect to matters that are not regulated by the above standards, in accordance with the requirements of the Accounting Act dated 29 September 1994 (Official Journal from 2002, No. 76, item 694 with amendments) and respective bylaws and regulations, and the requirements for issuers of securities admitted or sought to be admitted to trading on an official stock-exchange listing market. These are the first IFRS annual consolidated financial statements and IFRS 1 (First-time adoption of International Financial Reporting Standards) has been applied.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Group is provided in note 45.

In addition, annual unconsolidated financial statements have been prepared in accordance with International Financial Reporting Standards with respect to the preparation of a parent's separate financial statements.

The unconsolidated financial statements were authorised for issue on 27 March 2006.

Basis of preparation

These consolidated annual financial statements have been prepared for the period from 1 January 2005 to 31 December 2005. The comparable financial data is presented for the period from 1 January 2004 to 31 December 2004. The Group chose the option not to convert the comparable data for IAS 32 (Financial Instruments: Recognition and Presentation) and for IAS 39 (Financial Instruments: Recognition and Measurement). The implementation date of these standards is 1 January 2005. Note 45 describes the preparation of comparable data.

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

The financial statements have been prepared on the fair value basis for financial liabilities and financial assets accounted at fair value through the profit and loss including derivatives and available-for-sale assets with the exception of assets and liabilities whose fair value cannot be estimated in a reliable way. Other assets and liabilities are presented at amortized cost (loans and receivables, financial liabilities other than valued at fair value through profit and loss account) or at purchase method decreased by impairment losses.

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.

IFRS 7 (Financial Instruments: Disclosures) is not effective until 1 January 2007 with an early adoption encouraged. The Bank has not adopted IFRS 7 early because management believes that the disclosures under IFRS 7 would not be very different to the requirements of IAS 32 and IAS 30. Other standards, amendments to the standards and IFRIC interpretations recently endorsed or awaiting endorsement are either not relevant to the Bank or would not have a material impact on the current year financial statements.

In order to prepare financial statements in accordance with IFRS, management has to make judgments, estimates and assumptions that have an impact on the amounts presented in the financial statements.

Judgments, estimates and assumptions are made on the basis of available historical data and many other factors that have been recognized as material in the presented period. These factors are the base to make estimates of the balance sheet value of assets and liabilities whose value cannot be estimated on the basis of other sources. Actual results could differ from those estimates.

The estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Basis of consolidation

Subordinated entities comprise subsidiaries and associates.

Subsidiaries

Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank has power, directly or indirectly, to govern the financial and operating policies to obtain financial benefits from its activities. 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. 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 in 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. Initially investments in associates are recorded at cost. 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. 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.

Foreign currency translation

Assets and liabilities denominated in non – PLN currencies are translated into PLN equivalents using the NBP mid exchange rate prevailing at the balance sheet date.

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

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

in PLN	31 December 2005	31 December 2004
1 USD	3.2613	2.9904
1 CHF	2.4788	2.6421
1 EUR	3.8598	4.0790

Financial assets and financial liabilities

Classification

The Group classifies its financial instruments into the following categories:

- financial assets or financial liabilities at fair value through profit or loss;
- loans and receivables;
- 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 thought profit and loss

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 selling or purchasing to generate short term profits, are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of generating short-term profits, or when they are classified to this category at management's discretion. All derivative instruments and selected debt securities are also categorized as held for trading.

b) Loans and receivables

Loans and receivables 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 receivables. This category comprises in the first instance amounts due in respect of loans, purchased debts and receivables securities that are not quoted in an active market.

c) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are classified by the Group to this category at the beginning of the period or were not classified in any of the other categories. Selected debt and equity securities are classified to this category.

d) Other financial liabilities

Other financial liabilities are financial liabilities, which are not classified as financial liabilities at fair value through profit or loss. Customers' deposits are classified to this category.

Recognition and exclusions

Purchases or sales of financial assets classified at fair value through profit or loss and available-for-sale are recognized using transaction settlement date, i.e. the date on which the Group will receive or transfer the ownership right to the assets. The rights and liabilities from a transaction are measured at fair value from the transaction date to the transaction settlement date.

Loans and 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 the Group has transferred substantially all risks and rewards of ownership.

Financial obligations are excluded from the balance sheet when and only when the obligation expired i.e. the obligation described in the agreement had been fulfilled, written off or expired.

Measurement

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

After initial recognition, the Group measures financial assets, including derivatives that are assets, at their fair values, without deducting transaction costs that it may incur in connection with the sale or disposal of assets, except for loans and receivables, which are measured at amortized cost using the effective interest method, and investments in equity instruments for which no quotations in an active market are available and whose value cannot be reasonably determined which are measured at cost.

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. Financial liabilities that are measured at fair value through profit or loss, including derivatives liabilities, are carried at fair value.

A gain or a loss resulting from financial assets or financial liabilities that are measured at fair value through profit or loss is shown in revenues or expenses. Profits or losses resulting from financial assets that are classified as available-for-sale are recognized directly in equity through the statement of changes in equity, except for impairment losses, and foreign exchange gains and losses. When financial assets are derecognized accumulated profits or losses which were previously included in equity, are recognized in the income statement. However, interest accrued using the effective interest method is recognized in the income statement. Dividends on available--for-sale equity investments are recognized in the profit and loss account when the entity's right to receive payment is established.

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 for 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.

Leases where the Group transfers substantially all the risk and rewards incidental to ownership of the leased assets are not 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 financial assets held for trading and all derivative instruments with negative fair values, as financial liabilities held for trading. 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 profit and loss account.

Hedge accounting

The Group does not apply hedge accounting.

Offsetting financial instruments

Financial assets and financial 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 to realize the asset and settle the liability simultaneously. Currently, the Group does not offset and present its financial assets and liabilities on a net basis.

Cash pooling

The Group offers its clients cash management services which consolidate balances within the structure of related accounts ("cash pooling"). Such transactions net the positive and negative balances of participants' current accounts on a designated account of the entity which manages the settlements. The consolidation of balances is executed at the end of the working day and at the beginning of the next working day the transaction is reversed. Cash pooling transactions do not meet the requirements of IAS 39 regarding derecognition of financial assets and liabilities from the balance sheet and thus are presented on a gross basis - accounts receivable are presented as loans and accounts payable as deposits.

Sale and repurchase agreements

The Group enters into purchase and sale transactions under agreements to resell and repurchase the same financial assets, so called sell-buy-back and buy-sell-back respectively, as well as repurchase and reverse repurchase 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 purchased under agreements to resell, securities are presented in the balance sheet as loans and advances. Any differences between sale/purchase prices and repurchase/resale prices are recognized respectively as interest income and expense using the effective interest rate method.

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.

Objective evidence of impairment of a financial asset or group of financial assets includes the following events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payments status of borrowers in the group; or
  - national or local economic conditions that correlated with defaults on the assets in the group.

The losses expected as a result of future events, no matter how likely, are not recognized.

Write-downs to a provision created to cover incurred, but not 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 covers all receivables for which no evidence of impairment was found at the individual level or for which such evidence was 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 characteristics 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 the profit and loss account.

Write-downs for impairment of not individually significant assets

The level of the provision for receivables that are deemed not individually significant, for which evidence of impairment was detected, is calculated on the basis of a portfolio assessment, which is based on the history of losses incurred on assets with similar risk characteristics.
Provisions for receivables from the financial sector, non-financial sector and public sector, and write-downs for permanent impairment of securities and other assets adjust the value of particular asset categories 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 may be treated as tax deductible costs under separate tax regulations or that were unconditionally written--off under an agreement with the customer) are written-down against provisions. If a written-down amount is subsequently recovered, the amount of income is presented in "other operating income".

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 the profit and loss account. Losses on impairment of debt instruments classified as available-for-sale are reversed through the profit and loss account if the fair value of a debt instrument increases in subsequent periods and such increase may be reasonably connected with an event that occurred after recognizing the loss.

Impairment of financial assets valued at cost

The group of financial assets valued at cost in the financial statements of the Group consists of shares and shares in entities other than subordinated entities classified as available-for-sale for which the fair value cannot be reasonably measured (for example the assets are not quoted). In case of objective evidence of impairment of equity investments the amount of impairment is measured as the difference between the carrying amount of the financial asset and the current value of the estimated future cash flows discounted at the current market rate for similar financial assets. Losses related to impairment of shares and shares in entities other than subordinated entities classified as available-for-sale where the fair value cannot be reliable measured are not reversed through the profit and loss account.

Impairment of assets other than financial assets

The carrying amounts of the Group's assets, excluding deferred tax assets, are reviewed at each balance sheet date to determine whether there is any evidence of impairment. If so, the asset's recoverable amount is estimated. For goodwill, 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) and no evidence of impairment was identified.

Calculation of recoverable amount

The recoverable amount of other assets is the greater of their net selling price (fair value less costs to sell) and their value in use.
In assessing the value in use, the estimated future cash flows are discounted to their present value using the pre-tax discount rate that reflects current market assessments of the time value of money and the specific risk of a given asset. For assets that do not generate independent cash flows the recoverable amount is determined for a cash-generating unit to which assets belong.

Reversal of impairment losses

Impairment loss in respect of goodwill is not reversed. In respect of assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Investments: shares in other entities

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

Goodwill

In the consolidated financial statements goodwill represents the difference between the cost of the acquisition and the fair value of the Group's interest in identifiable assets and liabilities acquired. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortized, but is tested annually for impairment. In respect of associates, goodwill is included in the carrying amount of the investment in the 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. Business combinations that took place 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)

Items of property and equipment and intangible assets (excluding goodwill) are stated at historical cost less accumulated depreciation or amortization and impairment losses. 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 depreciation 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%

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 includes rights to perpetual usufruct of land obtained by the Group.

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. The valuation of investment properties is based on the research of independent experts with appropriate professional qualifications. The changes in value of investment properties are recognized in the profit and loss account. The changes in value of investment properties are recognized in the profit and loss account.

Employee benefits

Short-term employee benefits

The Group's short-term employee benefits include wages, bonuses, holiday pay, sick pay and 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 payments

The Group's employees are entitled to participate in Citigroup equity compensation plans. In accordance with these plans the Group's employees may receive awards under stock option programs based on stock options granted on Citigroup common stock and also under stock award programs based on shares of Citigroup common stock in the form of deferred stock. In accordance with IFRS 2 (Share-based payment) these programs are deemed to be cash-settled programs. A provision is created for future payments and is shown in "Other liabilities" and in "General administrative expenses" in the profit and loss account. The costs of the program are determined on the basis of a valuation model. According to IFRS 2, the fair value is, 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 or deferred shares 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 a fixed 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 future payments. The provision is shown in "Other liabilities" and in "General administrative expenses" in the profit and loss account. Provisions for the future costs of 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

The Group enables its employees to join a pension plan, which is described in detail in Note 42. The Group pays contributions for employees who participate in the plan into a separate fund and has no subsequent obligation to pay further contributions, hence this is a defined contribution plan in accordance with IAS 19 (Employee Benefits). Contributions are recognized as an expense in the period to which they relate.

Provisions

A provision is recognized in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, 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

A restructuring provision is 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 of available-for-sale financial assets that is stated after the effect of deferred income tax.

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

Calculating net income

Net income is calculated in compliance with the concept of prudence, accrual accounting and the matching concept. Net income reflects all income and relevant expenses set off against income within a particular reporting period, irrespective of the day on which these are received or paid.

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 the profit or loss account 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 future 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.

The Group implemented the effective interest method from 1 January 2005. 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.

Fee and commission income and expenses

Fee and commission income is generated when the Bank renders financial services to its customers. The Group classifies its commission into the following categories:

- commissions that are an integral part of the effective interest rate;
- commissions for services rendered;
- 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 for 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 recognized 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.

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 item 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.

Segment reporting

A segment is a separate area of an entity'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. Detailed information about the segments is presented in Note 3.
Assets and liabilities, revenues and financial results of the Group's segments are measured in accordance with the accounting policies adopted by the Group.

Non-current assets held-for-sale

Assets or groups of assets together with liabilities directly associated with those assets shall be classified as non-current assets held-for-sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the assets or group of assets must be available for immediate sale in their present condition and the sale is highly probable, which means that there is a commitment to a plan to sell the assets and an active program to locate a buyer and complete the plan must have been initiated. Further, the assets or group of assets must be actively marketed for the sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held-for-sale are measured at the lower of their carrying amount and fair value less costs to sell and are not subject to depreciation.

Accounting estimates and judgments

The 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 expectations for 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 the implementation of 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 despite 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 to 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 available-for-sale assets

In the case of objective evidence of impairment of financial assets classified as available-for-sale assets, cumulative losses that were previously recognized in equity are recognized in the profit and loss account, except financial assets that were not excluded from the balance sheet. The amount of cumulative losses removed from equity and recognized in the profit and loss account represents the difference between the acquisition cost (net of any principal payments and amortization) and current fair value (less impairment of this asset previously recognized in the profit and loss account).

Impairment of financial assets valued at cost

In the case of objective evidence of impairment of equity instruments that are not valued at fair value because the fair value cannot be reliably measured or in the case of a derivative that must be settled by delivery of such an instrument the amount of impairment loss is measured by the difference between the carrying amount of financial assets and the present value of future cash flows discounted at the present market rate for similar financial assets.

Impairment of goodwill

On applying IFRS, the Group has replaced amortization of goodwill with the annual impairment test. In accordance with the provisions of IFRS 1, the Group carried out impairment tests of goodwill that 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 and as at 31 December 2005 did not show any impairment.

Employee benefits

Provisions for future payments in respect of employee benefits guaranteed by the Company 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 employees in the form of Citigroup stock option programs and stock award programs. 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 turnover, the expected level of dividends paid by Citigroup and expected option exercise dates.

3. Segment reporting

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

- *Corporate and Investment Bank*

  Within the Corporate and Investment Bank segment the Group offers products and renders services to business entities, self--government units and the public sector. Apart from traditional banking services covering lending and deposit activities, the segment provides services in the areas of cash management, trade financing, leases, brokerage and custody services in respect of securities and 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 and obtaining and underwriting financing via public and non-public issue of financial instruments. The activities also comprise proprietary transactions in the capital, debt and derivative instruments market. The products and services are available through distribution channels tailored to client needs, both through the branch network, direct contact with customers and modern and effective remote channels such as telephone and electronic banking.

- *Consumer Bank*

  Within the Consumer Bank segment the Group provides products and financial services to individuals and also to micro enterprises and individual entrepreneurs though the Citibusiness offer. Apart from maintaining bank accounts and providing an extensive lending and deposit offer, it also offers credit cards to customers, provides asset management services, and acts as agent in the sale of investment and insurance products. Customers of the 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*

  Within the CitiFinancial segment the Group offers cash loans and consolidated loans to customers. The segment products are offered via the dynamically developing network of small outlets conveniently located next to housing estates and shopping centers as well as financial agents.

The valuation of segment assets and liabilities, income and segment results are based on the Group's accounting policies as described in note 2 – significant accounting policies.

Transactions between 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 results of the Group have not been presented by geographical area.

Consolidated income statement by business segment for 2005

In thousands of PLN	Corporate and Investment Bank	Consumer Bank	CitiFinancial	Total
Net interest income	462,434	450,819	112,624	1,025,877
Net fee and commission income	354,692	235,586	8,355	598,633
Dividend income	2,095	-	-	2,095
Net income on financial instruments valued at fair value through profit and loss account	116,911	5,001	-	121,912
Net gain on investment (deposit) securities	137,385	-	-	137,385
Net profit on foreign exchange	309,177	37,105	-	346,282
Other operating income	71,871	1,243	14	73,128
General administrative expenses	(723,268)	(583,123)	(96,655)	(1,403,046)
Depreciation expense	(100,234)	(38,808)	(1,254)	(140,296)
Profit/(loss) on sale of tangible fixed assets	4,475	(1,151)	-	3,324
Net impairment losses	75,610	(20,672)	(21,115)	33,823
Operating income	**711,148**	**86,000**	**1,969**	**799,117**
Share in profits/(losses) of undertakings accounted for under the equity method	(5,686)	-	-	(5,686)
Profit before tax	**705,462**	**86,000**	**1,969**	**793,431**
Income tax expenses				(177,047)
Net profit				**616,384**

Assets and liabilities of the Group by business segment as of 31 December 2005

In thousands of PLN	Corporate and Investment Bank	Consumer Bank	CitiFinancial	Total
Assets including:	**29,915,327**	**2,368,597**	**631,578**	**32,915,502**
Non-current assets held-for-sale	*27,858*	*9,856*	-	*37,714*
Liabilities including:	26,886,284	5,910,094	119,124	32,915,502
Liabilities related to non-current assets held-for-sale	*2,959*	*4,370*	-	*7,329*

Consolidated income statement by business segment for 2004

In thousands of PLN	Corporate and Investment Bank	Consumer Bank	CitiFinancial	Total
Net interest income	507,764	422,481	47,581	977,826
Net fee and commission income	325,277	220,129	2,661	548,067
Dividend income	9,053	-	-	9,053
Net income on financial instruments valued at fair value through profit and loss account	41,419	3,072	-	44,491
Net gain on investment (deposit) securities	36,596		-	36,596
Net profit on foreign exchange	321,980	38,365	-	360,345
Other operating income	85,096	422	-	85,518
General administrative expenses	(778,893)	(482,285)	(50,477)	(1,311,655)
Depreciation expense	(106,985)	(35,266)	(846)	(143,097)
Profit/(loss) on sale of tangible fixed assets	5,953	(184)	-	5,769
Net impairment losses	1,307	280	(3,766)	(2,179)
Operating income	**448,567**	**167,014**	**(4,847)**	**610,734**
Share in profits/(losses) of undertakings accounted for under the equity method	11,790	-	-	11,790
Profit before tax	**460,357**	**167,014**	**(4,847)**	**622,524**
Income tax expenses				(127,561)
Net profit				**494,963**

Assets and liabilities of the Group 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

4. Net interest income

In thousands of PLN	2005	2004
Interest and similar income from:		
Central Bank	14,704	6,048
Placements in banks	282,657	169,388
Loans and advances, of which:	1,012,703	1,075,508
financial sector	*26,153*	*21,860*
non-financial sector	*986,550*	*1,053,648*
Debt securities available-for-sale	268,354	327,029
Debt securities held for trading	96,073	149,339
	1,674,491	**1,727,312**
Interest expense and similar charges for:		
Central Bank	(45)	(166)
Deposits from banks	(83,695)	(128,477)
Deposits from financial sector (excl. banks)	(74,528)	(54,243)
Deposits from non-financial sector	(467,446)	(526,943)
Loans and advances received	(22,900)	(39,657)
	(648,614)	**(749,486)**
	1,025,877	**977,826**

Net interest income for 2005 includes interest received on impaired loans, of PLN 40,907 thousand.

5. Net fee and commission income

In thousands of PLN	2005	2004
Fee and commission income:		
Insurance and investment products (agency)	147,058	107,695
Payment services	125,848	152,090
Cash management	97,386	80,411
Payment and credit cards	88,139	104,941
Custody services	80,858	55,171
Brokerage operations	78,271	52,792
Off-balance sheet guarantee liabilities	19,994	27,174
Off-balance sheet financial liabilities	11,629	15,305
Other	48,286	29,928
	697,469	**625,507**
Fee and commission expense:		
Insurance and investment products	(52,274)	(42,856)
Brokerage operations	(16,271)	(8,950)
Fees paid to KDPW	(12,768)	(7,983)
Payment and credit cards	(7,469)	(7,936)
Brokers fees	(3,036)	(1,854)
Other	(7,018)	(7,861)
	(98,836)	**(77,440)**
	598,633	**548,067**

6. Dividend income

In thousands of PLN	2005	2004
Securities available-for-sale	2,022	8,984
Securities held for trading	73	69
	2,095	**9,053**

7. Net trading income

In thousands of PLN	2005	2004
Net income on financial instruments valued at fair value through profit and loss account:		
Debt instruments	68,151	51,722
Derivative instruments including:	53,761	(7,231)
Interest rate	*41,916*	*(15,185)*
Equity	*5,910*	*3,782*
Commodity	*5,935*	*4,172*
	121,912	**44,491**

Net income from debt instruments includes the net results on trading in government securities, corporate debt securities and money market instruments.

Income from derivative instruments includes net income on interest rate swaps, options, futures and other derivatives.

8. Net gain on investment (deposit) securities

In thousands of PLN	2005	2004
Profits realized on available-for-sale securities:		
Debt instruments	133,203	69,503
Equity instruments	15,544	342
	148,747	**69,845**
Losses realized on available-for-sale securities:		
Debt instruments	(11,362)	(31,476)
Equity instruments	-	(1,773)
	(11,362)	**(33,249)**
	137,385	**36,596**

9. Net profit on foreign exchange

In thousands of PLN	2005	2004
Net profit on foreign exchange:		
Revaluation	239,130	(424,139)
Net profit on foreign currency derivatives	107,152	784,484
	346,282	**360,345**

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

10. Net other operating income

In thousands of PLN	2005	2004
Other operating income:		
Data processing for related parties	59,466	44,966
Investment property	19,149	25,947
Vindication receivables	8,075	31,277
Settlement of perpetual usufruct right to land	6,657	7,261
Other	41,027	36,792
	134,374	**146,243**
Other operating expenses:		
Investment property	(19,963)	(22,894)
Vindication expenses	(6,292)	(5,710)
Other	(34,991)	(32,121)
	(61,246)	**(60,725)**
	73,128	**85,518**

11. General administrative expenses

In thousands of PLN	2005	2004
Staff expenses:		
Wages and salaries	(534,188)	(481,188)
Social security contributions and other benefits	(91,933)	(82,504)
Retirement benefits	(34,023)	(14,305)
Provision for restructuring	(20,138)	(33,048)
Payments related to own equity instruments	(5,857)	(8,522)
	(686,139)	**(619,567)**
Administrative expenses:		
Telecommunication	(191,365)	(190,647)
Service expenses	(152,386)	(136,233)
Building maintenance and rent	(109,282)	(118,409)
Advisory, audit and consulting services	(52,435)	(51,309)
Marketing	(45,728)	(33,129)
Postal services	(19,136)	(18,889)
IT expenses	(15,100)	(11,495)
Training and education	(11,165)	(10,953)
Other	(120,310)	(121,024)
	(716,907)	**(692,088)**
	(1,403,046)	**(1,311,655)**

General administrative expenses in 2005 include wages and salaries paid and payable to present and previous members of the Management Board that amounted to PLN 11,449 thousand (in 2004: PLN 16,989 thousand).

12. Depreciation expense

In thousands of PLN	2005	2004
Property and equipment	(106,896)	(120,600)
Intangible assets	(33,400)	(22,497)
	(140,296)	**(143,097)**

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

In thousands of PLN	2005	2004
Profits on:		
Tangible fixed assets	1,816	1,833
Investments in subordinated entities	3,999	7,542
Finalization of lease contracts	-	1,530
	5,815	**10,905**
Losses on:		
Tangible fixed assets	(2,319)	(4,106)
Investments in subordinated entities	(172)	(1,030)
	(2,491)	**(5,136)**
	3,324	**5,769**

14. Net impairment losses

Net impairment write-downs of financial assets:

In thousands of PLN	2005	2004
Impairment write-downs:		
Equity investments	(3,308)	-
Loans and receivables valued at amortized cost	(709,602)	(918,327)
Other	(45,365)	(2,785)
	(758,275)	**(921,112)**
Reversals of impairment write-downs:		
Equity investments	-	4,185
Loans and receivables valued at amortized cost	775,732	664,271
Other	6,527	8,809
	782,259	**677,265**
	23,984	**(243,847)**

Net (charges to)/releases of provisions for off-balance liabilities:

Charges to provisions for off-balance sheet commitments	(39,808)	(186,007)
Releases of provisions for off-balance sheet commitments	49,647	291,675
Release of provisions for general risk	-	136,000
	9,839	**241,668**
Net impairment losses	**33,823**	**(2,179)**

15. Income tax expense

Recognized in the income statement

In thousands of PLN	2005	2004
Current tax:		
Current year	(231,138)	(137,970)
Adjustments for prior years	(2,252)	(1,557)
	(233,390)	**(139,527)**
Deferred tax:		
Origination and reversal of temporary differences	59,577	(5,730)
IFRS adjustments	-	8,946
Movement in receivables arising from tax deductions	(3,234)	8,989
Other	-	(239)
	56,343	**11,966**
Income tax expense	**(177,047)**	**(127,561)**
Reconciliation of effective tax rate:		
Profit before tax	793,431	622,524
Income tax at the domestic tax rate of 19%	(150,751)	(118,279)
Expenses not tax deductible	(30,265)	(26,728)
Taxable income not in income statement	(73,704)	(21,895)
Deductible expenses not in income statement	44,196	51,850
Non taxable income	48,174	(26,076)
Other	(14,697)	13,567
Income tax expense	**(177,047)**	**(127,561)**
Effective tax rate	**22%**	**20%**

Deferred tax recognised directly in equity as at 31 December 2005 is related to debt instruments available-for-sale and amounted to PLN 15,142 thousand (31 December 2004: PLN 2,198 thousand).

16. Earnings per share

As at 31 December 2005 earnings per share amounted to PLN 4.72 (31 December 2004: PLN 3.79).

The calculation of earnings per share at 31 December 2005 was based on profit attributable to ordinary shareholders of PLN 616,384 thousand (31 December 2004: PLN 494,963 thousand) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2005 of 130,659,600 (31 December 2004: 130,659,600).

The Bank does not have any ordinary shares that may have a dilution impact.

17. Cash and balances with the Central Bank

In thousands of PLN	31.12.2005	31.12.2004
Cash at hand	299,817	310,650
Current balances with Central Bank	622,832	530,464
	922,649	**841,114**

On the current account in the National Bank of Poland (NBP), the Bank maintains an obligatory reserve with the declared balance as at 31 December 2005 of PLN 670,717 thousand (31 December 2004: PLN 738,313 thousand). The Bank may use the obligatory reserve provided that the sum of the average monthly balance on the current account in NBP is not lower than the declared balance.

18. Financial assets and liabilities held for trading

Financial assets held for trading

In thousands of PLN	31.12.2005	31.12.2004
Debt securities		
Bonds and notes issued by:		
Banks	16,780	152,207
Financial sector	35,604	-
Non-financial sector	30,803	191,166
Government	2,203,519	860,197
Other debt securities issued by:		
Banks	13,356	8,520
	2,300,062	**1,212,090**
Including:		
Listed	*2,203,769*	*841,709*
Unlisted	*96,293*	*370,381*
Derivative financial instruments	**3,578,726**	**4,105,123**
Equity instruments	**4,570**	**182**
Including:		
Listed	*4,569*	*182*
Unlisted	*1*	*-*
	5,883,358	**5,317,395**

Debt securities held for trading (maturity):

In thousands of PLN	31.12.2005	31.12.2004
up to 1 month	35,015	85,894
1 month - 3 months	56,290	256,202
3 months - 1 year	369,845	50,291
1 year - 5 years	1,352,773	575,040
over 5 years	486,139	244,663
	2,300,062	**1,212,090**

Financial liabilities held for trading:

In thousands of PLN	31.12.2005	31.12.2004
Short positions in financial assets	-	268,117
Derivative financial instruments	3,420,219	3,926,173
	3,420,219	**4,194,290**

As at 31 December 2005 the Bank did not hold any financial assets and financial liabilities initially designated for valuation at fair value though the profit and loss account.

Derivative financial instruments as at 31 December 2005

In thousands of PLN	Notional amount with remaining life of				Total	Fair values	
	less than 3 months	between 3 months and 1 year	between 1 year to 5 years	more than 5 years		Assets	Liabilities
Interest rate instruments	**12,955,830**	**102,770,765**	**94,019,220**	**27,242,675**	**236,988,490**	**3,136,905**	**2,899,561**
FRA-purchase	-	37,252,000	3,150,000	-	40,402,000	9,317	15,785
FRA-sale	-	36,877,000	3,400,000	-	40,277,000	15,974	7,958
Interest rate swaps (IRS)	12,683,333	27,375,552	84,879,507	21,966,838	146,905,230	2,797,493	2,681,343
Currency-interest rate swaps (CIRS)	-	798,420	2,527,677	3,775,837	7,101,934	301,840	182,775
Interest rate options purchased	-	133,009	-	750,000	883,009	11,672	-
Interest rate options sold	-	133,009	-	750,000	883,009	-	11,672
Future contracts--purchase*	192,177	-	-	-	192,177	572	-
Future contracts-sale*	80,320	201,775	62,036	-	344,131	37	28
Currency instruments	**21,003,886**	**15,999,287**	**1,308,327**	**735,277**	**39,046,777**	**408,717**	**486,318**
FX forward	3,359,898	1,609,689	193,603	364,546	5,527,736	74,926	113,074
FX swap	10,920,131	9,062,758	213,271	-	20,196,160	179,433	220,896
Foreign exchange options purchased	3,315,321	2,643,339	431,753	176,397	6,566,810	154,019	165
Foreign exchange options sold	3,408,536	2,683,501	469,700	194,334	6,756,071	339	152,183
Securities transactions	**302,152**	**48,232**	**38,506**	**-**	**388,890**	**7,368**	**8,604**
Share options (purchase)	21,216	24,116	19,253	-	64,585	6,638	302
Share options (sale)	21,216	24,116	19,253	-	64,585	302	6,638
Securities purchased pending delivery	95,278	-	-	-	95,278	100	1,664
Securities sold pending delivery	164,442	-	-	-	164,442	328	-
Commodity transactions	**143,226**	**133,530**	**-**	**-**	**276,756**	**25,736**	**25,736**
Swaps	134,210	133,530	-	-	267,740	25,467	25,467
Purchase options	4,508	-	-	-	4,508	269	-
Sold options	4,508	-	-	-	4,508	-	269
Derivative instruments total	**34,405,094**	**118,951,814**	**95,366,053**	**27,977,952**	**276,700,913**	**3,578,726**	**3,420,219**

**Exchange-traded products*

Derivative financial instruments as at 31 December 2004

In thousands of PLN	Notional amount with remaining life of				Total	Fair values	
	less than 3 months	between 3 months and 1 year	between 1 year to 5 years	more than 5 years		Assets	Liabilities
Interest rate instruments	**22,540,238**	**46,369,663**	**64,826,626**	**14,597,615**	**148,334,142**	**2,433,878**	**2,334,421**
FRA-purchase	7,094,000	8,156,340	-	-	15,250,340	120	25,515
FRA-sale	8,294,000	8,924,760	-	-	17,218,760	27,650	52
Interest rate swaps	4,397,389	26,267,043	62,818,910	12,806,866	106,290,208	2,146,657	2,060,566
Currency-interest rate swaps	449,882	1,588,138	1,704,716	290,749	4,033,485	236,823	225,029
Interest rate options purchased	866,000	300,000	151,500	750,000	2,067,500	21,816	613
Interest rate options sold	866,000	300,000	151,500	750,000	2,067,500	723	21,933
Future contracts--purchase*	553,701	833,382	-	-	1,387,083	89	630
Future contracts-sale*	19,266	-	-	-	19,266	-	83
Currency instruments	**19,653,517**	**18,668,194**	**4,080,356**	**-**	**42,402,067**	**1,651,938**	**1,572,406**
FX forward	1,090,031	2,085,222	866,760	-	4,042,013	149,200	226,650
FX swap	14,755,346	11,540,330	2,642,009	-	28,937,685	1,357,289	1,202,106
Foreign exchange options purchased	1,845,459	2,492,827	280,020	-	4,618,306	127,208	11,144
Foreign exchange options sold	1,962,681	2,549,815	291,567	-	4,804,063	18,241	132,506
Securities transactions	**713,912**	**137,146**	**82,660**	**-**	**933,718**	**16,090**	**16,129**
Share options (purchase)	67,100	68,573	41,330	-	177,003	11,133	3,921
Share options (sale)	67,100	68,573	41,330	-	177,003	3,921	11,133
Securities purchased pending delivery	238,033	-	-	-	238,033	323	887
Securities sold pending delivery	341,679	-	-	-	341,679	713	188
Other (commodity swap)	**237,679**	**-**	**-**	**-**	**237,679**	**3,217**	**3,217**
Derivative instruments subtotal	**43,145,346**	**65,175,003**	**68,989,642**	**14,597,615**	**191,907,606**	**4,105,123**	**3,926,173**

**Exchange-traded products*

Foreign currency contracts

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

In thousands of PLN	Weighted average contracted exchange rates		Notional amount	
	31.12.2005	31.12.2004	31.12.2005	31.12.2004
Buy Euro				
Less than 3 months	4.0770	4.3664	4,346,758	3,529,141
Between 3 months and 1 year	4.0880	4.3925	2,627,891	3,416,974
More than 1 year	4.3273	4.5377	493,482	418,912
Sell Euro				
Less than 3 months	4.0637	4.3703	3,672,993	3,306,978
Between 3 months and 1 year	4.1038	4.3463	2,694,794	3,270,292
More than 1 year	4.3375	4.4525	524,938	371,416
Buy US Dollars				
Less than 3 months	3.2968	3.2323	5,320,548	7,547,547
Between 3 months and 1 year	3.2722	3.5377	5,351,800	4,251,151
More than 1 year	3.1301	4.2113	996,433	16,836
Sell US Dollars				
Less than 3 months	3.2533	3.2086	7,847,620	11,013,161
Between 3 months and 1 year	3.2720	3.5062	5,033,878	4,211,646
More than 1 year	3.1082	3.9730	733,304	5,981
Buy Swiss Franc				
Less than 3 months	2.4837	2.6413	268,281	274,324
Between 3 months and 1 year	2.5400	-	1,767	-
Sell Swiss Franc				
Less than 3 months	2.4832	2.6381	527,860	525,638
Between 3 months and 1 year	2.5260	-	5,733	-
Buy Pound Sterling				
Less than 3 months	5.7524	5.7935	106,041	9,026
Between 3 months and 1 year	5.9784	-	217,550	-
Sell Pound Sterling				
Less than 3 months	5.8467	5.9357	63,744	2,408
Between 3 months and 1 year	6.0066	-	206,299	-

19. Debt securities available-for-sale

In thousands of PLN	31.12.2005	31.12.2004
Bonds and notes issued by:		
Central Bank	2,258,159	384,287
Government	4,912,998	5,706,907
	7,171,157	**6,091,194**
Including:		
Listed instruments	*4,872,996*	*5,421,877*
Unlisted instruments	*2,298,161*	*669,317*

Debt securities available-for-sale (maturity):

In thousands of PLN	31.12.2005	31.12.2004
up to 1 month	1,886,194	-
1 month - 3 months	14,847	-
3 months - 1 year	327,668	544,574
1 year - 5 years	1,882,493	5,162,333
over 5 years	3,059,955	384,287
	7,171,157	**6,091,194**

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

The movement in debt securities available-for-sale is as follows:

In thousands of PLN	31.12.2005	31.12.2004
As at 1 January	**6,091,194**	**2,723,471**
Increases (in respect of)		
Purchases	68,190,468	33,682,443
FX differences	4,806	-
Amortisation of discount, premium and interest	84,066	144,970
Decreases (in respect of)		
Purchases	(67,043,561)	(30,000,851)
Revaluation	(122,475)	(3,292)
FX differences	-	(430,154)
Amortisation of discount, premium and interest	(33,341)	(25,393)
As at 31 December	**7,171,157**	**6,091,194**

20. Equity investments

In thousands of PLN	31.12.2005	31.12.2004
Stocks and shares in subordinated entities	-	89,579
Stocks and shares in other entities	52,824	70,447
Impairment	(32,209)	(131,939)
	20,615	**28,087**
Including:		
Listed instruments	-	*344*
Unlisted instruments	*20,615*	*27,743*

The movement in equity investments is as follows:

In thousands of PLN	Associated entities	Other entities	Total
As of 1 January 2004	**6,329**	**23,643**	**29,972**
Increases (in respect of)			
Purchases	-	476	476
Revaluation	1,500	2,685	4,185
Reclassified from associated shares	-	4,715	4,715
Decreases (in respect of)			
Purchases	(2,785)	(3,761)	(6,546)
Reclassified to minority shares	(4,715)	-	(4,715)
As of 31 December 2004	**329**	**27,758**	**28,087**

In thousands of PLN	Associated entities	Other entities	Total
As of 1 January 2005	**329**	**27,758**	**28,087**
Increases (in respect of)			
Conversion of debt into shares	-	5,000	5,000
Decrease (in respect of)			
Purchases	(329)	(8,835)	(9,164)
Revaluation	-	(3,308)	(3,308)
As of 31 December 2005	**-**	**20,615**	**20,615**

21. Equity investments accounted for under the equity method

In thousands of PLN	31.12.2005	31.12.2004
Stocks and shares in subordinated entities	61,884	68,503
Stocks and shares in associated entities	-	18,171
	61,884	**86,674**
Including:		
Listed instruments	-	-
Unlisted instruments	*61,884*	*86,674*

The change in equity investments accounted for under the equity method is as follows:

In thousands of PLN	Associated entities	Subordinated entities	Total
As of 1 January 2004	**63,509**	**11,382**	**74,891**
Increases (in respect of)			
Revaluation	11,156	9,248	20,404
Decreases (in respect of)			
Revaluation	(6,154)	(2,459)	(8,613)
FX differences	(8)	-	(8)
As of 31 December 2004	**68,503**	**18,171**	**86,674**

In thousands of PLN	Associated entities	Subordinated entities	Total
As of 1 January 2005	**68,503**	**18,171**	**86,674**
Increases (in respect of)			
Revaluation	2,897	1,385	4,282
Increases (in respect of)			
Purchases	(4,072)	(4,700)	(8,772)
Revaluation	(5,444)	(6,800)	(12,244)
Reclassification to "Non-current assets held-for-sale"	-	(8,056)	(8,056)
As of 31 December 2005	**61,884**	**-**	**61,884**

Financial information on subordinated entities as at 31 December 2005

Subordinated entities consolidated under the full method
In thousands of PLN

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Assets	Liabilities	Equity	Revenues	Profit/(loss)
CITILEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	97.47	173,372	3,713	169,659	9,928	4,406
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary undertaking	100.00	652,732	544,672	108,060	99,847	31,594
TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH BH S.A.	Warsaw	Investment activity	Subsidiary undertaking	100.00	36,743	4,523	32,220	47,160	8,774
HANDLOWY ZARZĄDZANIE AKTYWAMI S.A.	Warsaw	Brokerage	Subsidiary undertaking	100.00	8,672	1,846	6,826	10,024	2,260
HANDLOWY LEASING S.A.	Warsaw	Leasing	Subsidiary undertaking	100.00	711,115	703,731	7,384	59,476	10,083
PPH SPOMASZ Sp. z o.o. under liquidation	Warsaw	Production of machines	Subsidiary undertaking	100.00			Entity under liquidation		

Other entities
In thousands of PLN

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
BANK ROZWOJU CUKROWNICTWA S.A.	Poznań	Banking	Subsidiary undertaking	100.00	40,816	41,699	883	40,816	4,126	1,947
HANDLOWY INVESTMENTS S.A.	Luxembourg	Investment activity	Subsidiary undertaking	100.00	-	88,711	160,627	(71,916)	13,374	(4,058)
HANDLOWY INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	80.97	14,981	33,860	24,680	9,180	119	(1,414)
HANDLOWY INWESTYCJE Sp. z o.o.	Warsaw	Investment activity	Subsidiary undertaking	100.00	6,086	16,869	6,673	10,196	781	235
HANDLOWY HELLER S.A.*	Warsaw	Factoring	Associated entity	25.00	8,056	495,514	463,288	32,226	44,780	7,455

**Equity investments in Towarzystwo Funduszy Inwestycyjnych BH S.A., Handlowy Zarządzanie Aktywami S.A. and Handlowy Heller S.A. are classified as assets held-for-sale in accordance with IFRS 5 and are presented in the balance sheets in "Non-current assets held-for-sale" (see Note 29)*

The explanation of indirect relationships:

1/ Indirect relationship via Handlowy Investments S.A.

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	19.03	1,871	33,860	24,680	9,180	119	(1,414)

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

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
CITILEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	2.53		173,372	3,713	169,659	9,928	4,406
HANDLOWY HELLER S.A.	Warsaw	Factoring	Associated undertaking	25.00	8,056	495,514	463,288	32,226	44,780	7,455

The financial data of subordinated entities is based on unaudited financial information available at the time of preparation of these statements.

31.12.2004

Subordinated entities consolidated under the equity method
In thousands of PLN

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

Other entities
In thousands of PLN

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
BANK ROZWOJU CUKROWNICTWA S.A.	Poznań	Banking	Subsidiary undertaking	100.00	40,255	43,927	313	40,559	2,880	1,877
HANDLOWY INVESTMENTS S.A. 1/	Luxembourg	Investment activity	Subsidiary undertaking	100.00	-	118,777	189,567	(70,790)	-	(18,193)
HANDLOWY INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	80.97	20,249	34,616	23,427	11,189	-	797
HANDLOWY INWESTYCJE II Sp. z o.o.	Warsaw	Investment activity	Subsidiary undertaking	100.00	4,061	4,100	26	4,074	-	175
HANDLOWY INWESTYCJE Sp. z o.o. 2/	Warsaw	Investment activity	Subsidiary undertaking	100.00	3,751	15,307	6,054	9,253	-	706
POLSKIE PRACOWNICZE TOWARZYSTWO EMERYTALNE DIAMENT S.A. in liquidation	Warsaw	Insurance	Subsidiary undertaking	79.27	186	Entity under liquidation				
HANDLOWY HELLER S.A.	Warsaw	Factoring	Associated undertaking	25.00	6,671	395,842	368,739	27,103	37,161	6,091
MOSTOSTAL ZABRZE HOLDING S.A.	Zabrze	Production and service construction industry	Associated undertaking	34.44	-	140,045	229,127	(94,250)	42,591	(21,159)
KP KONSORCJUM Sp. z o.o.	Warsaw	Investment fund management	Associated undertaking	49.99	11,500	28,017	9,966	18,051	15,533	(5,510)
CREDITREFORM PL Sp. z o.o.	Warsaw	Business investigation agency	Associated undertaking	49.03	329	627	318	308	5,173	132

The explanation of indirect relationships:

1/ Indirect relationship via Handlowy Investments S.A.

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

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

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
CITILEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	2.53	-	189,273	21,308	167,410	13,122	3,580
HANDLOWY HELLER S.A.	Warsaw	Factoring	Associated undertaking	25.00	6,671	395,842	368,739	27,103	37,161	6,091

The financial data of individual entities available at the time of preparation of the 2004 financial statements were based on audited financial statements of the respective entities except for Handlowy Investments S.A., Handlowy Investments II S.a.r.l. and NIF Fund Holdings PCC Ltd.

22. Loans and advances

Loans and advances (by category)

In thousands of PLN	31.12.2005	31.12.2004
Loans and advances to the financial sector:		
Current accounts of banks	82,691	221,348
Loans, placements and advances, including:	6,451,223	7,763,820
placements in banks	*5,772,263*	*7,043,329*
Purchased receivables	14,182	12,710
Realised guarantees	274	251
Receivables subject to securities sale and repurchase agreements	-	292,849
Other receivables	11,012	16,338
Accrued interest	52,076	114,591
	6,611,458	8,421,907
Impairment write-offs	(144,301)	(135,103)
	6,467,157	**8,286,804**
Loans and advances to the non-financial sector:		
Loans and advances	10,926,907	11,243,379
Purchased receivables	156,766	163,989
Realised guarantees	63,069	66,781
Other receivables	2,307	506
Accrued interest	211,565	651,293
	11,360,614	12,125,948
Impairment write-offs	(1,753,521)	(1,641,457)
	9,607,093	**10,484,491**
Total	**16,074,250**	**18,771,295**

Loans and advances - gross (by time to maturity)

In thousands of PLN	31.12.2005	31.12.2004
Loans and advances to the financial sector:		
up to 1 month	4,144,929	6,627,919
1 month - 3 months	207,483	725,737
3 months - 1 year	1,456,476	643,259
1 year - 5 years	665,700	297,692
over 5 years	84,794	12,709
Accrued interest	52,076	114,591
	6,611,458	**8,421,907**
Loans and advances to the non-financial sector:		
up to 1 month	6,052,832	6,668,860
1 month - 3 months	779,752	630,633
3 months - 1 year	1,460,153	1,732,721
1 year - 5 years	2,786,033	2,301,794
over 5 years	70,279	140,647
Accrued interest	211,565	651,293
	11,360,614	**12,125,948**
Loans and advances - gross	**17,972,072**	**20,547,855**

Finance lease receivables

The Group operates on the leasing market through its subordinated companies Citileasing Sp. z o.o. and Handlowy – Leasing S.A. providing finance leases of vehicles, machines and equipment. Included in loans and advances to the non-financial sector are the following amounts relating to finance lease obligations:

In thousands of PLN	31.12.2005	31.12.2004
Gross finance lease receivables	785,136	774,673
Unearned finance income	(75,240)	-
Net finance lease receivables	**709,896**	**774,673**
Gross finance lease receivables by time to maturity:		
Less then 1 year	349,967	291,064
between 1 and 5 years	434,789	483,609
over 5 years	380	-
	785,136	**774,673**
Net finance lease receivables by time to maturity:		
Less then 1 year	314,051	291,064
between 1 and 5 years	395,476	483,609
over 5 years	369	-
	709,896	**774,673**

As at 31 December 2005 impairment for unrecoverable finance lease receivables amounted to 64,150 thousand (31 December 2004: 67,846 thousand). Finance lease income is presented in interest income.

23. Impairment of loans and advances

In thousands of PLN	31.12.2005	31.12.2004
The movement in impairment of loans and advances is as follows:		
As at 1 January	**1,776,560**	**1,674,500**
Related to:		
Receivables from banks	9,751	12,196
Receivables from other customers of financial and non-financial sector	1,766,809	1,662,304
Effects of transition to IFRS	234,935	-
1 January - after restatement of opening balance	**2,011,495**	**1,674,500**
Change in impairment write downs	(113,673)	102,060
Charges	709,602	918,328
Write-offs	(86,522)	(155,421)
Amounts released	(775,732)	(664,271)
Other	38,979	3,424
As at 31 December	**1,897,822**	**1,776,560**
Related to:		
Receivables from banks	11,332	9,751
Receivables from other customers of financial, non-financial	1,886,490	1,766,809

As at 31 December 2005 the closing balance of impairment recognized on loans and advances to customers consisted of:

In thousands of PLN	
Portfolio impairment loss	462,432
Individual impairment loss	1,366,990
Incurred but not reported losses	68,400

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

24. Property and equipment

Land, buildings and equipment

In thousands of PLN	Land and buildings	Machines and equipment	Vehicles	Other	Under construction	Total
Cost:						
Balance as at 1 January 2004	**769,741**	**1,410**	**56,626**	**673,575**	**18,201**	**1,519,553**
Additions:						
Purchases	2,149	85	382	33,112	61,464	97,192
Other increases	-	-	-	3,068	-	3,068
Disposals:						
Disposals	(176)	(99)	(11,792)	(2,440)	-	(14,507)
Other decreases	(13,383)	(2)	(318)	(62,803)	-	(76,506)
Reclassification	17,348	-	18,161	18,957	(74,643)	(20,177)
Balance as at 31 December 2004	**775,679**	**1,394**	**63,059**	**663,469**	**5,022**	**1,508,623**
Balance as at 1 January 2005	**775,679**	**1,394**	**63,059**	**663,469**	**5,022**	**1,508,623**
Effects of transition to IFRS	(41,249)	-	-	-	(1,154)	(42,403)
As at 1 January - after restatement of opening balance	**734,430**	**1,394**	**63,059**	**663,469**	**3,868**	**1,466,220**
Additions:						
Purchases	1,237	80	2,235	36,386	45,180	85,118
Other increases	-	-	-	4,380	-	4,380
Disposals:						
Disposals	(3,749)	(304)	(16,868)	(8,034)	-	(28,955)
Classified as "Non-current assets held-for-sale" (see Note 29)	-	(568)	(185)	(9,682)	-	(10,435)
Other decreases	(8,249)	(1)	(311)	(27,553)	(262)	(36,376)
Revaluations	15,737	-	15,772	9,838	(43,986)	(2,639)
Balance as at 31 December 2005	**739,406**	**601**	**63,702**	**668,804**	**4,800**	**1,477,313**
Depreciation and amortization						
Balance as at 1 January 2004	**177,841**	**1,150**	**23,811**	**540,560**	**-**	**743,362**
Increases:						
Depreciation charge for the period	38,524	151	11,445	70,462	-	120,582
Other increases	-	-	-	2,232	-	2,232
Decreases:						
Disposals	(175)	(95)	(9,050)	(2,430)	-	(11,750)
Other decreases	(9,325)	(1)	(114)	(61,925)	-	(71,365)
Balance as at 31 December 2004	**206,865**	**1,205**	**26,092**	**548,899**	**-**	**783,061**
Balance as at 1 January 2005	**206,865**	**1,205**	**26,092**	**548,899**	**-**	**783,061**
Effects of transition to IFRS	(17,554)	-	-	-	-	(17,554)
As at 1 January - after restatement of opening balance	**189,311**	**1,205**	**26,092**	**548,899**	**-**	**765,507**
Increases:						
Depreciation charge for the year	38,146	115	12,993	55,639	-	106,893
Other increases	59	-	-	4,669	-	4,728
Decreases:						
Disposals	(3,749)	(304)	(13,515)	(7,074)	-	(24,642)
Classified as "Non-current assets held-for-sale" (see Note 29)	-	(536)	(106)	(4,443)	-	(5,085)
Other decreases	(5,127)	(1)	(6)	(25,909)	-	(31,043)
Balance at 31 December 2005	**218,640**	**479**	**25,458**	**571,781**	**-**	**816,358**

In thousands of PLN	Land and buildings	Machines and equipment	Vehicles	Other	Under construction	Total
Impairment losses						
Balance at 1 January 2004	**1,453**	**-**	**-**	**238**	**-**	**1,691**
Increases	-	-	-	-	-	-
Decreases	-	-	-	-	-	-
Balance at 31 December 2004	**1,453**	**-**	**-**	**238**	**-**	**1,691**
Balance at 1 January 2005	**1,453**	**-**	**-**	**238**	**-**	**1,691**
Increases	-	-	-	-	-	-
Decreases	-	-	-	-	-	-
Balance at 31 December 2005	**1,453**	**-**	**-**	**238**	**-**	**1,691**
Carrying amounts						
As at 1 January 2004	590,447	260	32,815	132,777	18,201	774,500
As at 31 December 2004	567,361	189	36,967	114,332	5,022	723,871
As at 1 January 2005	543,666	189	36,967	114,332	5,022	700,176
As at 31 December 2005	519,313	122	38,244	96,785	4,800	659,264

Investment properties

In thousands of PLN	2005	2004
As at 1 January	**-**	**-**
Effects of transition to IFRS	54,923	-
As at 1 January - after restatement	**54,923**	**-**
Increases:		
Restructuring	13,200	-
Other increases	139	-
Decreases:		
Disposals	(3,929)	-
Classified as "Non-current assets held-for-sale" (see Note 29)	(12,740)	-
Impairment losses	(10,645)	-
Closing balance as at 31 December	**40,948**	**-**

In the opening balance sheet in 2005, the Group identified certain repossessed property and own property as investment properties. As a result of identification of investment property, the positive difference between the fair value of a given property and its carrying value at the moment of identification was recorded as an adjustment to retained earnings amounting to PLN 8,050 thousand.

25. Intangible assets

In thousands of PLN	Goodwill	Patents and trademarks	Software	Other intangible assets	Prepayments	Total
Cost:						
Balance as at 1 January 2004	**1,448,907**	**1,678**	**167,672**	**379**	**288**	**1,618,924**
Additions:						
Purchases	-	74	16,145	31	5,907	22,157
Reclassification	-	-	21,136	-	-	21,136
Disposals:						
Disposals	-	-	-	-	(5,289)	(5,289)
Other decreases	-	-	-	-	(799)	(799)
Balance as at December 2004	**1,448,907**	**1,752**	**204,953**	**410**	**107**	**1,656,129**
Balance as at 1 January 2005	**1,448,907**	**1,752**	**204,953**	**410**	**107**	**1,656,129**
Additions:						
Purchases	4,876	2	10,172	20,900	6,536	42,486
Reclassification	-	-	4,531	-	-	4,531
Disposals:						
Classified as "Non-current assets held-for-sale" (see Note 29)	-	(104)	(281)	(2)	-	(387)
Other decreases	(2,545)	-	(788)	(2,347)	(4,543)	(10,223)
Balance as at 31 December 2005	**1,451,238**	**1,650**	**218,587**	**18,961**	**2,100**	**1,692,536**
Depreciation and amortization:						
Balance as at 1 January 2004	**205,262**	**1,322**	**116,897**	**366**	**-**	**323,847**
Increases:						
Depreciation charge for the period	-	154	22,341	21	-	22,516
Balance as at 31 December 2004	**205,262**	**1,476**	**139,238**	**387**	**-**	**346,363**
Balance as at 1 January 2005	**205,262**	**1,476**	**139,238**	**387**	**-**	**346,363**
Increases:						
Depreciation charge for the period	-	147	28,224	5,030	-	33,401
Decreases:						
Classified as "Non--current assets held-for-sale" (see Note 29)	-	(104)	(135)	-	-	(239)
Other decreases	-	-	(788)	-	-	(788)
Balance as at 31 December 2005	**205,262**	**1,519**	**166,539**	**5,417**	**-**	**378,737**
Carrying amounts						
As at 1 January 2004	1,243,645	356	50,775	13	288	1,295,077
As at 31 December 2004	1,243,645	276	65,715	23	107	1,309,766
As at 1 January 2005	1,243,645	276	65,715	23	107	1,309,766
As at 31 December 2005	1,245,976	131	52,048	13,544	2,100	1,313,799

As at 31 December 2005, goodwill includes the amount of PLN 1,243,645 thousand arisng from the merger of Bank Handlowy w Warszawie S.A. and Citibank (Poland) S.A. as at 28 February 2001 and the amount of PLN 2,331 thousand as a result of the purchase of an organized part of enterprise from ABN AMRO Bank (Poland) S.A. as of 1 March 2005. As at 1 January 2004, as required by IFRS, the Group ceased to make write-downs of goodwill, and replaced them with the impairment test. In addition, PLN 13,229 thousand of other intangible assets were recognised in the balance sheet as a result of the purchase of an organized part of enterprise from ABN AMRO Bank (Poland) S.A.

26. Impairment test for goodwill

For the purpose of carrying out impairment tests, goodwill has been allocated to two cash generating units: Corporate and Investment Bank and Consumer Bank. In both cases the allocated goodwill is significant in comparison to the total book value of goodwill. The goodwill arose as a result of the merger between Bank Handlowy w Warszawie SA and Citibank (Poland) SA.

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

Book value of goodwill allocated to unit:

In thousands of PLN	
Corporate and Investment Bank	849,613
Consumer Bank	394,032
	1,243,645

The valuation basis of recoverable amount is the value in use, assessed on the basis of a five-year financial plan approved by the Supervisory Board in 2004. The plan is based on assumptions about future facts that reflect the future economic conditions and expected results of the Bank. The plan is periodically updated.

The discount rate, which is equivalent to the required rate of return has been used in the valuation. The required rate of return is assessed on the basis of the capital assets pricing model using a beta coefficient for the banking sector, return on WIG index and Treasury bond yield curves. In 2005 the discount rate amounted to 13.7%.

Extrapolation of cash flows, which exceed the five-year period covered by the financial plan, has been based on growth rates reflecting the long-term NBP inflation target of 2.5% as at 31 December 2005.
The applied growth rates do not exceed the long-term average growth rates appropriate to the commercial and retail banking sector in Poland.

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

27. Income tax assets and liabilities

In thousands of PLN	31.12.2005	31.12.2004
Income tax assets*		
Current tax	3,452	11,304
Deferred tax	295,838	227,610
	299,290	**238,914**
Income tax liabilities*		
Current tax	163,311	24,226

**Deferred income tax assets and liabilities are presented net in the balance sheet.*

Positive and negative taxable and deductible temporary differences are presented below:

Deferred tax assets are attributable to the following:

In thousands of PLN	31.12.2005	31.12.2004
Interest accrued and other expense	58,654	46,095
Loan loss provisions	160,986	175,621
Subordinated loans provisions	3,896	5,403
Unrealised premium	5,371	5,629
Unrealised financial instruments valuation expenses	652,181	738,803
Income collected in advance	9,737	11,556
Valuation of shares	7,739	49,350
Commissions	24,205	14,542
Update of fixed asset	1,953	-
Settlement of retained tax loss	-	1,580
Differences between balance sheet and tax value of leases	2,610	926
Other including:	152,188	35,157
Unrealized cost related to asymmetric transactions	*114,417*	-
Deferred tax assets	**1,079,520**	**1,084,662**

Deferred tax liabilities are attributable to the following:

In thousands of PLN	31.12.2005	31.12.2004
Accrued interest income	63,886	27,375
Unrealised premium from options	40	26
Unrealised financial instruments valuation income	673,440	775,058
Unrealised securities discount	380	2,383
Investment relief	23,054	23,754
Valuations of shares	1,223	2,690
Differences between balance sheet and tax value of leases	2,148	2,806
Other	19,511	22,960
Deferred tax provisions	**783,682**	**857,052**

Movement in temporary differences during the year

In thousands of PLN	Balance 31.12.2003	IFRS Adjustments recognised in income	IFRS Adjustments recognised in equity	Balance 31.12.2004
Interest accrued and other expense	54,364	(8,269)	-	46,095
Loan loss provisions	153,246	22,375	-	175,621
Unrealised premium	5,129	500	-	5,629
Unrealised financial instruments valuation expenses	631,210	107,593	-	738,803
Income collected in advance	7,427	4,129	-	11,556
Valuation of shares	58,646	(28,824)	-	29,822
Commission	16,063	(1,521)	-	14,542
Debt securities available-for-sale	10,023	-	(7,825)	2,198
Settlement retained tax loss	818	762	-	1,580
Differences between balance sheet and tax value of leases	-	926	-	926
Other	47,857	10,033	-	57,890
	984,783	**107,704**	**(7,825)**	**1,084,662**

In thousands of PLN	Balance 31.12.2003	IFRS Adjustments recognised in income	IFRS Adjustments recognised in equity	Balance 31.12.2004
Interest accrued (income)	18,238	9,136	-	27,374
Unrealised premium from options	52	(26)	-	26
Unrealised financial instruments valuation income	682,043	93,015	-	775,058
Unrealised securities discount	727	1,656	-	2,383
Investment relief	24,822	(1,068)	-	23,754
Valuation of shares	1,400	1,290	-	2,690
Differences between balance sheet and tax value of leases	19,588	(16,783)	-	2,805
Other	5,455	17,507	-	22,962
	752,325	**104,727**	**-**	**857,052**

In thousands of PLN	Balance 31 December 2004	IFRS Adjustments	Balance 1 January 2005	IFRS Adjustments recognised in income	Adjustments recognised in equity	Balance 31 December 2005
Interest accrued and other expense	46,095	78	46,173	12,480	-	58,653
Loan loss provisions	175,621	17,198	192,819	(31,833)	-	160,986
Subordinated loans provisions	5,403	-	5,403	(1,507)		3,896
Unrealised premium	5,629	-	5,629	(258)	-	5,371
Unrealised instruments valuation expenses	738,803	-	738,803	(86,622)	-	652,181
Income collected in advance	11,556	-	11,556	(1,819)	-	9,737
Valuation of shares	29,822	-	29,822	(22,083)	-	7,739
Commissions	14,542	5,274	19,816	4,389	-	24,205
Debt securities available-for-sale	2,198	-	2,198	0	12,944	15,142
Unrealized cost related to asymmetric transactions	48,092	-	48,092	66,325	-	114,417
Settlement retained tax loss	1,580	-	1,580	(1,580)	-	-
Differences between balance sheet and tax value of leases	926	-	926	1,684	-	2,610
Other	4,395	(1,530)	2,865	21,718	-	24,583
	1,084,662	**21,020**	**1,105,682**	**(39,106)**	**12,944**	**1,079,520**

In thousands of PLN	Balance 31 December 2004	IFRS Adjustments	Balance 1 January 2005	IFRS Adjustments recognised in income	Adjustments recognised in equity	Balance 31 December 2005
Interest accrued (income)	27,374	25,617	52,991	10,895	-	63,886
Unrealised premium from options	26	-	26	14	-	40
Unrealised instruments valuation income	775,058	-	775,058	(101,618)	-	673,440
Unrealised securities discount	2,383	-	2,383	(2,003)	-	380
Investment relief	23,754	-	23,754	(700)	-	23,054
Valuation of shares	2,690	-	2,690	(1,467)	-	1,223
Differences between balance sheet and tax value of leases	2,805	-	2,805	(657)	-	2,148
Other	22,962	-	22,962	(3,451)	-	19,511
	857,052	**25,617**	**882,669**	**(98,987)**	**-**	**783,682**

28. Other assets

In thousands of PLN	31.12.2005	31.12.2004
Repossessed assets	-	23,425
Interbank settlements	13,192	14,729
Settlements related to operations on derivative instruments	18,751	220,995
Settlements related to brokerage activity	224,799	198,460
Accounts receivable	15,608	26,084
Staff loans out of the Social Fund	38,943	39,581
Sundry debtors	81,998	64,174
Prepayments	36,967	82,024
Other assets	316	1,824
	430,574	**671,296**

29. Non-current assets held-for-sale

	Shares associated entity	Subordinated entity	Training and holiday centers	Organized part of Bank's enterprise	Total
Non-current assets held					
Equity investments valued at equity method	8,056	-	-	-	8,056
Loans and advances	-	305	-	-	305
Tangible fixed assets	-	72	12,740	5,278	18,090
Intangible assets	-	-	-	144	144
Assets related to deferred tax	-	288	-	-	288
Other assets	-	6,397	-	4,434,	10,831
Liabilities held-for-sale					
Other liabilities	-	(2,959)	-	(4,370)	(7,329)
Net assets held-for-sale	**8,056**	**4,103**	**12,740**	**5,486**	**30,385**

As at 31 December 2005 assets and groups of assets that fulfilled the requirements of IFRS 5 were classified as non-current assets held-for--sale with liabilities that are directly related to them.

Non-current assets held-for-sale consist of the following assets (group of assets):

- Shares in the associated entity Handlowy Heller S.A. which was sold on 2 February 2006 (see Note 41 and 43).
- Assets and related to them liabilities of Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A. ("TFI") and Handlowy Zarządzania Aktywami S.A. ("HANZA") which were sold on 1 February 2006 (See Note 41 and 43).
- Organized part of the Bank's enterprise that consists of holiday resorts located in Dźwirzyna, Rowy, Skubianka, Łeba and Wisła. An active program to locate buyers and complete the sale plan has been initiated and is currently highly advanced. The sale transaction is expected to be completed by the end of 2006. The Extraordinary General Meeting agreed on the sale of this organised part of the Bank's enterprise in a resolution dated 22 December 2005.
- Organized part of the Bank's enterprise that consists of card's transactions settlements within the Consumer Banking Sector. The Bank rents POS terminals and provides service as a settlement agent in accordance with Electronic Payment Instruments Act of 12 September 2002. The sale was completed on 31 January 2006 (see Note 43). The Extraordinary General Meeting agreed on the sale of this organised part of the Bank's enterprise in a resolution of 22 December 2005.

30. Financial liabilities valued at amortized cost

Financial liabilities valued at amortized cost (by category)

In thousands of PLN	31.12.2005	31.12.2004
Deposits from financial sector:		
Current accounts, including:	728,958	721,487
current accounts of banks	*725,453*	*720,855*
Term deposits, including:	4,468,259	2,612,283
term deposits of banks	*1,624,486*	*849,460*
Accrued interest	26,286	5,007
	5,223,503	**3,338,777**
Deposits from non-financial sector:		
Current accounts, including:	5,487,025	4,185,250
corporate customers	*3,412,132*	*2,284,398*
individual customers	*1,499,724*	*1,383,080*
Term deposits, including:	11,755,614	12,726,898
corporate customers	*7,931,673*	*7,833,795*
individual customers	*3,034,863*	*4,032,425*
Accrued interest	19,014	36,125
	17,261,653	**16,948,273**
Total	**22,485,156**	**20,287,050**
Other liabilities:		
Loans and advances received	285,410	822,199
Liabilities in respect of securities subject to sale and repurchase agreements	8,174	408,361
Other liabilities, including:	302,686	393,681
cash collateral	*240,075*	*345,110*
Accrued interest	3,163	16,291
Other liabilities	**599,433**	**1,640,532**
Total	**23,084,589**	**21,927,582**

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

In thousands of PLN	31.12.2005	31.12.2004
Financial sector:		
up to 1 month	4,112,302	3,472,561
1 month - 3 months	34,338	65,090
3 months - 1 year	1,128,599	617,031
1 year - 5 years	97,396	183,545
over 5 years	143,108	81,663
Accrued interest	27,580	18,401
	5,543,323	**4,438,291**
Non-financial sector:		
up to 1 month	15,714,663	14,188,178
1 month - 3 months	912,729	1,845,209
3 months - 1 year	811,412	1,012,962
1 year - 5 years	81,104	403,762
over 5 years	475	158
Accrued interest	20,883	39,022
	17,541,266	**17,489,291**
	23,084,589	**21,927,582**

31. Provisions

In thousands of PLN	31.12.2005	31.12.2004
For disputes	19 673	14 456
For off-balance sheet commitments	36 578	39 352
For general banking risk	-	164 000
	56 251	**217 808**

As at 1 January 2005, following the full adoption of IFRS (date of implementation of IAS 32 and IAS 39) the Group made an adjustment to the opening balance related to the dissolution of its provision for general banking risk against retained earnings. In accordance with IAS 39 the Group created a provision for incurred but not recognised losses (IBNR), which is included in impairment of receivables from customers and decreases the balance sheet value of these receivables.

The movement in provisions is as follows:

In thousands of PLN	2005	2004
Balance as at 1 January	**217,808**	**448,422**
Provisions for:		
Disputes	14,456	3,403
Off-balance sheet commitments	39,352	145,019
General risk	164,000	300,000
Effects of transition to IFRS	(156,935)	-
As at 1 January after restatement	**60,873**	**448,422**
Movements in provisions:		
Charges to provisions:	52,261	200,631
for litigations	12,453	14,623
for off-balance sheet liabilities	39,808	186,008
Use of provisions	(146)	(1,207)
Release of provisions:	(56,737)	(430,038)
for litigations	(7,090)	(2,363)
for off-balance sheet liabilities	(49,647)	(291,675)
general banking risk	-	(136,000)
Balance as at 31 December	**56,251**	**217,808**

32. Other liabilities

In thousands of PLN	31.12.2005	31.12.2004
Staff benefits	65,448	67,632
Interbank settlements	82,648	65,804,
Interbranch settlements	1,386	128
Settlements related to brokerage activity	226,567	195,468
Settlements with Tax Office and National Insurance (ZUS)	3,858	6,533
Sundry creditors	185,837	127,417
Accruals	255,816	168,301
Provision for employee payments	118,544	97,230
Provision for employees retirement and jubilee payments	48,942	27,981
Other	88,330	43,090
Deferred income	97,431	129,427
Deferred interest	-	715,581
	918,991	**1,476,291**

33. Capital and reserves

Share capital

Issued share capital								
Series/issue	Type of shares	Type of preference	Type of limitation	Number of shares	Par value of series/ issue	Method of issue payment	Date of registration	Eligibility for dividends (from date)
A	bearer	none	none	65,000,000	260,000	paid in	27.03.97	01.01.97
B	bearer	none	none	1,120,000	4,480	paid in	27.10.98	01.01.97
B	bearer	none	none	1,557,500	6,230	paid in	25.06.99	01.01.97
B	bearer	none	none	2,240,000	8,960	paid in	16.11.99	01.01.97
B	bearer	none	none	17,648,500	70,594	paid in	24.05.02	01.01.97
B	bearer	none	none	5,434,000	21,736	paid in	16.06.03	01.01.97
C	bearer	none	none	37,659,600	150,638	transfer	28.02.01	01.01.00
Total				**130 659 600**	**522,638**			

Par value of 1 share = PLN 4.00

As at 31 December 2005, the Bank's share capital amounted to PLN 522,638,400 divided into 130,659,600 common bearer shares nominal value of PLN 4 each which has not changed since 31 December 2004.

In 2004 there was a significant change in the ownership structure of the Group. The change was due to the disposal of 18,722,874 shares constituting 14.3% of the Bank's share capital by Citibank Overseas Investment Corporation (COIC), the subordinated entity of Citibank N.A., to International Finance Associates B.V., incorporated in the Netherlands a subordinated entity of COIC, on 30 November 2004. As a result of this transaction COIC's ownership in the share capital was reduced from 89.3% to 75%.

The Bank has not issued preference shares.

Up to 1996, the Group operated in a hyperinflationary economic environment. IAS 29 (Financial Reporting in Hyperinflationary Economies) requires the adjustment of each component of shareholders equity (except retained earnings and any revaluation reserve) by the index price of commodities and services for the period of hyperinflation. This retrospective application would have resulted in an increase in share capital of PLN 407,467 thousand and other reserves by PLN 617,659 thousand and a decrease in retained earnings by PLN 1,025,126 thousand.

Principal shareholders

The shareholders who, as at 31 December 2005, held at least 5% of the total number of votes in the General Assembly or at least 5% of the Bank's share capital are presented in the following table:

	Value of stocks	Number of stocks	% stocks	Number of votes at GA	% votes at GA
Citibank Overseas Investment Corporation, USA	391,979	97,994,700	75.0	97,994,700	75.0
International Finance Associates, Netherlands	74,891	18,722,874	14.3	18,722,874	14.3
Other shareholders	55,768	13,942,026	10.7	13,942,026	10.7
	522,638	**130,659,600**	**100.0**	**30,659,600**	**100.0**

Supplementary capital

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

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

Revaluation reserve

In thousands of PLN	31.12.2005	31.12.2004
Revaluation of financial assets available-for-sale	**(64,554)**	**(9,371)**

The revaluation reserve is not distributed. Changes in the fair value related to the revaluation reserve are reversed as of the day of exclusion of all or part of financial assets available-for-sale and retained earnings that were previously presented in issued capital are now presented in the profit and loss account.

Other reserves

In thousands of PLN	31.12.2005	31.12.2004
Reserve capital	738,860	1,740,962
General risk reserve	390,000	390,000
	1,128,860	**2,130,962**

Reserve capital

Reserve capital is created from the distribution of profits or from other sources, independently of the supplementary capital.

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

General risk reserve

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

Dividends

Dividends paid in 2005

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

The General Meeting of the Bank allocated for the payment of dividends:

- the amount of PLN 414,190,932 from 2004 profit
- the amount of PLN 1,149,804,480 originating from previous years' profits transferred from supplementary capital and reserve capital.

The total dividend amount paid per one ordinary share amounted to PLN 11.97.

As at 31 December 2005 the Bank did not have any liabilities in respect of approved dividends.

Declared dividends

On 27 March 2006 the Management Board of the Bank adopted a Resolution proposing the distribution of 2005 profit. The Management Board of the Bank proposed to pay out PLN 470,374,560 as a dividend. This proposal means that the dividend per one ordinary share amounts to PLN 3.60. The date of determination of the right to the dividend was designated as 5 July 2006 and the date of dividend payment as 31 August 2006. The resolution will be submitted to the Supervisory Board of the Bank to give an opinion and to the General Meeting of Shareholders for approval.

34. Repurchase and reverse repurchase agreements

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

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

As at 31 December 2005 assets sold under repurchase agreements were as follows:

In thousands of PLN	Fair value of underlying assets	Carrying amount of corresponding liabilities*	Repurchase dates	Repurchase price
Trading instruments	8,183	8,186	To 1 month	8,188

*including interest

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

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

*including interest

For the period from 1 January 2005 to 31 December 2005 the total interest expense on repurchase agreements was PLN 3,672 thousand (31 December 2004: PLN 43,779 thousand).

The Group also purchases financial instruments under agreements to resell them at future dates ("reverse repurchase agreements"). The seller commits to repurchase the same or similar instruments at an agreed future date. Reverse repurchase agreements are entered into as a facility to provide funds to customers. As of 31 December 2005 there were no assets purchased subject to agreements to resell.

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

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

*including interest

For the period from 1 January 2005 to 31 December 2005 the total interest income on reverse repurchase agreements was PLN 346 thousand (31 December 2004: PLN 8,515 thousand).

35. Fair value information

Fair value of financial assets and liabilities

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

The summary below provides balance sheet and fair value information for each asset and liability group that is not presented in the balance sheet at fair value. Pursuant to section 36A of IFRS 1, the Group has used the exemption from the requirement to disclose comparable data in respect of fair value.

In thousands of PLN	31.12.2005	
	Carrying amount	Fair value
Assets		
Equity investments	20,615	20,615
Equity investments valued at equity method	61,884	61,884
Loans and other receivables	16,068,922	16,067,148
Net fixed assets available-for-sale including:	30,385	183,001
Equity investments	*8,056*	*11,099*
Liabilities		
Financial liabilities valued at amortized cost	23,084,590	23,104,448

Fair Value Definition

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

Equity investments

In the case of shares in subsidiaries and associated entities that are fixed assets available-for-sale the fair value is based on the binding sale offer. The fair value of shares in subsidiaries that are not consolidated is presented as the percentage of net assets of an entity that is attributable to the Group's shares in a given entity. Management believes that this is the best available approximation of fair value of such instruments.
For unlisted minority shares the Group was not able to estimate a reasonable fair value, therefore the fair value amount includes purchase price adjusted by revaluation write-offs connected with diminution in value.

Non-current assets held-for-sale

The fair value of non-current assets held-for-sale was established on the basis of binding sale offers excluding these for which the balance sheet is equal to fair value on the basis of valuation prepared by an independent expert.

Loans and advances

In the balance sheet loans are valued at amortized cost less impairment. The fair value of fixed interest rate loans is calculated as the discounted value of expected future principal payments. It is assumed that loans will be paid back on their contractual date. In the case of loans for which repayment dates are not fixed (e.g. overdrafts), fair value is the repayment that would be required if the amount were due on the balance sheet date. Expected future cash flows connected with homogenous loan categories, are assessed on the basis of the loan portfolio and discounted using the current interest rate.

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

Financial liabilities valued at amortized cost

In the case of demand deposits, as well as deposits without any pre determined maturity date, fair value is an amount that would be paid out if demanded on the balance sheet date. The fair value of fixed maturity deposits is estimated on the basis of cash flows discounted with current interest rates. The role of long term relationships with depositing parties is not taken into account in the course of the fair value valuation process adopted for such instruments.

36. Contingent liabilities

Information on pending proceedings

As at 31 December 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 Group's shareholders' equity, were pending before any court, administrative authority or an arbitration court.
The total value of all pending court proceedings involving the Bank or its subsidiaries and related to their receivables exceeded 10% of the Group's shareholders' equity and amounted to PLN 1,582,061 thousand.

The most significant legal actions that are pending in relation to receivables are as follows:

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 on 14 October 1996. The Bank realized all the collateral. The Bank will probably not receive its receivables. 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 from 29 June 2003	Case pending. The writ of payment was issued on 8 September 2003. The defendant has raised objections to the writ for payment. On 30 May 2005 the court hold the legal force of the writ of 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.
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).

Provisions for contingent liabilities are made by the Group in accordance with law. Impairment related to these provisions is also made.

As at 31 December 2005, no proceedings relating to the liabilities or receivables of the Group or its subsidiaries, the value of which would correspond to at least 10% of the Group's shareholders' equity, were pending before any court, administrative authority or an arbitration court. The total value of all pending court proceedings involving the Group or its subsidiaries and related to their receivables exceeded 10% of the Group's shareholders' equity and amounted to PLN 584,364 thousand.

The most significant legal actions that are pending in relation to liabilities:

Parties to Proceedings	Litigation Value (in thousands of PLN)	Proceedings Commencement Date	Description of Case
Plaintiff: shareholder of company – the client of the Bank **Defendant:** Bank Handlowy w Warszawie SA	276,508 with interest from the date of the date of suit	8 April 2003	The plaintiff submitted a suit as a majority shareholder of the company for which the Bank organized an issue of bonds. The claim is that the Bank violated the agreement from 20 June 2005 is the issue of bonds. On 15 February the court of first instance disallowed the complaint entirely. The plaintiff lodged an appeal. Case pending. The term will be appointed.
Plaintiff: Borrower of the Bank **Defendant:** Bank Handlowy w Warszawie SA	149,202	5 October 2005	The plaintiff takes exception that the Bank abuses the law by notice of the termination of the contract that caused the paralysis of the business activity of the plaintiff. The damage was an effect and resulted in significant loss of profits. Case pending.
Plaintiff: Borrower of the Bank **Defendant:** Bank Handlowy w Warszawie SA	42,306 with interest from 1 March 2002	23 May 2003	The suit concerns the irregularities of the Bank's activity during the restructuring of its client's debt – the plaintiff who bears a loss. On 3 February the court suspend the proceedings owing to proceedings of bankruptcy.

Group records provisions when there is a probability that there will be an outflow of cash.

Off-balance sheet commitments

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

In thousands of PLN	31.12.2005	31.12.2004
Off-balance sheet commitments granted:		
Letters of credit	149,681	184,636
Guarantees granted	2,778,598	2,349,806
including to related parties	-	855
Credit lines granted	8,720,951	9,047,107
including to related parties	24,192	73,817
Deposits to be issued	15,439	121,359
	11,664,669	**11,702,908**

In thousands of PLN	31.12.2005	31.12.2004
Letters of credit by categories:		
Import letters of credit issued	132,216	167,528
Export letters of credit confirmed	17,465	17,108
	149,681	**184,636**

In thousands of PLN	31.12.2005	31.12.2004
Contingent liabilities received:		
Financial	-	335,975
Guarantee	2,341,400	2,616,366
	2,341,400	**2,952,341**

Guarantees issued include credit principal repayment guarantees, other repayment guarantees, advance repayment guarantees, performance guarantees, tender guarantees, and bills of exchange. The Group makes specific provisions for off-balance sheet commitments when it has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. As at 31 December 2005, the specific provisions created for off balance sheet commitments amounted to PLN 36,578 thousand, including provisions for off-balance sheet commitments granted to subordinated undertakings amounting to PLN 80 thousand (31 December 2004: PLN 39,352 thousand, including off-balance sheet commitments to subordinated undertakings – PLN 265 thousand).

37. Assets pledged as collateral

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

In thousands of PLN	31.12.2005	31.12.2004
Liabilities		
Financial liabilities valued at amortized cost:		
Liabilities in respect of securities subject to sale and repurchase agreements	8,186	408,559

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

In thousands of PLN	31.12.2005	31.12.2004
Assets pledged:		
Debt securities held for trading	8,183	243,719
Debt securities available-for-sale	27,253	217,417
Loan and advantages		
From financial sector	4,050	9,150
Other assets		
Settlements related to operations on derivative instruments	21,687	215,578
	61,173	**685,864**

38. Trust activities

The Group is the leader on the market of custodian banks in Poland. It offers both custody services connected with securities accounts for foreign institutional investors and depositary services for Polish financial institutions, including pension, investment and equity insurance funds. As at 31 December 2005 the Group maintained 8,952 securities accounts (31 December 2004: 7,477 accounts).

39. Operating leases

Leases where the Group is the lessee

Non-cancellable operating lease rentals are payable as follows (by time to maturity)

In thousands of PLN	31.12.2005	31.12.2004
Less than 1 year	41,148	40,931
Between 1 and 5 years	113,128	188,499
More than 5 years	7,937	8,017
	162,213	**237,447**
Total operating leasing rentals for unprescribed time	**2,344**	**2,077**

The Group uses cars and office space under operating lease contracts. The most significant lease contracts relate to office space situated in Warsaw at Wolska 171/175 and Chałubińskiego 8. Generally the contracts have been signed for 5 years and there is an ability to extend them over the next three years. Some contracts have been signed for an unspecified period of time. Lease payments are under one year indexation. The total amount of lease payments amounting to PLN 43,492 thousand (in 2004: PLN 43,008 thousand).
These payments are presented in the income statement in "General expenses".

Leases where the Group is the lessor

Non-cancellable operating lease rentals are payable as follows (by time to maturity)

In thousands of PLN	31.12.2005	31.12.2004
Less than 1 year	1,435	1,367
Between 1 and 5 years	6,368	6,835
More than 5 years	-	-
	7,803	**8,202**
Total operating leasing rentals for unprescribed time	**1,252**	**1,636**

Part of the Group's office space is leased. Most of the agreements are signed for an unspecified period of time. Other agreements are signed for a period of between 2 and 10 years. Lease payments are under one year indexation. In 2005 the income related to these contracts amounted to PLN 2,686 thousand (2004: PLN 3,003 thousand). These payments are presented in the income statement in other operating income.

40. Cash flow statement

Additional information:

In thousands of PLN	31.12.2005	31.12.2004
Cash related items		
Cash at hand	299,817	310,650
Nostro current account in Central Bank	622,832	530,464
Current accounts in other banks	82,691	131,042
	1,005,340	**972,156**

41. Related parties

Transactions with related parties

Within its normal course of business activities the Group enters into transactions with related entities, in particular with entities of Citigroup Inc., subsidiaries and associates (see Note No. 21) and members of the Bank's supervisory board, management and employees.

The transactions with related entities mainly include loans, deposits, guarantees and derivatives transactions. All transactions are valued at market price.

Transactions with entities of Citigroup Inc.

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

In thousands of PLN	31.12.2005	31.12.2004
Receivables, including:	2,478,919	4,899,694
Placements	2,403,679	4,877,390
Liabilities, including:	483,509	1,044,497
Deposits	398,526	456,866
Loans received	84,916	580,194
Balance valuation of derivative transactions		
Assets available-for-sale	2,580,110	2,802,264
Liabilities available-for-sale	2,653,971	2,168,596
Off-balance sheet guarantee liabilities granted	81,838	110,680
Off-balance sheet guarantee liabilities received	77,226	619,087
Interest and commission income	136,051	69,019
Interest and commission expense	9,695	33,728

Furthermore the Group incurs costs and receives income of an operational nature from agreements concluded between Citigroup Inc. entities and the Group for the provision of mutual services.
The costs arising and accrued in 2005 from concluded agreements amounted in total to PLN 160,506 thousand (in 2004: PLN 151,031 thousand) and related in particular to the costs arising from the provision of services related to the maintenance of the Group's information systems and advisory support for the Group; income of PLN 65,585 thousand (in 2004: 42,581 thousand) arose from the provision of data processing and other services by the Group.

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

Transactions with subordinated entities

In thousands of PLN	31.12.2005		31.12.2004	
	Subsidiaries	Associates	Subsidiaries	Associates
Loans, advances and other receivables:				
Current accounts (in respect of):	441,103	103,385	488,405	102,212
consolidated subordinated undertakings	*441,103*	-	*488,405*	-
subordinated undertakings accounted under for the equity method	-	*103,385*	-	*100,323*
Loans granted (in respect of):	12,774	-	41,809	2,849
consolidated subordinated undertakings	-		*30,292*	-
subordinated undertakings accounted under for the equity method	*12,774*		*11,517*	-
Subordinated loans (in respect of):	72,755	-	117,957	-
consolidated subordinated undertakings	-		-	
subordinated undertakings accounted under for the equity method	*72,755*		*117,957*	
	526,632	**103,385**	**648,171**	**105,061**
Loans, advances and other receivables:				
Opening balance	648,171	105,061	844,957	37,347
Closing balance	526,632	103,385	648,171	105,061
Deposits:	375,950	349	490,308	314
Current accounts (in respect of):				
consolidated subordinated undertakings	*345,257*	-	*460,000*	-
subordinated undertakings accounted under for the equity method	*30,693*	*349*	*30,308*	*145*
Term deposits (in respect of):	263,743	-	50,211	-
consolidated subordinated undertakings	*245,071*		*23,842*	
subordinated undertakings accounted under for the equity method	*18,672*		*26,369*	
	639,693	**349**	**540,519**	**314**
Deposits:				
Opening balance	540,519	314	314,226	26,045
Closing balance	639,693	349	540,519	314
Contingent liabilities granted:				
Letters of credit (in respect of):	5,207	-	545	-
consolidated subordinated undertakings	*5,207*		*545*	
Guarantees granted (in respect of):	3,274	-	1,500	855
consolidated subordinated undertakings	*3,274*		*1,500*	-
subordinated undertakings accounted for under the equity method	-		-	*347*
Credit lines granted (in respect of):	212,110	24,193	57,911	73,816
consolidated subordinated undertakings	*212,110*	-	*57,911*	-
subordinated undertakings accounted for under the equity method	-	*24,193*	-	*73,816*
	220,591	**24,193**	**59,956**	**74,671**

In thousands of PLN	31.12.2005		31.12.2004	
	Subsidiaries	Associates	Subsidiaries	Associates
Interest and commission income (in respect of):	41,243	6,677	20,868	4,373
consolidated subordinated undertakings	*39,844*	-	*20,848*	-
subordinated undertakings accounted for under the equity method	*1,399*	*6,677*	*20*	*4,373*
Interest and commission expenses (in respect of):	20,296	-	14,703	4
consolidated subordinated undertakings	*19,827*	-	*14,215*	-
subordinated undertakings accounted for under the equity method	*469*	-	*488*	*4*

As at 31 December 2005, the amount of impairment write-downs for receivables of subsidiaries and associates amounted to PLN 58,591 thousand (31 December 2004: PLN 57,036 thousand), write-downs for off balance sheet commitments granted amounted to PLN 2 441 thousand (31 December 2004: PLN 265 thousand).

Transactions related to subordinated entities

On 29 December 2004, an agreement on the sale of all the shares of an associated company, Creditreform Polska Sp. z o.o. ("Creditreform"), held by the Bank to Creditreform Frankfurt Emil Vogt KG with its registered office in Frankfurt-am-Mein, Germany. The block of shares sold constituted 49.03% of the capital of Creditreform and the same number of votes in the Meeting of Shareholders of that company. In accordance with the conditions of the agreement, the transfer of ownership of the shares took place in January 2005, at the date of payment of the entire selling price by the buying party.

The following transactions with subordinated undertakings were executed in the period from 1 January 2005 to 31 December 2005:

- On 20 January 2005, the Bank concluded with a subsidiary, Handlowy Inwestycje II Sp. z o.o. ("Inwestycje II"), in which it had shares representing 100% of the issued capital, an agreement concerning the takeover of shares in the raised initial capital of that company. The takeover of shares was covered by a contribution in kind in the form of shares of Mostostal-Zabrze Holding SA ("MZH") constituting 24.60% of the initial capital of that company. The contribution value at which the non-cash contribution was submitted to Inwestycje II was determined as PLN 467,400.00. After the registration of the increase in capital on 4 February 2005, the initial capital of Inwestycje It amounted to PLN 471,400 and is divided into 4,714 shares with a nominal value of PLN 100 each and one vote at the Meeting of Shareholders is attributed to each share. Before the sale of shares, the share held by the Bank represented 34.44% of the initial capital of MZH and authorized the holder to exercise 34.44% of the total number of votes at the General Meeting. As a result of this transaction, the Bank had 9.84% share in the initial capital of MZH and the same percentage of votes at the Company General Meeting.
- On 14 March 2005, the Bank entered into the agreement pursuant to which it sold – to Mr. Zbigniew Opach – 2,357 shares in the subsidiary, Inwestycje II Sp. z o.o. (previously, "Handlowy-Inwestycje II" Sp. z o.o.) ("Inwestyje II"), with the nominal value of PLN 100 each and with total nominal value of PLN 235,700, representing 50% of the initial capital of Inwestycje II and entitling the holder to exercise 50% of votes at the General Meeting. The agreement was entered under the performance of provisions of a conditional agreement of sale of the shares in question for the price of PLN 1,200,000, with the possibility of introducing an adjustment in accordance with the appropriate provisions of the agreement. The book value of shares sold amounted to PLN 2,264,192.13. There are no links between the Bank as well as persons managing or supervising the Bank and the person purchasing the assets.
- Regardless of the transaction described above, the Bank, on 14 March 2005, entered into the agreement pursuant to which it disposed of, for the benefit of Ms. Małgorzata Waniowska, the remaining 2,357 shares in Inwestycje II, with the nominal value of PLN 100 each and with the total nominal value of PLN 235,700, representing 50% of the initial capital of Inwestycje II and entitling the holder to exercise 50% of votes at the General Meeting of Shareholders. The agreement was entered under the performance of provisions of a conditional agreement of sale of the shares in question for the price of PLN 1,200,000, with the possibility of introducing an adjustment in accordance with the appropriate provisions of the agreement. The book value of shares sold amounted to PLN 2,264,192.13. There are no links between the Bank as well as persons managing or supervising the Bank and the person purchasing the assets.

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

- On 2 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 shares were sold on 2 February 2006 after having satisfied the qualifying conditions (see Note 43).
- On 16 October 2005 the Bank reached an agreement with Citibank Overseas Investment Corporation ("COIC"). This agreement obliges the Bank to sell all shares in equity of Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A. and Handlowy Zarządzanie Aktywami SA that are owned by the Bank. The shares were sold on 2 February 2006 after having satisfied the qualifying conditions (see Note 44).
- On 29 November 2005 the last suspensory condition that was reserved in the Agreement of Sale of Shares on 22 November 2005 between the Bank and Copernicus Finance Limited (a limited company based on English law with its headquarters in Leeds, UK – (The Purchaser) was fulfilled. On the basis of this Agreement the Bank sold 2,916 shares of KP Konsorcjum Sp. z o.o. with its headquarters in Warsaw to the Purchaser. Each share amounted to 50 PLN and the total value of the shares amounted to PLN 145,800 representing 49.9% of KP Konsorcjum equity. The sale price was 8,000,000 PLN. Before the sale, the Bank owned 2,916 shares of KP Korsorcjum constituting 49.99% in share capital that entitled to 2,916 votes on the Partners Meeting. Now, the Bank doesn't hold any shares of KP Konsorcjum. There are no relations between the Bank and persons who manage and supervisor the Bank and the Purchaser and person that manage the Purchaser.
- On 30 November 2005 the Handlowy Investments SA ("HI") with its headquarters in Luxembourg (subsidiary entity of the Bank) acquire by redemption of shares of NFI Fund Holding PCC Ltd. (associated company of HI) 3,002,000 shares of Narodowy Fundusz Investycyjny Magma Polonia S.A. (NFI Magma) representing 9.99% in equity and votes at general meeting. HI didn't hold any shares of NFI Magma before acquire.
- On 2 December the Extraordinary Meeting of Partners of Citileasing Sp. z o.o. and the Extraordinary General Meeting of Handlowy Leasing S.A., subordinated entities of the Bank, adopted a resolution concerning their merger. The merger was completed on 10 January 2006 (see Note 43).
- On 16 December the Court decided to cross off Polskie Towarzystwo Emerytalne DIAMENT SA under liquidation from the National Court Register. The General Meeting approved the liquidation in resolution on 23 June 2003. Before the liquidation the Bank owned 79.27% of share capital of the entity. The bank was entitled to 79.27% votes on the general meeting.

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

In thousands of PLN	31.12.2005			31.12.2004		
	Employees	Members of the Management Board	Members of the Supervisory Board	Employees	Members of the Management Board	Members of the Supervisory Board
Loans, advances and other receivables						
Loans granted	78,337	873	-	69,928	843	67
Staff benefits	39,209	-	-	39,581	-	-
Prepayments	154	1	-	104	-	-
	117,700	**874**	**-**	**109,613**	**843**	**67**
Deposits						
Current accounts	22,356	83	948	23,603	74	34
Term deposits	42,402	2,490	515	56,655	905	282
	64,758	**2,573**	**1,463**	**80,258**	**979**	**316**
Guarantees issued	367	-	-	1,133	318	-

42. Employee benefits

Employee benefits are divided into the following categories:

- short-term benefits, which include salaries, social insurance contributions, paid leave and benefits in kind (such as medical care, company apartments, company cars and other free or subsidized benefits). The costs of short-term benefits are expensed in the profit and loss account in the period to which they relate. At the end of a given reporting period, if there is a balance payable which equals the expected undiscounted value of short-term benefits for that period, the Group will record it as an accrued expense.
- benefits after termination of employment – including severance pay (see Note 2) and pension plans presented below offered by the Group to its staff.

  A provision is created for future pension severance pay that is shown in the balance sheet in other liabilities. The provision is calculated by an independent actuary in accordance with IFRS rules. The Group's pension plan is a pre-determined-premium program in accordance with IAS 19. The Group pays contributions for its staff to a separate organization and, after they are paid, has no other payment liabilities. Premiums are shown as employee benefit expenses when paid.

  Description of Employee Pension Plan

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

- other long-term employee benefits – jubilee and other long service awards. Information about jubilee awards are described in Note 2. These are paid under a pre-determined benefit scheme and their valuation is carried out by an independent actuary in accordance with IAS 19.
- employee equity benefits – in the form of stock options granted on Citigroup common stock and also under stock award programs based on shares of Citigroup common stock in the form of deferred stock. Valuation and presentation principles of these programs is described in Note 2. Detailed information concerning the employee equity benefits are presented in the further part of this note.

Provisions for the above employee benefits are as follows:

In thousands of PLN	31.12.2005	31.12.2004
Provision for remuneration	90,796	75,288
Provision for employees' retirement and jubilee payments	48,942	27,981
Provision for employees' equity compensation	27,748	21,942
Provision for personnel restructuring expense	10,501	6,307
	177,987	**131,518**

In 2005, the Group's expenses in respect of premiums for the employee pension plan amounted to PLN 13,590 thousand (in 2004: PLN 12,263 thousand).

In 2005, the average number of employees in the Group was 5,591 (in 2004: 5,260).

Description and principles of employee stock benefits

The Group's employees are entitled to participate in Citigroup equity compensation plans. In accordance with these plans the Group's employees may receive awards under stock option programs based on stock options granted on Citigroup common stock and also under stock award programs based on shares of Citigroup common stock in the form of deferred stock.
Within the framework of the SOP, eligible employees receive options to buy stock at the NYSE closing price as of the date directly preceding the award grant date. Employees acquire the right to a portion of their options on each anniversary of their SOP award allocation date. Options may be exercised by purchases of stock or settlements in cash of a difference between the striking price and the current market price in the period from the acquisition date of the right to an option to the expiry date of the option.

Within the framework of the CAP, eligible employees receive so-called "deferred shares" of Citigroup. Deferred shares within the framework of the CAP are granted at the NYSE closing price on the business day prior to the grant date. Deferred shares give the right to dividends, but without voting rights, and must not be sold prior to their conversion into stocks. Deferred shares are converted into stocks after the end of a period that is determined in the Program Rules, which commences on the CAP award allocation date, provided, however, that an eligible employee is still with Citigroup.

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

Assumptions of valuation of the employee equity benefit programs

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

SOP Program	Grant date	Exercise price/ stock price at grant date	Number of eligible employees	Number of options/shares
(1)	13.02.2002	42.11 or 41.90	347	145,813
(2)	12.02.2003	32.05	373	111,106
(3)	05.01.2004	49.00	1	474
(4)	20.01.2004	49.50	131	81,925
(5)	28.01.2004	50.07	1	307
(6)	17.02.2004	49.49	1	3,000
(7)	18.03.2004	50.82	1	77
(8)	30.03.2004	51.32	1	320
(9)	15.09.2004	47.19	1	129
(10)	18.01.2005	47.50	7	6,131
(11)	30.09.2005	45.36	1	2,000

SOP Program	Grant date	Exercise price/ stock price at grant date	Number of eligible employees	Number of options/shares
(1)	12.02.2003	24.70-32.93	17	23,862
(2)	20.01.2004	37.27-49.69	29	24,641
(3)	18.01.2005	47.95	231	87,984
(4)	15.02.2005	49.25	1	5,850
(5)	15.11.2005	48.24	1	3,109

Program	SOP	CAP
Period to acquire the title (in years)	(1) 20% after the each of the following years (2)-(11) 33.33% after the each of the following years	(1)-(2) after 3 years (3)-(5) 25% after the each of the following years
Expected variances	15.27%	15.27%
Life cycle of the instrument	(1)-(11) – year from the moment of rights acquisition	In the moment of rights acquisition
Risk free interest rate (for USD)	4.32%	4.32%
Expected dividends (in USD per one share)	1.76	1.76
Probability of premature termination of employment (annual staff turnover for awarded employees)	7%	7%
Fair value of one instrument* (in USD)	1.34 - 16.48	48.53

**Varies depending on the date of exercise.*

Options – volumes and weighted-average strike prices:

	31.12.2005		31.12.2004	
	Number ('000)	Weighted average strike price	Number ('000)	Weighted average strike price
At the beginning of the period	531,887	40.11	548,670	37.61
Allocated in the period	8,131	46.97	120,646	49.50
Redeemed in the period	188,736	39.32	137,429	34.68
Expired in the period	-	-	-	-
At the end of the period	351,282	40.86	531,887	40.11
Exercisable at the end of the period	227,852	38.74	154,692	37.93

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

31.12.2005			31.12.2004		
Striking price range (in USD)	Number ('000)	Weighted average period to the end of life cycle	Striking price range (in USD)	Number ('000)	Weighted average period to the end of life cycle
42.11	145,395	1.53	43.79	5,361	0.52
41.90	418	1.53	42.11	208,525	1.65
32.05	111,106	1.03	41.90	2,033	1.65
49.00	474	1.51	32.05	195,321	1.53
49.50	81,925	1.55	49.50	120,645	2.55
50.07	307	1.57	-	-	-
49.49	3,000	1.63			
50.82	77	1.72			
51.32	320	1.75			
47.19	129	2.20			
47.50	6,131	3.06			
45.36	2,000	3.72			

43. Subsequent events

On 10 January 2006 Citileasing Sp. z o.o. (Bidding Company) and Handlowy – Leasing S.A. (Target Company), subordinated entities of the Bank, merged in accordance with the resolution (signed on 2 December 2005) of the Extraordinary Meeting of Partners of Citileasing Sp. z o.o. and the Extraordinary General Meeting of Handlowy Leasing S.A. The entire assets of the Target Company were transferred to the Bidding Company without increasing the equity of the Bidding Company because the Bidding Company holds all the shares of Target Company. The Bidding Company operates under the firm Handlowy - Leasing Sp. z o.o. The Bank and Handlowy-Inwestycje Sp. z o.o. hold shares in Handlowy – Leasing Sp. z o.o. The Bank holds all shares in Handlowy – Inwestycje Sp. z o.o. The Bank holds 97.47% of shares – 6,000 votes at Meeting of Partners. Handlowy – Inwestycje holds 2.53% of shares – 156 votes at Meeting of Partners. The Target Company used purchased assets to conduct lease activity. The Bidding Company is going to use these assets in the same way.

On 31 January 2006 in aid of Cardpoint SA, with its headquarters in Poznań, the Bank completed the sale of financial and separate tangible and intangible assets representing an organized part of the Bank's enterprise that consists of card's transaction settlements with the Consumer Banking Sector. The Bank rents POS terminals and provides service as a settlement agent in accordance with the Electronic Payment Instruments Act of 12 September 2002. The sale of the entity resulted from the sale agreement of 29 November 2005. The Extraordinary General Meeting of the Bank agreed on the sale of an organized part of the Bank's enterprise in the resolution of 22 December 2005.

On the basis of the agreement signed on 16 November 2005 between the Bank and Citibank Overseas Investment Corporation ("COIC") the subordinated entity of Citigroup Inc, that obliges the Bank to sell all owned shares in the share capital of Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A. and Handlowy Zarządzanie Aktywami S.A. ("the Company") in aid of COIC or the advisable entity (Legg Mason or its associate could be the only advisable entity), the disposal agreements of Companies' shares were signed. On 1 February 2006 the Bank and Legg Mason Inc. ("the Purchaser") signed the disposal agreement of the Companies' shares.

On the basis of this agreement the Bank transferred the ownership of the following shares in aid of the Purchaser:

- 130,000 of ordinary shares of Towarzystwo Funduszy Inwestycyjncych Banku Handlowego S.A. with its headquarters in Warsaw ("TFI") constituting PLN 100 of nominal value by each share. The total nominal value amounted to PLN 13,000,000 constituting 100% of its share capital. The registered value of the sold shares of TFI on the transaction date amounted to PLN 42,000,000.
- 5,000 of ordinary shares of Handlowy Zarządzanie Aktywami S.A. with its headquarters in Warsaw ("HANZA") constituting PLN 1,000 of nominal value by each share. The total nominal value amounted to PLN 5,000,000 constituting 100% of its share capital. The registered value of the sold shares of HANZA on the transaction date amounted to PLN 5,000,000.

The sale price of the Companies' shares amounted to USD 44,550,000 that represents PLN 139,927,095 in accordance with the exchange rate set on 1 February by Central Bank of Poland. There are no relations between the Bank and persons who manage and supervise the Bank and the Purchaser and person who manage the Purchaser. As a result of the sale the Bank doesn't hold any shares in the Companies.

On the basis of the preliminary sale agreement of 2 November 2005 the Bank and Handlowy-Inwestycje Sp. z o.o. (a subsidiary of the Bank) ("HI") and ING Commercial Finance B.V with its headquarters in Amsterdam, Holland ("the Purchaser") signed on 2 February 2006 the sale agreement. On the basis of this agreement the Bank and HI by the agency of Dom Maklerski Banku Handlowego S.A. transferred all owned shares in the share capital of Handlowy-Heller S.A. with its headquarters in Warsaw ("the Company") in aid of the Purchaser. The subject of the contract was 111,880 A series shares and 388,120 B series shares each of PLN 10 of nominal value and representing 50% in the share capital of the Company.

The Bank transferred 111,880 A series shares and 138,119 B series shares each of PLN 10 of nominal value. These shares constitute approximately 25% in the share capital of the Company and at General Meeting. On the transaction date the value of the shares sold in the Bank's balance sheet amounted to PLN 2,751,738.99, whereas in HI's balance sheet they amounted to PLN 8,056,435.22

HI (a subsidiary of the Bank) transferred 250,001 of shares of B series constituting PLN 10 of nominal value by each share. These shares constituting approx. 25% in share capital of the Company and at General Meeting. The sale price amounted to PLN 5,800,000 EUR. Transferable shares are long-term capital placement of the Bank. There are no any relations between the Bank and persons who manage and supervisor the Bank and the Purchaser and person that manage the Purchaser. As a result of the sale the Bank and its subsidiaries didn't hold any shares in the Companies. On 16 March in National Court Register the new name of the company was registered – ING Commercial Finance Polska S.A.

On 27 February 2006 the Extraordinary Supervisory Board of Bank Handlowy w Warszawie SA appointed Mr. Krzysztof Opolski to the position of member of the Supervisory Board and made changes in the Bank's statute.

44. Risk management

Derivative instruments

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

Detailed financial data related to derivatives as of the balance sheet date is included in Note 18.

As at 31 December 2004, the Group placed deposits at other institutions as collateral against derivative transactions amounting in total to PLN 18,687 thousand (31 December 2004: PLN 215,578 thousand), and for derivative transactions, the Group received collateral totalling PLN 6,072 thousand (31 December 2004: PLN 8,116 thousand).

Forward and swap FX contracts

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

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

Currency option contracts

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

Interest rate contracts

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

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

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

Interest rate option contracts

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

Securities term contracts

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

Share options

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

Futures contracts

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

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

Commodities derivatives

The Bank enters into commodity derivative transactions, especially related to metal prices. These transactions are based on the prices quoted on the London Metal Exchange (LME). The Group enters into the following transactions with its customers: forwards, swaps and, options. For example, the commodity swap transactions enable to offer a fixed base price and obtaining an average market price of the commodity in the month of the settlement. Some derivatives that are offered by the Group are zero-cost option structures, for example collar.

Market risk

The Group manages market risk in line with principles and procedures approved by the Assets and Liabilities Committee and the Management Boards of the Bank and leasing subsidiaries as well as the President of the Management Board of the brokerage subsidiary. The rules reflect the requirements of the Polish supervisory bodies and correspond to the principles followed in Citigroup. Management of market risk comprises two core risk areas: liquidity risk and pricing risk.

Liquidity risk is defined as the risk of the Group failing to meet the financial obligations due to its customers and partners.

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

Liquidity risk management

Measurement and mitigation of the liquidity risk

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

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

The liquidity gap as at 31 December 2005 in real terms:

In thousands of PLN	Up to 1 month	1 to 3 months	3 months to 1 year	More than 1 year	More than 2 years
Assets	5,310,538	154,162	1,598,428	58,703	26,937,066
Equity and liabilities	4,562,722	51,724	1,093,807	19,242	28,331,402
Balance sheet gap in the period	747,816	102,437	504,621	39,462	(1,394,336)
Off-balance sheet transactions • inflows	11,400,102	3,041,978	12,306,679	750,556	6,274,774
Off-balance sheet transactions • outflows	11,411,060	3,070,677	12,505,879	722,639	6,317,725
Off-balance sheet gap in the period	(10,958)	(28,699)	(199,200)	27,917	(42,951)
Cumulative gap	736,858	810,596	1,116,017	1,183,395	(253,892)

The liquidity gap as at 31 December 2004 in real terms:

In thousands of PLN	Up to 1 month	1 to 3 months	3 months to 1 year	More than 1 year	More than 2 years
Assets	5,491,242	664,018	831,002	40,789	28,347,407
Equity and liabilities	3,631,512	82,266	804,627	125,328	30,730,725
Balance sheet gap in the period	1,859,730	581,752	26,375	(84,539)	(2,383,318)
Off-balance sheet transactions • inflows	16,339,815	7,045,382	14,072,942	1,512,305	1,177,410
Off-balance sheet transactions • outflows	16,220,019	6,963,804	14,243,544	1,774,623	1,115,629
Off-balance sheet gap in the period	119,795	81,578	(170,602)	(262,318)	61,782
Cumulative gap	1,979,525	663,331	(144,227)	(346,856)	(2,321,536)

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

In thousands of PLN	31.12.2005	31.12.2004	Change
Liquid assets, including:	9,977,915	7,857,725	2,120,190
• obligatory reserve in NBP and cash surplus	773,417	902,772	(129,355)
• debt securities held--for-sale	2,293,314	1,236,291	1,057,023
• debt securities available-for-sale	6,911,184	5,718,662	1,192,522
Cumulative liquidity gap up to 1 year	1,115,952	2,498,689	(1,382,737)
Coverage of the gap with liquid assets (in %)	Positive gap	Positive gap	Non related

The liquidity analyzes relate to the Bank and its leasing subsidiaries. The level of liquidity risk of other entities in the Group is immaterial for the Group as whole.

Pricing risk management

Scope

Pricing risk management applies to all portfolios where income is exposed to the adverse effect of market factors, such as interest rates, foreign exchange rates, share prices, prices of mass commodities and the volatility parameters of these factors. In managing the pricing risk, two type of portfolios are identified: trading and banking. Trading portfolios cover transactions in financial instruments (balance sheet and off-balance sheet) the purpose of which is to achieve income related to the change of the market parameters within a short period. Trading portfolios are valued at market prices. The Treasury Department conducts operations on the trading portfolios comprising portfolios involving interest rate risk and foreign exchange risk. Banking portfolios comprise all the remaining balance sheet and off-balance sheet items not included in the trading portfolios. The purpose of concluding these transactions is to achieve results over the entire contractual transaction period. The Treasury Department manages the interest rate risk from the banking portfolios of all business units of the Group. The mechanism of transferring the interest rate risk is based on an internal transfer pricing system where the Treasury Department takes over the risk to the extent in which it may be hedged through transactions on money and capital markets. The interest rate risk, which cannot be directly hedged through market transactions (e.g. the interest margin risk for products with rates managed by a given business unit and not directly related to the level of market interest rates). The risk is referred to as the residual risk. The calculation of the result on banking portfolios is performed using the accruals method – amortized cost – described in Note 2.

The Bank's balance sheet contains the following assets and liabilities:

- Fair value risk (connected with interest rate risk):
  - Debt securities with fixed rate and discount securities;
  - Loans and deposits with fixed rate.
- Cash flow risk (connected with interest rate risk):
  - Debt securities with variable rate;
  - Loans and deposits with variable rate.
- Not subject to interest rate risk:
  - Fixed assets;
  - Equity investments;
  - Intangible assets.

Measurement of the banking portfolios pricing risk

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

- Interest Rate Exposure method
- Value at Close method.

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

The interest rate gap of balance exposures that belong to the banking portfolio are presented in the tables below. The tables are presented for the main currencies: PLN, USD, EUR. These currencies represent over 90% of the Group's balance sheet.

Presentation of interest rate gap for balance exposures nominated in PLN:

In million PLN	With revaluation date					Non-interest bearing	Total
	till 1M	1M - 3M	3M - 1Y	1Y - 5Y	over 5Y		
Cash and balances with central bank	1,851	503	22	240	-	-	2,616
Receivables from other bank's	1,433	17	36	-	-	-	1,486
Receivables from customers - loans	3,678	1,058	641	853	5	-	6,235
Debt securities available-for-sale							
Treasury bills	14	15	11	-	-	-	40
Treasury bonds*	172	994	250	375	1,486	-	3,277
Other assets	-	-	-	-	-	4,577	4,577
Total assets	**7,148**	**2,587**	**960**	**1,468**	**1,491**	**4,577**	**18,231**
Due to banks	1,222	20	1,064	-	-	-	2,306
Due to non - banking customers	11,693	382	661	1,794	5	-	14,535
Own funds	-	-	-	-	-	5,166	5,166
Other liabilities	-	-	-	-	-	1,686	1,686
Total liabilities	**12,915**	**402**	**1,725**	**1,794**	**5**	**6,852**	**23,693**
Gap	**(5,767)**	**2,185**	**(765)**	**(326)**	**1,486**	**(2,275)**	**(5,462)**

Presentation of interest rate gap for balance exposures nominated in USD:

In million PLN	With revaluation date					Non-interest bearing	Total
	till 1M	1M - 3M	3M - 1Y	1Y - 5Y	over 5Y		
Cash and balances with central bank	(10)	-	-	-	-	-	(10)
Receivables from other bank's	788	77	1,540	476	47	-	2,928
Receivables from customers - loans	192	72	47	42	16	-	369
Debt securities available-for-sale							
Treasury bonds*	7	-	62	640	369	-	1,078
Other assets	-	-	-	-	-	119	119
Total assets	**977**	**149**	**1,649**	**1,158**	**432**	**119**	**4,484**
Due to banks	24	13	-	-	-	-	37
Due to non - banking customers	1,202	163	196	650	11	-	2,222
Other liabilities	-	-	-	-	-	112	112
Total liabilities	**1,226**	**176**	**196**	**650**	**11**	**112**	**2,371**
Gap	**(249)**	**(27)**	**1,453**	**508**	**421**	**7**	**2,113**

Presentation of interest rate gap for balance exposures nominated in EUR:

In million PLN	With revaluation date					Non-interest bearing	Total
	till 1M	1M - 3M	3M - 1Y	1Y - 5Y	over 5Y		
Cash and balances with central bank	(106)	-	-	-	-	-	(106)
Receivables from other bank's	1,242	19	50	58	-	-	1,369
Receivables from customers - loans	958	177	18	85	8	-	1,246
Debt securities available-for-sale							
Treasury bonds*	52	-	314	41	529	-	936
Other assets	-	-	-	-	-	104	104
Total assets	**2,146**	**196**	**382**	**184**	**537**	**104**	**3,549**
Due to banks	99	100	3	67	17	-	286
Due to non - banking customers	1,914	45	52	521	2	-	2,534
Other liabilities	-	-	-	-	-	75	75
Total liabilities	**2,013**	**145**	**55**	**588**	**19**	**75**	**2,895**
Gap	**133**	**51**	**327**	**(404)**	**518**	**29**	**654**

**contains Polish treasury bonds nominated in PLN and foreign currencies and treasury bonds of OECD countries*

Measurement of the trading portfolios pricing risk

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

The Value at Risk ("VAR") is the measure of the pricing risk of the trading portfolios which links the effect of the items in various risk factors and takes account of the correlation between the volatility of the individual factors.

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

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

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

- the most probable, based on historical volatility of risk factors;
- local financial crisis;
- global financial crisis.

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

- critical cumulative monthly loss on the portfolio;
- aggregate contracts limit;
- maximum tenor;
- concentration limits in the case of debt securities and owner securities.

The level of risk determined using VAR, categorized by foreign exchange risk and interest rate risk items during 2005 is shown in the table below:

	31.12.2005	31.12.2004	In the year ending 31.12.2005		
			Average	Maximum	Minimum
Foreign exchange risk	209	304	1,317	6,589	86
Interest rate risk	4,634	5,742	6,891	12,482	3,981
Total risk	**4,611**	**5,807**	**7,095**	**13,347**	**4,095**

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

Equity instruments risk

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

Effective interest rate

The amounts below present the weighted averages of effective interest rate for receivables and liabilities of each segment of the Group.

As at 31 December 2005:

	Corporate and Investment Bank			Consumer Bank			CitiFinancial		
	PLN	EUR	USD	PLN	EUR	USD	PLN	EUR	USD
ASSETS									
Receivables from financial and non-financial sector									
• term	5.9	4.21	4.13	21.59	-	-	30.80	-	-
Debt securities	4.83	2.87	3.26	-	-	-	-	-	-
LIABILITIES									
Liabilities to financial and non-financial sector									
• term	4.33	2.05	4.19	3.17	1.30	2.16	-	-	-

From 1 January 2005 financial instruments are valued at amortized cost by using the effective interest rate. The Bank did not restate the comparable data.

Currency structure

The currency structure of the Group's assets and liabilities in core currencies was as follows:

In thousands of PLN	31.12.2005	31.12.2004
Assets:		
PLN	24,282,617	24,129,433
EUR	3,666,436	3,043,947
USD	4,474,889	6,045,413
GBP	136,257	139,102
CHF	312,461	429,386
Other currencies	42,842	292,325
	32,915,502	**34,079,606**
Liabilities:		
PLN	27,307,943	28,366,978
EUR	3,025,688	2,647,169
USD	2,316,092	2,644,959
GBP	182,900	141,865
CHF	47,665	139,505
Other currencies	35,214	139,130
	32,915,502	**34,079,606**

Credit risk management

By decision of the Bank's Management Board dated 11 May 2005, the Risk Management Head is authorized to assign responsibility for risk management control functions. The Bank's Management Board also delegated other Credit Policy Committee functions per the Bank's credit policy manuals.

Additional risk regulations may be issued in the form of the Credit Instructions for Corporate Banking, Financial Institutions, Public Sector and Restructuring as well as in Credit Programs.

Corporate & Investment Banking risk management include the following elements:

- independent position of risk managers while business managers are also responsible for the quality of loan portfolio;
- each credit decision has to be taken by at least two authorised persons. Larger loans, carrying higher risk, require approval from more senior persons of authority;
- Independent Audit Department regularly inspects all activities related to risk management;
- each borrower is assigned a rating, based both on financial and quality criteria. Risk ratings help the Group to ensure that the credit portfolio as a whole is at an acceptable risk level;
- each customer of the Group is assigned to a control unit that manages the relationship with the customer. Where customers are part of a capital group, the risk is managed on a group basis to avoid exceeding concentration limits;
- the Group manages risk concentration within its portfolio with approved limits as well as capital requirements for the portfolio. Credit risk limits are set for individual obligors;
- the Group defined principles for periodic monitoring of customers' results from their activities and identification of negative changes in their standing which require immediate communication to upper level management. This also includes opinions of specialised restructuring units.

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

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

Concentration of exposure

Exposure limits

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

As of 31 December 2005, the Group had an exposure to a related party from the banking sector exceeding the statutory debt concentration limits. The excess exposure arose by virtue of derivative transactions. As a consequence, an additional capital requirement for excess exposure was factored into the calculation of the Group's capital adequacy ratio as of 31 December 2005.

The Group sets out to limit its exposure to a group of customers. As of 31 December 2005, the Group's exposure in banking portfolio transactions with customers, which exceeded 10% of the Group's equity, amounted to PLN 2,542,206 thousand i.e. 79% of these funds (31 December 2004: PLN 1,039,804 thousand i.e. 25.2%).

Concentration of exposure of 10 biggest customers of the Group (non-banking)

In thousands of PLN	31.12.2005			31.12.2004		
	Balance Outstanding*	Off-Balance Outstanding	Total Outstanding	Balance Outstanding*	Off-Balance Outstanding	Total Outstanding
Group 1	257,342	286,903	544,245	153,408	356,680	510,088
Group 2	209,183	261,334	470,517	177,863	351,853	529,716
Customer 3	241,396	160,000	401,396	66	-	66
Customer 4	-	400,000	400,000	1	-	1
Group 5	1,019	376,112	377,131	3	8,251	8,254
Group 6	234,461	113,661	348,122	23,335	159,479	182,814
Group 7	80,181	203,465	283,646	127,672	164,898	292,570
Group 8	200,050	72,682	272,732	83,846	82,957	166,803
Group 9	38,848	212,455	251,303	3,801	227,468	231,269
Group 10	70,477	177,706	248,183	15,780	110,076	125,856
Total	**1,332,957**	**2,264,318**	**3,597,275**	**585,775**	**1,461,662**	**2,047,437**

**Excluding outstanding on commercial papers and subsidiaries.*

Concentration of exposure in individual industries

To avoid excessive concentration of credit risk, the Group monitors its exposure in individual industry sectors, defining the areas where the Group's exposure should grow and the areas where opportunities for development are poor, and where the exposure should be reduced. In the case of large corporate customers and financial institutions, the divisions of the Bank responsible for its policy concerning exposures to particular sectors are those of the Corporate Bank while the Commercial Bank exercises a similar function with respect to small and medium-sized enterprises.
The Bank's policy regarding exposures to large corporate customers active in particular sectors is developed through an identification of target markets. A key component in this identification of markets is an assessment of industry risk. To this end, specialists in particular industries carry out industry analyses. Within the framework of the target markets specified, lending programmes are drawn up with documented requirements for approving the risk involved in specific kinds of business. The higher the industry risk, the tighter the criteria for risk approval. The assessment made of the financial condition of a given industry and its development prospects is a major element in the internal rating assigned to a customer.

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

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

- industries excluded in view of their incompatibility with the characteristics of small and medium enterprises,
- industries excluded in view of their sensitivity to market factors and earnings volatility,
- industries excluded in view of their declining trends in performance.

The target market is then defined as all other industries that have not received an adverse assessment. A selective approach is admissible in relation to specific industries excluded due to sensitivity and volatility factors or to downward performance trends, whereby those customers with the highest internal ratings in those industries are retained. Given there is a large diversity of customers representing the individual industries, the table below shows aggregated data for the Bank's exposure to the 20 largest industries in particular reporting periods.

Sector of the economy according to Polish Classification of Economic Activity (PKD)	31.12.2005	31.12.2004
	%	%
Wholesale and sale on commission basis, except for trade with vehicles and motorcycles	16.6	20.6
Provision of power, gas, steam and hot water	9.2	9.0
Financial intermediation, except for insurance and retirement fund business	7.4	8.2
Production of food and beverages	6.6	7.0
Production of chemicals	5.3	3.9
Retail sale, except for sale of vehicles and motorcycles; repairs	3.7	2.4
Construction	3.3	3.8
Manufacture of pulp, manufacture of paper & paperboard	2.9	0.9
Sale, servicing and repair of vehicles and motocycles, retail sale of car fuel	2.7	3.2
Production of vehicles, trailers and semi-trailers	2.7	2.0
Top 10 business sectors	**60.4**	**61.0**
Production of equipment, otherwise unclassified	2.4	3.8
Production of rubber and plastic goods	2.4	2.3
Production of other transportation equipment	2.2	2.8
Non-life insurance and pension funding	2.2	0.1
Production of coke, oil refinery and fuel	2.1	2.2
Other business services	2.0	2.6
Postal services and telecommunications	2.0	3.5
Production of furniture; otherwise unclassified	1.8	2.2
Transportation and sanitary services	1.7	1,6
Production of goods out of other non-metallic resources	1.6	1.5
Top 20 business sectors	**20.4**	**22.6**
Other sectors	**19.2**	**16.4**
	100.0	**100.0**

The Group operates exclusively in the territory of Poland. No significant connection between the location of the Group's business outlets and credit risk was identified. Therefore, it was decided that the Group would not present credit risk information by geographical segment.

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events.

In recent years operational risk has been managed by the Group using various tools and techniques (primarily through self assessment, checklists, limits, continuity of business plans). Following developments of the Basel Committee recommendations as well as issuance of Recommendation M by Banking Supervisory Commission the Group has strengthened qualitative as well as quantitative measures over operational risk.

Key operational risk management principles as well as roles and responsibilities of different management levels have been formalized in the "Operational Risk Policy". The Business Risk, Control and Compliance Committee is responsible for ongoing monitoring of the Group's operational risk. Issues, events and indicators pertaining to operational risk are being regularly reported to this Committee. At the same time the management of risks (including the self assessment process) within the Group's organizational units are subject to rated internal audit review.

As part of operating losses analysis the following categories are captured:

- Losses resulting from employees' mistakes (transaction capture, execution and maintenance);
- Losses resulting from external fraud and theft;
- Losses resulting from systems and technology flaws.

The overall risk level is assessed as medium, which is consistent with the scale of the Group's operations.

45. Explanation of transition to IFRS

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

The accounting principles and standards that are presented in Note 2 were used to prepare the financial statements for the twelve months period to 31 December 2005. The same principles excluding IAS 32 "Financial Instruments: Recognition and Presentation" and for IAS 39 "Financial instruments: Recognition and Measurement" are applied to comparable data for the corresponding period of the previous financial year ending as at 31 December 2004 as well as to prepare the opening balance sheet in accordance with IFRS as at 1 January 2004 – i.e. the date of implementation of the new standards by the Group. For IAS 32 and IAS 39 the Group chose the option not to convert comparable data. 1 January 2005 is the day of transition for IAS 32 and IAS 39.

The annual financial statements of the Group that were published in prior years were prepared in accordance with Polish GAAP.

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

- Goodwill recognized in the Group's financial statements prepared at the date of the implementation of IFRS results from a takeover to which IFRS 3 (Business Combinations) was not applied retrospectively. As a result, the amount of goodwill was defined in accordance with previous accounting standards, as of the date of transition to IFRS. As at 1 January 2004 and as at 31 December 2004, goodwill was tested for impairment. The test did not show a necessity of recording an impairment write-down.
- The Group adopted the revaluation of tangible fixed assets performed previously in line with the previously applied GAAP as a deemed cost.

As mentioned in Note 2, the Group adopted early IFRS 2 (Share-based Payment) in respect of equity programs offered to the Group's employees as part of the Citigroup equity benefits.

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

Adjustments introduced respectively:

- Reversal of amortization of goodwill. As of 1 January 2004, as required by IFRS, the Group ceased to make write-downs of goodwill, and replaced them with the impairment test.
- Recognition of revaluation reserve concerning the revaluation of tangible fixed assets in accordance with previous accounting standards through retained earnings.

With the exception of the above-mentioned adjustments other comparable financial data for 2004 has been prepared in accordance with previous PAS.

Adjustments introduced as of 1 January 2005 (application of IAS 32 and IAS 39):

- In accordance with IAS 40, the Group selected the fair value model for identified investment property. The positive difference between the fair value of a given property and its carrying value at the moment of identification has been recorded in retained earnings.
- Change in the definition of the direct acquisition costs of obtaining financial instruments – the costs which qualify for deferral according to IFRS differs from the definition previously applied by the Group. As a result, as at 1 January 2005, the Group adjusted the deferral of costs for the portion which does not meet the IFRS requirements through retained earnings.
- Beginning from 1 January 2005, the Group commenced valuation of loans at amortized cost and recognizes interest income on the basis of the effective interest rate. Since previously the commission related to loans and receivables was accounted for on a straight-line basis in profit and loss account, the effect of implementing the effective interest rate on the Group's financial statements should be considered immaterial. In the case of debt securities classified as available-for-sale, an appropriate adjustment where interest income is measured on the basis of the effective rate of securities has been introduced. The straight-line method that was used before IFRS implementation is not applied.
- As at 1 January 2005, the Group assessed amounts receivable for impairment estimated in accordance with IAS 39. At the same time, as mentioned in Note 11, the Group reversed the general risk provision, which did not comply with IFRS, and was recorded on the basis of the banking law and the accounting policies binding in the previous periods.
- In accordance with IAS 19 (Employee Benefits) the Group has recorded a provision for employees' retirement and jubilee payments based on calculations performed by an independent actuary.

Change in scope of consolidation

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., Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A. and PPH Spomasz Sp. z o.o. under liquidation. Previously these entities were valued under the equity method with the exception of PPH Spomasz Sp. z o.o. that was valued at cost. Other subsidiaries are accounted for under the equity method in the consolidated financial statements (see Note 21). The financial data of these entities are very small in relation to the financial data of the Bank – the dominant entity, and immaterial to present a true and fair view of the assets and financial situation as well as the financial results of the Group.

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

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

Consolidated balance sheet as at 1 January 2004

In thousands of PLN	Note	PAS	Extension of consolidation	IFRS adjustment	IFRS
ASSETS					
Cash and balances with central bank		1,186,514	-	-	1,186,514
Financial assets held for trading		4,745,314	-	-	4,745,314
Debt securities available-for-sale		2,723,471	-	-	2,723,471
Equity investments	(b)	39,159	(9,187)	-	29,972
Equity investments accounted for under the equity method	(b)	259,340	(184,448)	-	74,892
Loans and advances	(b)	22,273,236	454,306	-	22,727,542
Financial assets held to maturity		70,159	-	-	70,159
Tangible fixed assets	(b)	764,609	9,891	-	774,500
Intangible assets, of which:	(b)	1,295,051	27	-	1,295,078
Income tax assets	(b)	348,282	11,672	-	359,954
Other assets	(b)	329,842	17,085	-	346,927
Total assets		**34,034,977**	**299,346**	**-**	**34,334,323**
LIABILITIES					
Due to central bank		41,145	-	-	41,145
Financial liabilities held for trading		3,651,195	-	-	3,651,195
Financial liabilities at amortized cost	(b)	22,736,285	241,710	-	22,977,995
Provisions	(b)	447,331	20	-	447,351
Income tax liabilities		-		-	-
Other liabilities	(b)	1,211,498	53,052	-	1,264,550
Total liabilities		**28,087,454**	**294,782**	**-**	**28,382,236**
EQUITY					
Share capital		522,638	-	-	522,638
Share premium	(b)	3,068,974	3,199	-	3,072,173
Revaluation reserve	(a)(b)	(13,212)	-	(29,520)	(42,732)
Other reserves		2,082,580	44,835	-	2,127,415
Retained earnings	(a)(b)	286,543	(43,470)	29,520	272,593
Total equity		**5,947,523**	**4,564**	**-**	**5,952,087**
Total liabilities and equity		**34,034,977**	**299,346**	**-**	**34,334,323**

Explanation of adjustments:

a) IFRS adjustment - Transfer of revaluation reserve to retained earnings in relation to the revaluation of tangible fixed assets in accordance with previous accounting standards.

1) Decrease of revaluation reserve	(29,520)
2) Increase of retained earnings	29,520

b) Extension of consolidation

Adjustments that arise from a change in the scope of consolidation on selected balance sheet items and equity that were presented in the previous consolidated financial statements prepared in accordance with PAS.

Consolidated balance sheet as at 31 December 2004

In thousands of PLN	Note	PAS	Extension of consolidation	IFRS adjustment	IFRS
ASSETS					
Cash and balances with central bank		841,114	-	-	841,114
Financial assets held for trading		5,317,395	-	-	5,317,395
Debt securities available-for-sale		6,091,194	-	-	6,091,194
Equity investments	(c)	37,529	(9,442)	-	28,087
Equity investments accounted for under the equity method	(c)	302,681	(216,007)	-	86,674
Loans and advances	(c)	18,512,991	258,304	-	18,771,295
Tangible fixed assets	(c)	713,024	10,847	-	723,871
Intangible assets	(a)(b)(c)	1,237,294	27	72,445	1,309,766
Income tax assets	(c)	223,658	15,256	-	238,914
Other assets	(c)	671,207	89	-	671,296
Total assets		**33,948,087**	**59,074**	**72,445**	**34,079,606**
LIABILITIES					
Due to central bank		718	-	-	718
Financial liabilities held for trading		4,194,290	-	-	4,194,290
Financial liabilities at amortized cost	(c)	21,895,373	32,209	-	21,927,582
Provisions	(c)	217,038	770	-	217,808
Income tax liabilities	(c)	23,509	717	-	24,226
Other liabilities	(c)	1,461,606	14,685	-	1,476,291
Total liabilities		**27,792,534**	**48,381**	**-**	**27,840,915**
EQUITY					
Share capital		522,638	-	-	522,638
Share premium	(c)	3,047,807	29,369	-	3,077,176
Revaluation reserve	(b)	19,651	-	(29,022)	(9,371)
Other reserves	(b)(c)	2,113,356	18,104	(498)	2,130,962
Retained earnings	(a)(b)(c)	452,101	(36,780)	101,965	517,286
Total equity		**6,155,553**	**10,693**	**72,445**	**6,238,691**
Total liabilities and equity		**33,948,087**	**59,074**	**72,445**	**34,079,606**

IFRS adjustments:

a) Reversal of goodwill amortization

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

b) Transfer of revaluation reserve to retained earnings in relation to the revaluation of tangible fixed assets in accordance with previous accounting standards.

1) Decrease of revaluation reserve	(29,520)
2) Decrease of other reserves	(498)
3) Increase of retained earnings	29,520

Explanation of other adjustments:

c) Extension of consolidation

Adjustments that arise from a change in the scope of consolidation on selected balance sheet items and equity that were presented in the previous consolidated financial statements prepared in accordance with PAS.

Impact on retained earnings

1) Impact of reversal of goodwill amortization	72,445
2) Transfer of revaluation reserve to retained earnings in relation to the revaluation of tangible fixed assets in accordance with previous accounting standards	29,520
Total impact	101,965

Consolidated balance sheet as at 1 January 2005

In thousands of PLN	Note	PAS	Extension of consolidation	IFRS adjustment	IFRS
ASSETS					
Cash and balances with central bank		841,114	-	-	841,114
Financial assets held for trading		5,317,395	-	-	5,317,395
Debt securities available-for-sale		6,091,194	-	-	6,091,194
Equity investments	(k)	37,529	(9,442)	-	28,087
Equity investments accounted for under the equity method	(k)	302,681	(216,007)	-	86,674
Loans and advances	(b)(d)(h)(i)(k)	18,512,991	258,304	(97,692)	18,673,603
Tangible fixed assets	(e)(j)(k)	713,024	10,847	31,475	755,346
Intangible assets	(a)(k)	1,237,294	27	72,445	1,309,766
Income tax assets	(b)(d)(e)(g)(k)	223,658	15,256	(4,597)	234,317
Other assets	(b)(j)(k)	671,207	89	(68,298)	602,998
Total assets		**33,948,087**	**59,074**	**(66,667)**	**33,940,494**
LIABILITIES					
Due to central bank		718	-	-	718
Financial liabilities held for trading		4,194,290	-	-	4,194,290
Financial liabilities at amortized cost	(g)(i)(k)	21,895,373	32,209	751,277	22,678,859
Provisions	(d)(i)(k)	217,038	770	(156,935)	60,873
Income tax liabilities	(k)	23,509	717	-	24,226
Other liabilities	(d)(g)(h)(k)	1,461,606	14,685	(764,848)	711,443
Total liabilities		**27,792,534**	**48,381**	**(170,506)**	**27,670,409**
EQUITY					
Share capital		522,638	-	-	522,638
Share premium	(k)	3,047,807	29,369	-	3,077,176
Revaluation reserve	(c)(f)	19,651	-	(26,543)	(6,892)
Other reserves, of which:	(f)(k)	2,113,356	18,104	(498)	2,130,962
Retained earnings	(a)(b)(c)(d)(e)(f)(g)(k)	452,101	(36,780)	130,880	546,201
Total equity		**6,155,553**	**10,693**	**103,839**	**6,270,085**
Total liabilities and equity		**33,948,087**	**59,074**	**(66,667)**	**33,940,494**

Explanation of adjustments:

a) Reversal of goodwill amortization

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

b) Change in definition of the direct acquisition costs of financial instruments

1) Increase of loans and advances	17,111
2) Increase of deferred income tax	5,274
3) Decrease of other assets	(44,873)
4) Decrease of retained earnings	(22,488)

c) Application of effective interest rate and valuation of debt securities available-for-sale at amortized cost

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

d) Impairment

1) Decrease of loans and advances	(234,851)
2) Decrease of accrued interest	(581,465)
3) Decrease of deferred income tax	(8,419)
4) Decrease of provisions	(156,851)
5) Decrease of other liabilities	(715,580)
6) Increase of retained earnings	47,696

e) Valuation of identified investment properties

1) Increase of tangible fixed assets	8,050
2) Decrease of deferred income tax	(1,530)
3) Increase of retained earnings	6,520

f) Transfer of revaluation reserve to retained earnings in relation to the revaluation of tangible fixed assets in accordance with previous accounting standards.

1) Decrease of revaluation reserve	(29,022)
2) Decrease of other reserves	(498)
3) Increase of retained earnings	29,520

g) Other adjustments

1) Increase of other liabilities	412
2) Increase of deferred tax assets	78
3) Decrease of retained earning	(334)

Presentational changes

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

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

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

1) Increase of loans and advances	751,193
2) Increase of financial liabilities valued at amortized cost	751,277
3) Decrease of provisions	(84)

j) Identification of investment properties

1) Increase of tangible fixed assets	23,425
2) Decrease of deferred tax assets	(23,425)

The amount of real estate taken over for debts and reclassified as investments is presented in the note. Moreover, the Bank identified own real estate as investment properties amounting to PLN 23,448 thousand. Investment properties are shown in the "Tangible fixed assets" item.

Explanation of other adjustments:

k) Extension of consolidation

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

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

Assets in respect of deferred income tax

1) Impact of change of definition of the direct costs of obtaining financial instruments	5,274
2) Impact of recognition of receivables' impairment	(8,419)
3) Impact of valuation of identified investment properties	(1,530)
4) Impact of provision for employees' retirement and jubilee payments	78
Total impact	(4,597)

Retained earnings

1) Impact of reversal of goodwill amortization	72,445
2) Impact of change in definition of the direct acquisition costs of financial instruments	(22,488)
3) Application of effective interest rate and valuation of debt securities available-for-sale	(2,479)
4) Impact of recognition of receivables' impairment	47,696
5) Impact of valuation of identified investment properties	6,520
6) Transfer of fixed assets revaluation reserve	29,520
7) Impact of provision for employees' retirement and jubilee payments	(334)
Total impact	130,880

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

In thousands of PLN	Note	PAS	Extension of consolidation	IFRS adjustment	IFRS
Interest and similar income	(b)	1,686,319	40,993	-	1,727,312
Interest expense and similar charges	(b)	(748,842)	(644)	-	(749,486)
Net interest income		**937,477**	**40,349**	**-**	**977,826**
Fee and commission income	(b)	611,407	14,100	-	625,507
Fee and commission expense	(b)	(78,148)	708	-	(77,440)
Net fee and commission income		**533,259**	**14,808**	**-**	**548,067**
Dividend income	(b)	8,984	69	-	9,053
Net income on financial instruments valued at fair value through profit and loss account	(b)	44,571	(80)	-	44,491
Net gain on investment (deposit) securities		36,596	-	-	36,596
Net profit on foreign exchange	(b)	360,349	(4)	-	360,345
Other operating income	(b)	130,652	15,591	-	146,243
Other operating expenses	(a)(b)	(117,858)	(15,312)	72,445	(60,725)
Net other operating income		**12,794**	**279**	**72,445**	**85,518**
General administrative expenses	(b)	(1,287,318)	(24,337)	-	(1,311,655)
Depreciation expense	(b)	(142,834)	(263)	-	(143,097)
Profit/(loss) on sale of tangible fixed assets	(b)	4,214	1,555	-	5,769
Net impairment losses	(b)	(8,676)	6,497	-	(2,179)
Operating income		**499,416**	**38,873**	**72,445**	**610,734**
Share in profits/(losses) of undertakings accounted for under the equity method	(b)	42,818	(31,028)	-	11,790
Profit before tax		**542,234**	**7,845**	**72,445**	**622,524**
Income tax expenses	(b)	(126,102)	(1,459)	-	(127,561)
Net profit		**416,132**	**6,386**	**72,445**	**494,963**

Explanation of adjustments:

a) IFRS adjustment – Reversal of goodwill amortization

1) Decrease of other operating costs	72,445

b) Extension of consolidation

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

Cash flow

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

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

The annual consolidated financial statements for 2005 include changes as compared to the previously quarterly consolidated report for the fourth quarter of 2005, following verification of the financial data. The effect of changes made on the key financial statements captions of the Group is presented in the table below:

In thousands of PLN	31.12.2005
Total assets	
Previously published	32,866,605
Effect of changes	48,897
Total assets after changes	**32,915,502**
Net profit	
Previously published	608,164
Effect of changes	8,220
Net profit after changes	**616,384**
Shareholders' capital	
Previously published	5,256,592
Effect of changes	8,220
Shareholders' capital-after change	**5,264,812**

46. Capital adequacy

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

	31.12.2005	31.12.2004
Total capital requirement	1,744,910	1,700,022
Funds held by the entity, including:	3,191,935	4,268,586
Primary funds (including deductions)	3,399,183	4,414,311
Counterpart funds	(64,554)	19,651
Reductions of the total primary and counterpart funds	142,694	165,376
Capital adequacy ratio (%)	14.63	20.09

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

47. Statement of the Bank's Management Board

Accuracy and fairness of the statements presented

To the best knowledge of the Bank's Management Board, the annual financial data and the comparative data presented in the "Annual Financial Statements of the Capital Group of Bank Handlowy w Warszawie SA 2005" were prepared consistently with the accounting standards in force and reflect the accurate, true and fair view of assets and financial position as well as the financial profit or loss of the Bank. The Consolidated Annual Report on Activities of the Management Board contained in this document is a true representation of the development, achievements and situation (together with a description of the main risks) of the Group in 2005.

Selection of the entity authorized to examine financial statements

The entity authorized to examine financial statements, reviewing the annual financial statements of Bank Handlowy w Warszawie SA, was selected consistently with the legal regulations. This entity along with the registered auditor met the conditions necessary for issuing an impartial and independent opinion on the review, consistently with the respective regulations of the Polish law.

Signatures of all Management Board Members

Date	Name	Position/function	Signature
27.03.2006	Sławomir Sikora	President of Management Board	
27.03.2006	Sanjeeb Chaudhuri	Vice-President of Management Board	
27.03.2006	Witold Zieliński	Vice-President of Management Board	
27.03.2006	Lidia Jabłonowska-Luba	Member of Management Board	
27.03.2006	Michał H. Mrożek	Member of Management Board	

Report on Activities of the Capital Group of Bank Handlowy w Warszawie SA in 2005

Poland's Economy in 2005

Main Macroeconomic Trends

In 2005, Poland's economy developed at a slower pace than in 2004. GDP rose only by 2.1% in the first quarter and although accelerated to 3.7% in the third quarter, it was still below the 5.3% rate generated in 2004.

The slowdown was caused by a weak increase in domestic demand. Despite low interest rates and access to the EU's funds, Polish companies frequently deferred new capital expenditure programs. The surprising decline of investments was combined with a decreasing trend of individual consumption. According to the Central Statistical Office, the consumption growth rate fluctuated around 2% in the first three quarters of 2005, as compared with 3.9% in the previous year. As domestic demand was weak, net exports were the key driver of growth in 2005. Exports were rising constantly faster than imports. The favorable foreign trade trends were fueled by increasing labor productivity, which contributed to the improvement of the competitive strength of Poland's economy.

Even with the slowdown, in 2005 there was a gradual recovery in the labor market. The registered unemployment rate declined to 17.6%, from 19.0% in December 2004. The number of unemployed shrunk by 226,000 (to 2.8 million) during January to December 2005.

The reduction in demand was reflected by a rapid decrease of inflation to 0.7% year on year in December 2005 (4.4% in December 2004). As a result, the CPI was below the floor of the inflation target adopted by the Monetary Policy Council (fixed at 2.5% +/-1 percentage point). The inflation pressure decreased in spite of soaring oil prices in the world markets.

The lower than expected economic growth rate and fading inflation convinced the Monetary Policy Council to cut interest rates by a total of 200 basis points during the year. Consequently, the reference rate was reduced to an all time low of 4.5%. Only the first signs of recovery in the second half of 2005 induced the Council to cease loosening monetary policy further. The decision was also supported by an increasing uncertainty about public finance after the parliamentary elections.

Although interest rates were reduced in 2005, household deposits maintained a clear growth trend. At the end of December 2005, they were higher by 3.5% than in December 2004. This was possible due to the higher wage bill resulting from rising employment. At the same time, loans granted to households increased by 22.8% (year on year), with mortgages leading the way. In 2005, the strong growth of corporate deposits was also sustained (16.7% year on year in December), mainly because of a delay in investment recovery. Simultaneously, growth of corporate loans accelerated to 2.8% year on year in December 2005.

In the first eleven months of 2005, the current account deficit amounted to EUR 3.4 billion, as compared with EUR 7.9 billion in the corresponding period of 2004. The improvement of the balance of payments was boosted by the inflow of funds transferred by the European Union and the outstandingly strong growth of exports (by 16.2% year on year), followed by a moderate increase in imports (11.9%). Positive export trends were observed despite the robust appreciation of Poland's currency.

Money Markets and FX Markets

In 2005, Poland's currency weakened by 9.0% against the euro and strengthened by 5.4% against the U.S. dollar.

In the first half of 2005, a wave of sales of Central Europe currencies negatively affected the zloty. In that period, the Polish currency slumped by 11% to the euro and nearly 15% to the dollar. However, the tide turned in the beginning of May, supported by a heavy inflow of foreign capital to Poland's debt market, and the zloty started to make up the losses. The situation improved significantly in the end of August and at the beginning of September, when a series of hurricanes in the U.S. temporarily weakened the dollar. International capital headed for emerging markets again. Only the fiasco of the coalition talks after the parliamentary elections chased part of foreign investors out of the Polish market.

After the new government was created and sworn in, investors calmed down. The end of the political turbulence diverted their attention to macroeconomic fundamentals, which remained positive during 2005. The zloty rose and soon made up for nearly all the losses caused by the negative impact of political factors.

For bonds, 2005 was a year of falling yields, driven by the Central Bank's interest rate cuts. On an annual basis, yields of Treasury Bonds dropped by nearly 200 basis points on the short end of the curve and by slightly more than 50 basis points for 10-year bonds. Consequently, the shape of the Polish yield curve changed radically, and its slope turned from negative to positive.

The period of prosperity for Polish bonds lasted until the middle of September, when the yield of Poland's securities hit an all time low. The market share of foreign investors in the Polish bonds market also reached a record level of 31.3% (more than PLN 75.5 billion).

In addition, political turbulences after the parliamentary and presidential elections badly hurt the national debt market. A drop in prices of Polish securities was driven by the collapse of the coalition talks between the leading parties (PiS & PO) and fears of a deterioration in public finance. At the end of 2005, the bond market improved following the rising zloty and a significant improvement in the core markets, where the fears of inflation were pushed out by speculation about the forthcoming end of the monetary policy tightening cycle in the U.S.

Capital Market

2005 was a successful year for the stock market. The basic index, WIG, rose by 33.7% from 26,636 at the end of 2004 to 35,600 at the end of 2005. WIG20 (most liquid companies) jumped by 35.4%.

In 2005, the market followed the bull trend that commenced in 2003. At the end of the first quarter, a more than 10% correction was observed, but the next wave of growth started as soon as in the middle of May – it lifted WIG (main index) to its all time high.

The most significant events included the successful IPOs of PGNiG (oil and gas) and Lotos Group (oil), as well as of dozens of smaller companies. At the end of 2004, the Warsaw Stock Exchange traded 230 companies, while a year later this had risen to 255. More foreign companies entered the market. In 2005, their number increased from 5 to 7. Debuting companies significantly expanded stock market capitalization – as of the end of 2005 national companies were valued at PLN 308 billion (i.e. at a level higher by 44% (PLN 214 billion) as of the end of 2004). Total capitalization (including foreign companies) increased from PLN 291.7 billion (end of 2004) to PLN 424.9 billion (end of 2005).

Table 1. Stock exchange indexes – December 31, 2005 and 2004.

Index	2005	2004	change (%)
WIG	35,600.80	26,636.20	33.7
WIG-PL	35,277.70	26,540.10	32.9
WIG20	2,654.95	1,960.60	35.4
MIDWIG	2,207.74	1,730.10	27.6
TECHWIG	844.41	666.30	26.7
WIRR	5,471.33	4,738.60	15.5
NFI	104.30	98.00	6.4
Sector subindexes			
Banks	46,787.80	35,454.40	32.0
Construction	31,007.30	19,014.60	63.1
IT	13,032.90	12,996.50	0.3
Food	25,444.10	23,761.60	7.1
Telecoms	12,382.00	10,242.90	20.9

Source: Warsaw Stock Exchange, Dom Maklerski Banku Handlowego S.A.

Increasing indexes were correlated with investors' activity in the capital market. Turnover in shares rose by 61%, from PLN 109.8 billion in 2004 to PLN 176.9 billion in 2005, following the bullish trend initiated in 2003. Turnover in bonds dropped by 35% and totaled PLN 5.1 billion in 2005 (as compared with PLN 7.8 billion in 2004).

The increasing indexes and the bull trend in the stock market had a very positive impact on turnover in the futures market which in 2005 was 49% higher than in 2004.

Table 2. Turnover in stocks, bonds and in futures on the Warsaw Stock Exchange as of 31 December 2005 and 2004.

	2005	2004	change (%)
Stocks (in millions of PLN)	176 871	109 775	61,1
Bonds (in millions of PLN)	5 059	7 820	(35,3)
Futures (pcs.)	10 757 034	7 218 250	49,0

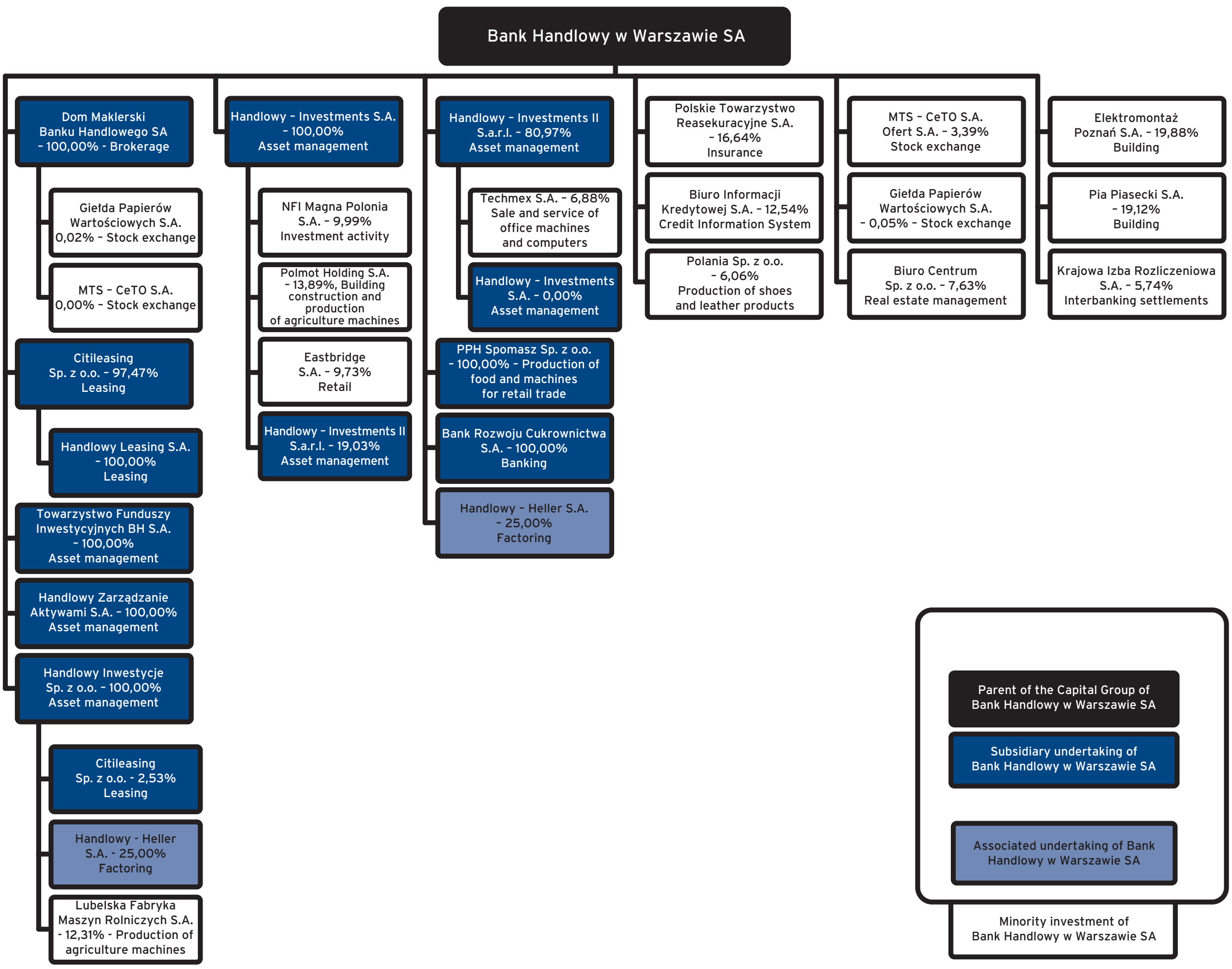
Source: Warsaw Stock Exchange, Dom Maklerski Banku Handlowego S.A.

Banking Sector

In 2005, the net income of the entire banking sector was PLN 8.7 billion, (an increase of PLN 1.4 billion) as compared with 2004. The excellent result reflects the strength of Poland's economy. The profitability of the sector was mainly influenced by an increase in banking activity and lower charges to provisions.
In 2005, loans to individual customers increased by 28% year on year, while deposits placed by those customers rose by 4% year on year. The gap resulted from the fact that bank deposits were relatively unattractive due to low rates and the continued transformation of the savings structure for individual customers (more assets allocated to investment funds).
The corporate loan portfolio rose by only 1%, as compared with the end of 2004. Nevertheless, the good situation continued in the market of corporate deposits (growth by 17% year on year). The situation in the market for loans and corporate deposits reflects the over liquidity of enterprises due to very good financial results and lower investment outlays.

Organizational structure of the Group

The organizational structure of the equity portfolio held by the Bank Handlowy w Warszawie SA, according to the percentage of share capital owned as at 31 December 2005, is presented below:



Changes in the organizational structure of the Group

The Capital Group of Bank Handlowy w Warszawie SA ("Group") consists of the **parent company** and **subsidiaries**:

Group entities fully consolidated

Entity	Business activity	Capital relationship	% of authorized capital owned	Accounting method	Own equity (in thousands of PLN)
Bank Handlowy w Warszawie SA	banking	parent company	-	-	5,171,494*
Dom Maklerski Banku Handlowego S.A.	brokerage	subsidiary	100.00%	full consolidation	108,060
Handlowy Leasing S.A.	leasing	subsidiary	100.00%**	full consolidation	7,384
Citileasing Sp. z o.o.	leasing	subsidiary	100.00%**	full consolidation	169,659
Handlowy Zarządzanie Aktywami S.A.	brokerage	subsidiary	100.00%	full consolidation	6,826
Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A.	investments	subsidiary	100.00%	full consolidation	32,220
PPH Spomasz Sp. z o.o. under liquidation	manufacturing of food production equipment	subsidiary	100.00%	full consolidation	Company under liquidation

**The equity of Bank Handlowy w Warszawie SA according to its individual financial statements for 2005.*

***Taking into account indirect shareholdings.*

Group entities fully consolidated

Entity	Business activity	Capital relationship	% of authorized capital owned	Accounting method	Own equity (in thousands of PLN)
Handlowy Inwestycje Sp. z o.o.	investments	subsidiary	100.00%	equity valuation	10,196
Handlowy Investments S.A.	investments	subsidiary	100.00%	equity valuation	(71,916)
Handlowy Investments II S.a.r.l.	investments	subsidiary	100.00%**	equity valuation	9,180
Bank Rozwoju Cukrownictwa S.A.	banking	subsidiary	100.00%	equity valuation	40,816

***Taking into account indirect shareholdings.*

Changes in the structure of the Group

In 2005, the Group continued its capital investment strategy aimed at achieving the targeted Group structure while optimising the financial outcome of capital transactions and minimising the underlying risks.

In 2005, the structure of subsidiary entities changed as a result of the following transactions:

- the sale of 100% of the shares in the equity of Handlowy – Inwestycje II Sp. z o.o.
- The sale of 79.27% of the shares in the equity of Polskie Pracownicze Towarzystwo Emerytalne Diament S.A., that was liquidated.

In 2005, the structure of associates entities changed as a result of the following transactions:

- sale of all of the shares held in the affiliate, Creditreform Pl. Sp. z o.o., representing a 49.03% stake in the equity and shareholders' votes of that entity,
- contribution of 5,000,000 of shares in the affiliate Mostostal Zabrze Holding S.A., representing a 24.6% stake in the equity, to Handlowy Inwestycje II Sp. z o.o. As a result of the transaction, the Bank now holds a 9.84% stake in equity and shareholders' votes of that entity.
- Sale of all of the shares held in KP Konsorcjum Sp. z o.o. representing a 49.99% stake in the equity and shareholders' votes of that entity.

Additionally in 2005 the following entities were sold:

- 1.73% shares of Stalexport S.A.,
- 7.38% shares of Wschodni Bank Cukrownictwa S.A.,
- 4.90% shares of Górnośląskie Towarzystwo Lotnicze S.A.

Changes in companies consolidation/valuation

The Group increased the number of entities that are fully consolidated. Entities that are fully consolidated include the following entities: Citileasing Sp. z o.o., Handlowy – Leasing S.A., Handlowy Zarządzanie Aktywami S.A. and Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A. and PPH Spomasz Sp. z o.o. under liquidation. These entities were consolidated under the equity method in the previous periods.

A list of affiliate entities valued under the equity method in the consolidated financial statement is presented below:

Entity	Business activity	Capital relationship	Equity stake	Accounting method	Equity (in thousands of PLN)
Handlowy--Heller S.A.**	factoring	affiliate	50.00%*	equity method	32,226

**Including indirect interests held through other subordinated entities.*

***Since 16 March 2006 the change of the company's name – ING Commercial Finance Polska S.A.*

Selected financial data of the Group

Selected financial data of the Group

In millions of PLN	2005	2004
Total assets	32,915.5	34,079.6
Equity*	4,648.4	5,743.7
Loans**	9,607.1	10,484.5
Deposits**	17,261.7	16,948.3
Net profit	616.4	495.0

**Excluding the net profit for the current year.*

***Due from and to the non-financial and public sectors.*

Financial results of the Group for the year ended 31 December 2005

Income statement

The Group's net profit for the year ended 31 December 2005 was PLN 616.4 million, PLN 121.4 million, i.e. 24.5% more than in the prior year. The increase in net profit was mainly attributable to an increase in operating income that includes net interest income, dividend income, income on financial instruments, FX income and net other operating income. The operating income increased by PLN 243.4 million (i.e. 11.8%) and amounted to PLN 2,305.3 million.
The fact that the profit growth rate was lower in the current year was mainly attributable to an increase in general administrative expenses by PLN 91.4 million, i.e. 7.0% and higher income tax expenses.

Selected income statement items

In thousands of PLN	2005	2004	Change	
			PLN '000	%
Net interest income	1,025,877	977,826	48,051	4.9%
Net commission income	598,633	548,067	50,566	9.2%
Net gains/(losses) on financial instruments valued at fair value through profit or loss	121,912	44,491	77,421	174.0%
Net gains/(losses) on investment securities	137,385	36,596	100,789	275.4%
Net profit on foreign exchange	346,282	360,345	(14,063)	(3.9%)
Overheads and general administrative expenses	(1,403,046)	(1,311,655)	(91,391)	(7.0%)
Depreciation	(140,296)	(143,097)	2,801	2.0%
Net change in impairment losses	33,823	(2,179)	36,002	1,652.2%
Share in profits/(losses) of undertakings accounted for under the equity method	(5,868)	11,790	(17,658)	(149.8%)
Profit before tax	**793,431**	**622,524**	**170,907**	**27.5%**
Income tax expenses	**(177,047)**	**(127,561)**	**(49,486)**	**(38.8%)**
Net income for the year	**616,384**	**494,963**	**121,421**	**24.5%**

Income

The increase in operating income of PLN 243.4 million, i.e. 11.8%, compared with the corresponding prior year was mainly due to:

- An increase in net interest income of PLN 48.1 million (4.9%), which was mainly the result of high interest income from term deposits on the interbank market and lower interest expense on repo transactions involving securities;
- An increase in net commission income of PLN 50.6 million (9.2%), which was mainly attributable to commission income from custody services, insurance products and other retail banking products;
- An increase in net gains on financial instruments at fair value through profit or loss of PLN 77.4 million (174.0%), which was mainly the result of higher gains on derivative transactions;
- An increase in net gains on investment (deposit) securities to PLN 137.4 million i.e. (275.4%), which was mainly the result of higher gains on available-for-sale debt securities – Treasury bonds;
- A decrease in net profit on foreign exchange of PLN 14.0 million (3.9%), which was mainly the result of lower gains on foreign exchange derivatives.

Expenses

Expenses	2005	2004	Change	
In thousands of PLN			PLN '000	%
Salaries	534,188	481,188	53,000	11.0%
Employee benefits	151,951	138,379	13,572	9.8%
Total personnel expenses	**686,139**	**619,567**	**66,572**	**10.7%**
Non-personnel expenses	704,375	675,882	28,493	4.2%
Taxes and fees	8,831	8,526	305	3.6%
Banking Guarantee Fund contributions and payments	3,701	7,680	(3,979)	(51.8%)
Total overheads and general administrative expenses	**1,403,046**	**1,311,655**	**91,391**	**7.0%**
Depreciation	140,296	143,097	(2,801)	(2.0%)
Total expenses	**1,543,342**	**1,454,752**	**88,590**	**6.1%**

In 2005, the Group continued to improve its profitability through cost optimization. However, there was a 6.1% increase in overheads and general administrative expenses in 2005 compared with the prior year. That increase was mainly attributable to an increase in the provisions for future pension benefits and an increase in long-service (jubilee) benefits, and an increase in salaries, mainly attributable to increased employment in the Consumer Bank. The fact that 22 new CitiFinancial branches were opened in the year ended 31 December 2005 also contributed to the increase in expenses.

Specific provisions and remeasurement of financial assets

Specific provisions

In thousands of PLN	2005
Specific provisions for losses incurred but not reported (IBNR)	32,756
Specific provisions for loans and off-balance sheet liabilities	2,306
individually assessed	126,434
collectively assessed (on a portfolio basis)	(124,128)
Impairment of equity investments	(3,308)
Other	2,069
Total change in impairment losses	**33,823**

Due to the adoption of International Financial Reporting Standards by the group, a change in the calculation of impairment losses was introduced. The change was applied prospectively in accordance with IFRS 1 by exercising the option to depart from full retrospective application of that change, hence the Group did not present comparable data for the prior year. As at 1 January 2005, an opening balance sheet was prepared in accordance with the new provisioning approach and the resulting difference between provisions calculated in accordance with the Polish Accounting Standards as at the end of 2004, including the general provision and deferred interest, and provisions calculated in accordance with IAS, was recognized in retained earnings.

The movement in provisions for losses incurred but not reported and loans assessed collectively and individually of PLN 35.1 million reflects:

- Decrease in the loan portfolio and decrease in reduction of dynamics of provisions;
- Effective restructuring and vindication activity and favorable macroeconomic conditions;
- Improvement in the quality of the loan portfolio.

Balance sheet

As at 31 December 2005, the total assets of the Group stood at PLN 32,915.5 million, 3.4% less than as at the end of 2004.

Balance sheet

In thousands of PLN	As at		Change	
	31.12.2005	31.12.2004	PLN '000	%
ASSETS				
Cash and balances with central bank	922,649	841,114	81,535	9.7%
Financial assets held for trading	5,883,358	5,317,395	565,963	10.6%
Debt securities available-for-sale	7,171,157	6,091,194	1,079,963	17.7%
Equity investments	20,615	28,087	(7,472)	(26.6%)
Equity investments valued by equity method	61,884	86,674	(24,790)	(28.6%)
Loans and advances	16,074,250	18,771,295	(2,697,045)	(14.4%)
to financial sector	6,467,157	8,286,804	(1,819,647)	(22.0%)
to non-financial sector	9,607,093	10,484,491	(877,398)	(8.4%)
Property and equipment	700,212	723,871	(23,659)	(3.3%)
land, buildings and equipment	659,264	723,871	(64,607)	(8.9%)
investment property	40,948	-	40,948	-
Intangible assets	1,313,799	1,309,766	4,033	0.3%
Deferred income tax assets	299,290	238,914	60,376	25.3%
Other assets	430,574	671,296	(240,722)	(35.9%)
Non-current assets held- -for-sale	37,714	-	37,714	-
Total assets	**32,915,502**	**34,079,606**	**(1,164,104)**	**(3.4%)**
LIABILITIES				
Due to central bank	-	718	(718)	-
Financial liabilities held for trading	3,420,219	4,194,290	(774,071)	(18.5%)
Financial liabilities valued at amortized cost	23,084,589	21,927,582	1,157,007	5.3%
deposits from	22,485,156	20,287,050	2,198,106	10.8%
financial sector	5,223,503	3,338,777	1,884,726	56.4%
non-financial sector	17,261,653	16,948,273	313,380	1.8%
other liabilities	599,433	1,640,532	(1,041,099)	(63.5%)
Provisions	56,251	217,808	(161,557)	(74.2%)
Income tax liabilities	163,311	24,226	139,085	574.1%
Other liabilities	918,991	1,476,291	(557,300)	(37.8%)
Non-current liabilities held-for-sale	7,329	-	7,329	-
Total liabilities	**27,650,690**	**27,840,915**	**(190,225)**	**(0.7%)**
EQUITY				
Issued capital	522,638	522,638	-	-
Share premium	3,010,452	3,077,176	(66,724)	(2.2%)
Revaluation reserve	(64,554)	(9,371)	(55,183)	588.9%
Other reserves	1,128,860	2,130,962	(1,002,102)	(47.0%)
Retained earnings	667,416	517,286	150,130	29.0%
Total equity	**5,164,508**	**6,141,984**	**(977,476)**	**(15.9%)**
Total liabilities and equity	**32,915,502**	**34,079,606**	**(1,164,104)**	**(3.4%)**

Assets

Gross loan receivables*

In thousands of PLN	As at		Change	
	31.12.2005	31.12.2004	PLN '000	%
Bank and other monetary financial institutions	5,975,701	7,398,782	(1,423,081)	(19.2%)
Non-financial sector	573,416	600,586	(27,170)	(4.5%)
Non-banking financial institutions	8,223,875	9,515,231	(1,291,356)	(13.6%)
Individuals	2,671,809	1,947,390	724,419	37.2%
Other non-financial entities	5,897	9,013	(3,116)	(34.6%)
Government units	244,414	1,276	243,138	19,054.7%
Other receivables	13,319	16,844	(3,525)	(20.9%)
Total	**17,708,431**	**19,489,122**	**(1,780,691)**	**(9.1%)**

**Excluding accrued interest.*

Despite a reduction in the loan portfolio in 2005 due to the Group's prudent lending policy, it still remained the largest component of the total assets. The non-financial sector saw the greatest decrease in loan receivables, of PLN 1,291.4 million, i.e. 13.6% of the gross loan portfolio. At the same time, there was an increase in lending to individuals, by PLN 724.4 million (37.2%). As at 31 December 2005, the portfolio of amounts due from inviduals amounted to PLN 2,671.8 million.

The balance of gross amounts due from the financial sector (excluding banks) was comparable to the balance as at 31 December 2004 and amounted to PLN 573.4 million (decrease by 4.5%).

The debt securities portfolio was the second largest component of assets. The fact that it is very large (particularly the Treasury bonds portfolio) is mainly due to the Bank's intention to benefit from the very good performance of the market for debt securities.

Debt securities portfolio

In thousands of PLN	As at		Change	
	31.12.2005	31.12.2004	PLN '000	%
Treasury bonds	7,076,515	6,263,335	813,180	13.0%
NBP bonds	386,934	384,287	2,647	0.7%
Treasury bills	40,002	303,770	(263,768)	(86.8%)
Certificates of deposit and banks' bonds	30,136	160,727	(130,591)	(81.3%)
Issued by non-financial entities	30,803	-	30,803	-
Issued by financial entities	35,604	191,165	(155,561)	(81.4%)
NBP bills	1,871,225	-	1,871,225	-
TOTAL	**9,471,219**	**7,303,284**	**2,167,935**	**29.7%**

Liabilities

Financial liabilities valued at amortized cost

In thousands of PLN	As at		Change	
	31.12.2005	31.12.2004	PLN '000	%
Due to financial sector	**5,197,217**	**3,333,770**	**1,863,447**	**55.9%**
Banking accounts and other monetary financial institutions	2,349,939	1,570,315	779,624	49.6%
Due from non-banking financial sector	2,847,278	1,763,455	1,083,823	61.5%
Due to non-financial sector including:	**17,242,639**	**16,912,148**	**330,491**	**2.0%**
Corporate customers	11,343,805	10,118,193	1,225,612	12.1%
Individuals	4,534,587	5,415,505	(880,918)	(16.3%)
Other liabilities including accrued interest:	**644,733**	**1,681,664**	**(1,036,931)**	**(61.7%)**
Total external funds	**23,084,589**	**21,927,582**	**1,157,007**	**5.3%**

There were no significant changes in the composition of the Group's liabilities in 2005, which was to a large extent attributable to the stability of the Bank's deposit base.

Amounts due to clients from the non-financial sector were the major source of financing for the Group's assets. The amounts due to clients from the corporate sector increased by PLN 1,225.6 million (i.e. 12.1%) compared with the end of 2004, and amounts due to the financial sector increased by PLN 1,863.4 million (i.e. 55.9%), of which deposits from non-banking entities increased the most, by PLN 1,083.8 million, (i.e. 61.5%).

Amounts due to individuals decreased the most in the year ended 31 December 2005. The decrease amounted to PLN 880.9 million, (i.e. 16.3%), and was connected with transfer of client's assets to competitive investment products.

Amounts due to banks, accounting for 45.2% of the total amounts due to the financial sector, increased by PLN 779.6 (i.e. 49.6%) from PLN 1,570.3 million to PLN 2,349.9 million. During the year amounts due to banks remained lower than amounts due from banks, which indicates that the Bank had surplus liquidity.

The fact that unrealized gains/losses on derivative transactions accounted for a considerable proportion of assets and liabilities is also significant and reflects the scale of the Bank's off-balance sheet purchase and sale transactions. The carrying amount of these instruments presented in "Financial assets held-for-trading" and "Financial liabilities held-for-trading".

Sources and uses of funds

In thousands of PLN Source of Funds	31 .12.2005	31 .12. 2004
Banks funds	2,506,054	1,877,231
Customers and government units funds	20,578,535	20,050,351
Own funds with net income	5,264,812	6,238,691
Other funds	4,566,101	5,913,333
Total source of funds	**32,915,502**	**34,079,606**

Use of funds	31 .12.2005	31 .12. 2004
Placements in banks	6,010,170	7,717,754
Receivables from customers and government units	10,064,080	11,053,541
Securities, shares and other financial assets	13,137,014	11,523,350
Other use of funds	3,704,238	3,784,961
Total use of funds	**32,915,502**	**34,079,606**

Equity and capital adequacy ratio

The Bank's equity decreased by PLN 1,095.3 million (i.e. 19.1%) compared with the end of 2004, which was mainly due to:

- Resolution No. 8 of the Ordinary General Shareholders' Meeting held on 21 June 2005, that approved for payment PLN 1,149.8 million as a dividend using retained earnings, transferred from supplementary capital and reserves;
- A decrease in revaluation reserve by PLN 55.2 million, which was mainly due to a negative valuation of available-for-sale financial assets of PLN (64.6) million as at 31 December 2005;
- The adoption of International Financial Reporting Standards, primarily in respect of the calculation of impairment losses. The difference arising from the change in accounting standards contributed to an increase in own funds by PLN 28.7 million.

Equity

In thousands of PLN	As at		Change	
	31.12.2005	31.12.2004	PLN '000	%
Share capital	522,638	522,638	-	-
Supplementary (additional) capital	3,010,452	3,077,176	(66,724)	(2.2%)
Other reserves	738,860	1,740,962	(1,002,102)	(57.6%)
Revaluation reserve	(64,554)	(9,371)	(55,183)	(588.9%)
General risk reserve	390,000	390,000	-	-
Retained earnings	51,032	22,323	28,709	128.6%
Total equity	**4,648,428**	**5,743,728**	**(1,095,300)**	**(19.1%)**
Tier 1 capital	4,661,950	5,730,776	(1,068,826)	(18.7%)
Tier 2 capital	(64,554)	(9,371)	(55,183)	(588.9%)
Retained earnings	51,032	22,323	28,709	128.6%

The Group's equity is fully sufficient to ensure the financial safety of the institution and the deposits held within it.
As at 31 December 2005, the capital adequacy ratio stood at 14.63%, down 5.46% compared with the end of 2004. The decrease in the capital adequacy ratio was mainly due to a decrease in the Group's own funds following payment of dividend.

In addition the capital requirements were increased due to, among other things excess exposure concentration and large exposure limits by PLN 133.5 million (relating to Citigroup companies) and an increase in the market risk requirement by PLN 20.5 million, that was fully offset by a decrease in the capital requirement to cover credit risk by PLN 103.5 million.

Capital Adequacy ratio

In thousands of PLN	31.12.2005	31.12.2004
Own funds, as stated on the balance sheet	**4,648,428**	**5,743,728**
Less:	1,456,493	1,475,142
• goodwill	1,245,976	1,243,645
• other intangible assets	67,823	66,121
• interests in subordinated financial entities	142,694	165,376
Own funds for the calculation of the capital adequacy ratio	**3,191,935**	**4,268,586**
Risk-weighted assets and off-balance sheet liabilities (banking portfolio)	**13,755,101**	**15,048,681**
Total capital requirement, including:	**1,744,910**	**1,700,022**
• capital requirement to cover credit risk	1,100,408	1,203,894
• capital requirement to cover the exceeding of the exposure concentration and large exposure limits	328,897	195,444
• total capital requirements to cover market risk	219,001	198,476
• other capital requirements	96,604	102,208
Capital adequacy ratio	**14.63%**	**20.09%**

Activities of the Group in 2005

Lending and other risk exposures

Lending

The Group's lending policy is based on active portfolio management and precisely specified target markets, designed to facilitate exposure and credit risk analysis within the framework of a given industry of the customer.

In addition, individual borrowers are continuously monitored so that signs of deterioration in creditworthiness can be detected promptly and appropriate corrective steps can be taken. Active credit policy has resulted in a minor reduction in total credit exposure in 2005.

The portfolio of receivables from individuals is managed on the basis of a model that calculates risk and return on the loan portfolio. In 2005 the lending policy was enlarged by implementation and use of scoring models. The new tools were implemented to strengthen control over the loan portfolio and to enable an efficient and optimal credit decision process.

CitiFinancial, that sells its product through its branches as well as credit agents uses a different lending policy mainly due to different levels of risk generated by each distribution channel. The customer acceptance policy is based on the scoring card, demographic data and client history received from the Credit Information Office. The detailed requirements that the customers have to fulfill are described in this policy. The main credit criteria are: the kind of job, source of income, age, job seniority and amount of income.

CitiFinancial conducts continuous observation of sales trends and portfolio quality trends using standard management information reports and advanced analytical models. This enables a quick response to every trend variance.

Lending to non-bank customers (gross)*

In thousands of PLN	As of		Change	
	31.12.2005	31.12.2004	PLN '000	%
Loans in PLN	9,675,621	9,998,199	(322,578)	(3.2%)
Loans in foreign currency	2,043,790	2,075,297	(31,507)	(1.5%)
Total	**11,719,411**	**12,073,496**	**(354,085)**	**(2.9%)**
Loans to non-financial sector	10,901,581	11,471,634	(570,053)	(5.0%)
Loans to financial sector	573,416	600,586	(27,170)	(4.5%)
Loans to public sector	244,414	1,276	243,138	19,054.7%
Total	**11,719,411**	**12,073,496**	**(354,085)**	**(2.9%)**
Non-financial corporates	8,223,875	9,515,231	(1,291,356)	(13.6%)
Individuals	2,671,809	1,947,390	724,419	37.2%
Non-bank financial entities	573,416	600,586	(27,170)	(4.5%)
Other non-financial entities	244,414	1,276	243,138	19,054.7%
Public entities	5,897	9,013	(3,116)	(34.6%)
Total	**11,719,411**	**12,073,496**	**(354,085)**	**(2.9%)**
Other receivables	13,319	16,844	(3,525)	(20.9%)
Total	**11,732,730**	**12,090,340**	**(357,610)**	**(3.0%)**

**Excluding accrued interest.*

As at 31 December 2005, gross credit exposure to the non-financial sector amounted to PLN 11,719.4 million, representing a decrease by 2.9% as compared with 31 December 2004. The largest part of the non-financial sector credit portfolio, which is loans to non-financial corporates (70.2%) decreased by 13.6% in 2005. Loans to individuals grew in comparison with the end of 2004 by 37.2% to PLN 2,671.8 million.

As at 31 December 2005 the currency structure changed slightly as compared with the end of 2004. The share of foreign currency loans, which in December 2004 was 17.2% increased to 17.4% in December 2005. It must be stressed that the Group grants foreign currency loans to customers who have foreign currency cash flows or to those who, in the Group's opinion, are able to predict or absorb the currency risk without significant deterioration of their financial position. The Group doesn't grant foreign currency loans to individuals.

The Group monitors the concentration of its exposure on a regular basis, seeking to avoid a situation where the portfolio is dependent on a limited group of customers. As of the end of December 2005 despite the reduction in the Group's equity, the Group's portfolio of exposure to non-bank entities did not exceed the exposure concentration limits required by law.

Exposure concentration by non-banking customer

In thousands of PLN	31.12.2005			31.12.2004		
	Balance Outstanding*	Off-Balance Outstanding	Total Outstanding	Balance Outstanding*	Off-Balance Outstanding	Total Outstanding
Group 1	257,342	286,903	544,245	153,408	356,680	510,088
Group 2	209,183	261,334	470,517	177,863	351,853	529,716
Customer 3	241,396	160,000	401,396	66	-	66
Customer 4	-	400,000	400,000	1	-	1
Group 5	1,019	376,112	377,131	3	8,251	8,254
Group 6	234,461	113,661	348,122	23,335	159,479	182,814
Group 7	80,181	203,465	283,646	127,672	164,898	292,570
Group 8	200,050	72,682	272,732	83,846	82,957	166,803
Group 9	38,848	212,455	251,303	3,801	227,468	231,269
Group 10	70,477	177,706	248,183	15,780	110,076	125,856
Total 10	**1,332,957**	**2,264,318**	**3,597,275**	**585,775**	**1,461,662**	**2,047,437**

**Excluding exposures to shares and other securities. Amounts for individual customers exclude exposures to related parties.*

Quality of loan portfolio

Pursuant to the Resolution of the Extraordinary Meeting of the Bank's Shareholders, with effect from 1 January 2005, the Bank presents its consolidated financial statements in accordance with International Accounting Standards (IAS), International Financial Reporting Standards (IFRS), and related interpretations issued in the form of Regulations of the European Commission. The change in the standards, mainly the adoption of IAS 39, resulted in a new method of classification of the amounts due to the Group and calculation of provisions for the risk related to credit operations.

Currently, all receivables of the Group are attributed to two portfolios depending on the existing risk of impairment of the receivables: the portfolio of receivables not at risk of impairment and the portfolio of receivables at risk of impairment. Depending on the materiality of the receivables, the portfolio at risk of impairment is then classified into receivables accounted for individually or collectively.

As at the end of December 2005, the share of loans at risk of impairment was 19% of the total portfolio and was lower as compared with the restated opening balance as of 1 January 2005 by 1%. The decrease was related to both to individual and group customers.

Loans to non-financial sector (gross) by the risk of impairment*

	As of			
	31.12.2005		31.12.2004	
	PLN '000	Share in %	PLN '000	Share in %
Loans to non-banking sector (gross)				
Not at risk of impairment	9,499,545	81.0%	9,673,162	80.0%
At risk of impairment	2,233,185	19.0%	2,417,178	20.0%
accounted for individually	1,710,318	14.6%	1,772,411	14.7%
accounted for collectively (portfolio method)	522,867	4.5%	644,767	5.3%
Total non-banking sector (gross)	**11,732,730**	**100.0%**	**12,090,340**	**100.0%**

**Excluding accrued interest.*

Currently, provisions for receivables reflect the actual impairment of the portfolio, taking into account the discounted forecast of future cash flows associated with the repayment of receivables. Moreover, the provisions are estimated for each receivable irrespective of their portfolio attribution and for probable but as yet unidentified losses.

As at 31 December 2005, the impairment of the portfolio was PLN 1 886.5 million, PLN 67.7 million of which was attributable to receivables not at risk of impairment.

Impairment of non-bank loan portfolio

In thousands of PLN	As of 31.12.2005
Impairment due to incurred but not reported (IBNR) losses	67,702
Impairment of receivables	1,818,788
accounted for individually	1,356,356
accounted for collectively	462,432
Total impairment	**1,886,490**
Impairment due to incurred but not reported (IBNR) losses	16.1%
Impairment of receivables	81.4%

Off-balance sheet exposures

As at 31 December 2005, off-balance sheet exposures amounted to PLN 11,664.7 million, representing a slightly decrease by 0.3% as compared with 31 December 2004. The largest change related to guarantees which represented on 31 December 2005 23.8% of off-balance sheet assets and which increased by PLN 428.8 million (18.2%). Forward placements were reduced by PLN 105.9 million to only PLN 15.4 million at the end of 2005. The fluctuation on undrawn credit lines resulted both from the adjustment of credit lines required by customers and from the use of the limits granted to customers by them.

Off-balance sheet exposures

In thousands of PLN	As of		Change	
	31.12.2005	31.12.2004	PLN '000	%
Guarantees	2,778,598	2,349,806	428,792	18.2%
Letters of credit issued	132,216	167,528	(35,312)	(21.1%)
Third-party confirmed letters of credit	17,465	17,108	357	2.1%
Committed loans	8,720,951	9,047,107	(326,156)	(3.6%)
Forward placements	15,439	121,359	(105,920)	(87.3%)
Total	**11,664,669**	**11,702,908**	**(38,239)**	**(0.3%)**
Provisions for off-balance sheet liabilities	36,578	39,352	(2,774)	(7.0%)
Provision coverage index	0.31%	0.34%		

As at 31 December 2005 the total amount of collateral held on accounts (or assets) of credit clients amounted to PLN 4,631.0 million (31 December 2004: PLN 5,267.7 million).

In 2005 the Bank issued 4,241 enforcement titles amounting to PLN 139.1 million (2004: 4,689 enforcement titles amounting to PLN 142.8 million).

External Funding

As at December 31, 2005, the total value of external funding of the Group was PLN 23,084.6 million and was higher by PLN 1,157.0 million (5.3%) as compared with December 31, 2004. Liabilities to the financial sector, which rose by PLN 1,884.7 million (56.4%), had the largest impact on changes of the external funding of the Group's activity – their increase resulted from the growth of term deposits.

External funding

In thousands of PLN	As of		Change	
	31.12.2005	31.12.2004	PLN '000	%
Due to financial sector	**5,223,503**	**3,338,777**	**1,884,726**	**56.4%**
Funds on current accounts, including:	728,958	721,487	7,471	1.0%
• *funds on current accounts of banks and other monetary financial institutions*	*725,453*	*720,855*	*4,598*	*0.6%*
Deposits, including	4,468,259	2,612,283	1,855,976	71.0%
• *deposits of banks and other monetary financial institutions*	*1,624,486*	*849,460*	*775,026*	*91.2%*
Accrual interest	26,286	5,007	21,279	425.0%
Due to non-financial sector	**17,261,653**	**16,948,273**	**313,380**	**1.8%**
Funds on current accounts, including	5,487,025	4,185,250	1,301,775	31.1%
• *corporate customers*	*3,412,132*	*2,284,398*	*1,127,734*	*49.4%*
• *individuals*	*1,499,724*	*1,383,080*	*116,644*	*8.4%*
Deposits, including	11,755,614	12,726,898	(971,284)	(7.6%)
• *corporate customers*	*7,931,673*	*7,833,795*	*97,878*	*1.2%*
• *individuals*	*3,034,863*	*4,032,425*	*(997,562)*	*(24.7%)*
Accrual interest	19,014	36,125	(17,111)	(47.4%)
Other liabilities	**599,433**	**1,640,532**	**(1,041,099)**	**(63.5%)**
Sell-Buy-Backs	8,174	408,361	(400,187)	(98.0%)
Accrual interest	3,163	16,291	(13,128)	(80.6%)
Total external funding	**23,084,589**	**21,927,582**	**1,157,007**	**5.3%**

Looking at all sectors as a whole, the largest growth of external funding was recorded for non-banking financial institutions by PLN 1,082.8 million (i.e. 61.3%) while the largest decrease was for individual customers (by PLN 888.0 million, or 16.1%). The Group recorded a decrease in term deposits while current accounts increased. The increase in deposits was compensated by the sale of investment products that is mainly due to the increasing competitiveness of alternative investments in the capital market in an environment of declining interest rates, aggressively advertised investment funds and positive trends on the stock exchange, which created an additional incentive to invest.

Liabilities to non-bank customers*

In thousands of PLN	As of		Change	
	31.12.2005	31.12.2004	PLN '000	%
Liabilities towards:				
Individuals	4,626,064	5,514,080	(888,016)	(16.1%)
Non-financial economic entities	11,957,306	10,784,395	1,172,911	10.9%
Non-profit institutions	471,383	424,038	47,345	11.2%
Non-bank financial institutions	2,849,820	1,766,981	1,082,839	61.3%
Public sector	430,854	531,218	(100,364)	(18.9%)
Suspense account liabilities	57,177	48,543	8,634	17.8%
Total	**20,392,604**	**19,069,255**	**1,323,349**	**6.9%**
PLN	15,356,489	14,276,552	1,079,937	7.6%
Foreign currency	5,036,115	4,792,703	243,412	5.1%
Total	**20,392,604**	**19,069,255**	**1,323,349**	**6.9%**

**Excluding accrued interest*

As at 31 December 2005 the Group had drawn-down loans, which amounted to PLN 142.6 million. Most of these loans were to provide financing for the Group's clients for investment projects that are financed by EU grants.

Corporate and Investment Bank

Transaction Services

The Bank offers comprehensive, differentiated and attractive products in the area of trade and transaction services to corporate customers. In parallel with traditional banking services, such as bank accounts, domestic and international transfers, etc., the Bank has extensively broadened its product offer and carried out acquisition of customers in the scope of more sophisticated transaction services including flagship electronic and web-based banking proposals.

Transaction Servicing

The modern transaction banking offer is the result of continuous efforts to provide services that meet the needs of the Bank's customers in the most effective manner. Economic growth and new business ideas of customers stimulate the implementation of new practical solutions.

A key component of the Bank's proposal is cash management. The Bank offers many solutions, from standard bank accounts and cash and cashless transactions to electronic banking and mass payments to advanced consolidated accounts (which are used to administer liquidity between various entities of a customer) and receivables management (using leading edge solutions on the SpeedCollect platform).

In an attempt to reduce the number of paper orders processed by the Bank, the ZetaFax solution was developed. It is an "electronic form for manual transfers". Its main objective is to increase the number of instructions processed in an electronic format, as well as to reduce errors made by customers due to check tools that verify details input by a customer in the transfer form.

The Bank offers a solution that enables customers to settle mass payments (for example bills for gas, telephone, electricity, rent, etc.) at Points of Payments, operated by external partners, on behalf of creditors that have not signed separate agreements with the Bank.

Based on "SpeedCollect Plus" – a mass payment processing platform, which facilitates processing of incoming payments, the product team prepared a special service for foreign entities for supplementing missing data that has not been recognized automatically. In 2005, SpeedCollect Plus won a prestigious award granted by "The Banking Technology Magazine" in the category "Best business/corporate banking achievement for 2005".

In 2005, the Bank was very active in the direct debit market. During the year, the Bank's customers sent over 5.8 million transactions, which enabled the Bank to maintain its 50% market share in the direct debit market in December 2005. The Bank was able to defend its leadership position due to various promotional initiatives initiated to recommend direct debit among the Bank's customers. The active participation in the Direct Debit Coalition, which had arranged and implemented a campaign to promote direct debit, was appraised highly by the Bank's customers. In addition, the Bank continues projects to advertise and streamline that product, which is perceived by the banking community as the cheapest payment form available in the market.
The Bank is the leader in the escrow account segment in terms of the most advanced solutions. In 2005, the Bank implemented escrow accounts as a unique proposal for customers to secure their trade contracts.

In the fourth quarter of 2005, the Bank signed the first agreement for the issue of scholarship cards for the Bialystok School of Public Administration. The card has extended the range of prepaid Visa Electron cards. The solution significantly decreases costs connected with payments of scholarships to students. Simultaneously, the corporate card offer was extended by the Virtual Debit Card, which operates on the basis of the balance on the customer's account and enables Internet payments.

The range of products for management of the customer's funds includes credit, payment and prepaid cards issued by the Bank. They are a convenient tool for settlements of business expenses incurred by the customer's personnel. In search for new applications for existing products, in 2005 the Bank launched an innovative method of use of VISA Electron cards for payments of social allowances. The new card is intended to distribute benefits and scholarships.
In the beginning of 2005, the Bank introduced the Automatic Banker for customers that use corporate cards. It provides automatic access, by telephone, of card transactions. The Automatic Banker is a great convenience for users of corporate cards.

To meet the needs of its customers, the European Union Unit was established in the beginning of 2005. It prepared a special package (Europe of Undertakings) under which customers that apply for the EU's financial assistance may access a user-friendly lending program. The offer is aimed at all undertakings and self-government entities that want to take advantage of development opportunities created by the European Union and the chance to compete in international markets. In addition to the lending program, the Unit prepared various products that improve trade financing and enable effective settlements and management of funds received from the EU's grants.

Within the framework of the EU's programs, the Bank signed a cooperation agreement with Bank Gospodarstwa Krajowego and the Polish Agency for Enterprise Development.

In order to improve the flow of information about the European programs between the Unit and customers, a dedicated hot line was created and marketing activities were commenced (press releases, web site, conferences, etc.) to present the Bank's proposal.

Despite competitive prices in Poland's market, the European Union Unit contributed to a reduction in the cost of loans incurred by the Bank's customers. It was possible due to refinancing schemes that cover loans and leasing receivables of small and medium sized companies under which the Bank is able to offer more competitive and lower-cost terms of funding to its customers. Such programs are based on a credit line, granted on very attractive terms through Kreditanstalt für Wiederaufbau – a German bank authorized by the European Commission to implement the Funding Program for Small and Medium-Sized Enterprises. The Bank uses that line to finance its loans and leases and receives subsidies from the European Commission for its utilization.

In November 2005, the Bank signed an agreement with Kreditanstalt für Wiederaufbau for refinancing of loans granted to the public sector, which enabled the Bank to prepare a very competitive offer of financing investment projects realized by the broadly-defined public sector – municipalities, counties, regions and utility companies.

As part of development of the "Italian Desk" project, started in 2004 and supporting the Bank and its Italian partner in financing of trade between Polish and Italian businesses, the implementation of a new solution was commenced. It is a brand named "Borderless Banking" and consists of active cooperation in sales of the Bank's products through other financial institutions. The aim of the proposed cooperation model is to generate mutual benefits for the Bank and cooperating financial institutions due to an extended product range, optimized costs and increased range of operations of the partners.

In addition to product development, the Bank worked on the optimization of existing processes to ensure cost savings. The form of cross-border U.S. dollar settlements was optimized, which contributed to a reduction of operating costs and the improvement of customer service.

Trade Finance Products

The key objectives implemented by the Bank in 2005 in the area of trade finance products were to maintain its leading position in the market, to continue the implementation of new solutions, to develop electronic service platforms, as well as to introduce innovative structuring schemes tailored to specific needs of particular customers.

Other tasks of the Bank included the preparation and implementation of a new credit program and a comprehensive product offer for small and medium-sized enterprises, which takes into account, in particular, aspects connected with trade finance products. The new offer was supported by a marketing campaign – "Trade with Us". Additionally, the Bank initiated a project to implement a factoring service for a broader portfolio of customers of such services and, also, intensified activities to increase the number of companies that use such funding under the municipal suppliers plan.

In order to ensure that its proposal is viable in the trade finance market, the Bank launched new products – financing of trade receivables in domestic trade and documented with invoices on the basis of an insurance policy issued by Korporacja Ubezpieczeń Kredytów Eksportowych S.A. ("KUKE" – export credit insurer) and "prepaid" letters of credit.

In addition, the Bank's offer was broadened by the option to issue guarantees required within the framework of programs of the European Union, PHARE and the World Bank. The Bank also enabled its customers to generate new types of reports to meet their needs. Moreover, the Bank started electronic requests - customers may now apply for import letters of credit, guarantees and payment orders for import collection through that electronic channel.

The list of achievements includes significant funding invoiced receivables, programs of funding receivables on the basis of the KUKE policy (both in domestic and international trade), funding programs based on the PayLink card and supplier funding programs. Traditionally, the Bank issued a significant guarantees, including performance bonds and customs bonds.

Custody Services

The Bank operates custody services pursuant to applicable laws of Poland and international standards. As a result, its services meet the requirements of the largest and most demanding institutional customers.

The Bank is the leader in the segment of bank depositaries in Poland. It offers both custody services to foreign institutional investors and depository services to Polish financial institutions, pension funds, investment funds and investment funds with insurance options.

As a part of its statutory activities, pursuant to the relevant license of the Polish Securities and Exchange Commission, the Custody Department operates securities accounts, settles securities transactions, handles dividend and interest payments, portfolio valuations, individual reports, and arranges for customer representation at general meetings of shareholders of listed companies. It also maintains registers of foreign securities, which also involves intermediation in the settlement of transactions for domestic customers on foreign markets.

In addition, in 2005 the Bank started to offer settlements of transactions concluded by institutional customers on a new electronic platform for trade in debt securities, MTS-POLAND, organized by MTS-CeTO S.A., as well as settlements of securities transactions for remote members of the Warsaw Stock Exchange. In March 2005 the Bank successfully completed the purchase of the organized part of ABN Amro Bank Polska SA as part of the global transaction between Citigroup and ABN Amro. This transaction resulted in a significant reinforcement of the Bank's position on the Polish custody market.

As of December 31, 2005, the Bank maintained 8,952 securities accounts. In 2005, the Bank was the depositary for seven Open Pension Funds:

- AIG OFE
- Commercial Union OFE BPH CU WBK
- Generali OFE
- ING Nationale Nederlanden Polska OFE
- OFE Pocztylion
- Pekao OFE
- SAMPO OFE

and also for:

- Employee Pension Fund "Sunny Autumn"
- Employee Pension Fund of Telekomunikacja Polska S.A.

In 2005, the Bank also acted as the depositary of 22 investment funds, managed by the following investment companies:

- BZ WBK AIB TFI S.A.
- PIONEER PEKAO TFI S.A.
- PKO/Credit Suisse TFI S.A.
- SEB TFI S.A.

Treasury

In 2005, the Bank continued operations in financial markets, both for customers and on its own account. In addition to simple FX products and intermediary trading services in the money market and capital market, the Bank offers comprehensive solutions in the area of FX and interest rate risk management, adapting them to the needs of a given entity.

For the Treasury Division, 2005 was a year of record profits, with sales of treasury products to customers as one of the most significant factors. Moreover, the Bank reinforced its position in the markets of derivative and structured products. In particular, sales of FX options and derivative instruments generated substantial earnings. The Bank also achieved a good result on sales of Market Linked Deposits (MLDs), which was boosted by additional functionalities of MLDs introduced in the first quarter of 2005.

Due to the expanding customer base, the year 2005 was another period when the Bank focused on intermediary services in the secondary market of debt securities, which resulted in trading volumes reaching historical highs. Fluctuations in the FX market enabled the Bank to obtain a high share in FX transactions in the interbank market.

Commercial and Investment Banking

The Corporate Bank Division provides comprehensive services for more than 140 largest customers, that, in addition to the basic product range, require financial engineering advice. Individual departments of the Division coordinate treasury and financial management products and prepare offers that embrace lending, debt and equity financing, as well as mergers and acquisitions.

The Bank actively supports the development of the largest companies in Poland by providing funding, on its own account or as a member of syndicates, as well as by arranging capital market funding. The list of the strategic transactions completed in 2005 includes:

- A 5-year syndicated loan facility for a leading provider of telecom services in Poland for an amount of EUR 900 million. The Bank's share in the transaction is EUR 50 million. The Bank is the authorized lead manager and agent of the facility. The agreement was signed in the second quarter of 2005;
- A 7-year syndicated loan facility for a hotel operator for an amount of PLN 500 million. The Bank's share in the transaction is PLN 150 million. The Bank acts as a co-arranger;
- A 5-year syndicated loan facility for a retailer in Poland for an amount of EUR 106 million. The Bank's share is EUR 30 million. The Bank is the authorized lead manager and agent of the facility;
- A 2-year syndicated loan facility for a strategic railway carrier for an amount of EUR 130 million. The Bank's share was EUR 15 million. The Bank was the authorized lead manager and agent of the facility. The deal was executed in the second quarter of 2005;
- A 5-year syndicated loan facility for a smelting operator for an amount of PLN 120 million. The Bank's share is PLN 40 million. The Bank acts as a co-arranger;
- A 5-year syndicated loan facility for a foreign furniture company for an amount of EUR 150 million. The Bank's share is EUR 12 million. The Bank is a member of the banking consortium;
- A bond issue program for one of the mobile phone operators for an amount of PLN 1 billion. The Bank is the lead manager, dealer, payment agent and depositary. The agreements were signed in June 2005 for 5 years;
- A revenue bond issue program for a water and sewage company for an amount of PLN 600 million. The Bank is the lead manager, dealer, payment agent and depositary. The transaction was concluded in the fourth quarter of 2005;
- A 3-year short-term bond issue program for a wood and paper company for an amount of PLN 400 million. The Bank is the lead manager, dealer, payment agent and depositary. The transaction was concluded in the third quarter of 2005;
- A medium-term bond issue program for a foodstuff company for an amount of PLN 250 million. The Bank is the manager, dealer, payment sub-agent and sub-depositary. The transaction was concluded in the third quarter of 2005;
- A 2-year bond issue program for a construction company for an amount of PLN 200 million. The Bank is the manager, payment agent and depositary. The transaction was concluded in the first quarter of 2005;
- A 1-year bond issue program for a construction company for an amount of PLN 100 million. The Bank is the manager, payment agent and depositary. The transaction was concluded in the fourth quarter of 2005.

In addition, in the second quarter of 2005 the Bank signed an advisory agreement connected with the restructuring of debt of a customer from the fuel and energy sector. The Bank was the coordinator of the process and cooperated with all financial institutions that offered their services to the customer.

As at December 31, 2005, according to the Fitch Ratings 24 (208) bulletin, the Bank was a leader in the distribution of short-term debt securities (i.e. up to 1 year) and its market share was 21.44%.

In respect of corporate and bank bonds with time to maturity over 1 year, the Bank's share was about 14%.

As at December 31, 2005, the Bank served 30 issue programs, including two programs that covered public issues of bonds, while as at December 31, 2004 the Bank served 28 issue programs, of which two were public bond issue programs.

Commercial Banking

The Commercial Bank Division serves a variety of businesses, from small family enterprises to large companies, which expect access to the most advanced and proven banking solutions. Thanks to an evenly dispersed network of outlets – the so-called Corporate Centers, located in areas in which business customers are concentrated, customers have convenient access to the entire offer of the Bank. Such access is also facilitated by the organization of the sales network of the Bank through relationship managers and product managers assigned to branches. The sales system is supported by advanced telephone and electronic banking.

The key to the growing cooperation of the Bank with its customers from such a differentiated segment of enterprises is a range of solutions adjusted to their specific requirements and scale of operations. Banking advisory services are an important component of the Bank's offer. They enable customers to obtain what is necessary to support their business operations effectively and efficiently.

In 2005, to strengthen cooperation with customers the Bank focused on cash management and trade finance products, as well as FX and cash products.

In the fourth quarter, the Bank carried out a marketing campaign, initiated in the end of the third quarter, "Add the Bank to your selling tools – trade with us", which was aimed at prospective customers – both manufacturers and trade companies – and based on direct communication, including meetings with the Bank's advisors. The promotion concentrated on the utilization of trade finance products, such as letters of credit, guarantees, discounts of bills of exchange and invoices. Additionally, the Bank offered a unique electronic platform for the implementation of foreign currency transactions, unsecured current loans and other credit instruments, which are based on an efficient process of assessment of a customer's financial standing. The campaign was supported with attractive cooperation conditions.

Brokerage

Brokerage Secondary Market

The Group operates on the capital market through its wholly owned brokerage subsidiary Dom Maklerski Banku Handlowego S.A. ("DMBH"). DMBH was established on 1 April 2001 as a result of the transfer of all assets of Centrum Operacji Kapitałowych Banku Handlowego (Capital Markets Centre) to Citibrokerage S.A., which as of that day changed its name to that used currently.

The market environment had a significant influence on the results of DMBH in 2005. The bullish trend of the securities market in 2005 was a consequence of the continued impact of Poland's after accession to the UE and many debuts on the stock exchange, the biggest PGNiG and Lotos. There has also been a sustained interest of foreign investors in the Polish capital market, with particular focus on participation in investment on the Warsaw Stock Exchange.

DMBH took advantage of the bullish market through its very strong sales and transaction analysis and management team, specialized in servicing of large institutional customers whose assets are kept at trustee banks. DMBH retained its leadership position on the equity market, increasing its share in the total turnover generated by all brokerage houses to 19.9%.

Primary Market

In 2005 DMBH introduced to the capital market Citibank, NA bonds denominated in USD. These bonds, that amount to USD 435.6 million are exchangeable into Bank Handlowy w Warszawie SA shares. The cooperation between DMBH and capital market institutions enabled the debut of this most innovative debt instrument on the Polish stock market. At present these bonds can be quoted on three platforms: Warsaw Stock Exchange, Luxemburg Stock Exchange and London OTC.

Additionally, in 2005 DMBH carried out a transaction to float the shares of Opoczno SA, a ceramics producer, on the stock exchange. The transaction amounted to PLN 456 million.

DMBH as Market Maker

DMBH commenced its independent operations on the Warsaw Stock Exchange (WSE) in 1994, firstly as a Stock Exchange Member – Specialist, and subsequently as a Market Maker. Since the beginning of the futures market on the WSE, DMBH has acted as a Market Maker in the area of futures contracts for the WIG20 index. Furthermore, DMBH is also a Market Organizer on the Central Table of Offers (CTO), whose operating principles are similar to those of a Market Maker.

As at the end of 2005, DMBH acted as Market Maker for 46 company shares, i.e. 18.0% of all shares listed on the WSE for, one convertible bond and futures contracts for on the WIG20 index. It is noteworthy that among companies managed by Market Makers, there were three foreign companies quoted at the same time on their parent markets.

As Market Organizer on the CTO, DMBH performed operations for the USD CitiBonds investment certificate of the Mixed Investment Fund. The share in this market segment in 2005 reached 13.25% of the total turnover managed by all brokerage houses acting as market makers for the equity market.

Selected income statement and balance sheet items*

Company	Headquarters	Bank's stake in company's equity	Total assets 31.12.2005	Equity 31.12.2005	Net profit/ (loss) 2005
		%	In thousand of PLN		
Dom Maklerski Banku Handlowego S.A.	Warsaw	100.00	652,732	108,060	31,594

*Unaudited

Leasing

The Group conducts leasing operations through its two wholly owned subsidiaries: Handlowy-Leasing S.A. and Citileasing Sp. z o.o. In 2005, the companies continued their operations in the segment of asset based finance thought various leasing products. The leasing companies provide services for both SME enterprises and large companies. Leasing services provided to the Bank's customers include a large range of transactions from small ticket agreements (cars) to big ticket agreements (product lines).

Leasing services are provided to non-bank customers to finance four groups of assets with simplified credit assessment;

- Transport machines
- Printing machines
- Plastic processing machines
- Machine tools

In 2005, a new fully integrated IT system was successfully implemented. Its aim is to provide faster lease service, enlarge the scope of management information and create long-term relations with the customer. Additionally, in the first quarter 2005 a new finance program covering machine tools was implemented. The finance program covering transport machines, printing machines, plastic processing machines and machine tools was amended.

In 2005 several dozen lease agreements within the EU funds were granted. The refinance program for SME customers in cooperation with Kreditanstalt fur Wideraufbau, was implemented.
Total net leased assets in 2005 amounted to PLN 315 million and increased by 57% in comparison with net leased assets in 2004.
In the same period the total net leased assets in the leasing sector increased by 12%. In terms of the structure of leased assets in 2005 road transportation represented 77% of leased assets while industrial machinery and equipment represented 23% of leased assets.

Selected income statement and balance sheet items*

Company	Headquarters	Bank's stake in company's equity	Total assets 31.12.2005	Equity 31.12.2005	Net profit/ (loss) 2005
		%	In thousand of PLN		
Handlowy-Leasing S.A.	Warsaw	100.00	711,116	7,384	10,083
Citileasing Sp. z o.o.	Warsaw	100.00	173,372	169,659	4,406

*Unaudited

Asset Management

As at 31 December 2005, the value of assets under management of Handlowy Zarządzanie Aktywami S.A. (HanZA) was PLN 4,004 million, a growth by over 64% as compared with the end of 2004. The value of assets of individual customers totaled PLN 212 million. The value of institutional assets was over PLN 3,792 million, where PLN 2,114 million were assets of CitiFunds and PLN 1,605 million represents assets from insurance companies and other financial institutions.

In 2005, the portfolios managed by HanZA generated very good results approximately equal to their benchmarks. In 2005, the highest return was achieved by the portfolios investing on the Warsaw Stock Exchange: correlated equity portfolios +28.6% benchmark: +33.6% and selective equity portfolios +26.3% benchmark: +30.7%. The balanced mixed portfolios that invest both in shares and debt securities generated very good results. The mixed portfolios achieved the following results: balanced mixed portfolios with a return of +20.6%, as compared with the +20.4% benchmark while stable mixed portfolios achieved a return of +11.3% as compared with the benchmark +12.6%. The debt securities portfolios, which are favoured by institutional customers, offered a +7.9% return (benchmark: +7.6%) and the money market portfolios gave +6.0% against the, benchmark of +5.6%.

Selected income statement and balance sheet items*

Company	Headquarters	Bank's stake in company's equity	Total assets 31.12.2005	Equity 31.12.2005	Net profit/ (loss) 2005
		%	In thousand of PLN		
Handlowy Zarządzanie Aktywami S.A.	Warsaw	100.00	8,672	6,826	2,260

*Unaudited

Investment funds management

The investment funds management activity is provided by the wholly owned subsidiary Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A. (TFI BH).

As at 31 December 2005, TFI BH SA had over PLN 2.1 billion in funds under management, which represents a more than 100% increase from the end of 2004 (PLN 1.0 billion). It is one of the highest growth rates on the market.

2005 was another good period for shares and mixed funds whose assets increased in a dynamic way: CitiEquity OIF, which achieved a return of 96.0% and amounted to PLN 495 million, CitiBalanced Central Europe OIF: 219% and amounted to PLN 737 million, CitiEquity: 76% and amounted to PLN 153 million in comparison to 2004. The investments funds recorded both increases in assets under management as well as very good investment results. CitiEquity that invests all assets in shares achieved the highest return whose assets increased by 23.7%. CitiBalanced Central European Open-Ended Investment Fund increased by 16.7% and CitiSenior by 9.8%. The value of participation units of CitiBonds OIF increased by 5.3% and CitiMoney Market OIF by 4.8%. Very good results were recorded by CityLiquidity SOIF which increased by 5.3%.

The Purpose Saving Plans are still very popular among clients notably the CitiFunds (CPO) saving product offered to individuals. The aim of CPO is to invest in participation units of one of the CitiFunds over 3,5,10 or 15 years. In 2005 over 9,800 of CPO registers were opened. As at the end of 2005 CPO assets amounted to PLN 440 million that represent a 250% increase in comparison with 2004. This product is very popular among the Bank's customers.

In March 2005 the foreign investment funds such as CitiFamily of Funds that are managed by Citigroup Asset Management were distributed on the Polish market. TFI BH SA is the representative in accordance with the Investment Funds Act of 27 May 2004.

Selected income statement and balance sheet items*

Company	Headquarters	Bank's stake in company's equity	Total assets 31.12.2005	Equity 31.12.2005	Net profit/ (loss) 2005
		%	In thousand of PLN		
Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A.	Warsaw	100.00	36,743	32,220	8,774

Unaudited

Consumer Banking

Credit Cards

As at 31 December 2005, the credit card portfolio reached 580,000. It represents a 12% increase in comparison with the same period of the previous year. The Bank maintained it's leading position on the credit card market throughout 2005, despite the launch of many new products by other credit card issuers.

To broaden the credit card product range, the Bank launched the new, most prestigious Citibank Platinum Card (both VISA and Mastercard) with a variety of additional features and services available to cardholders such as special assistance and concierge packages as well as Citibank Platinum Club (products and services of selected, most prestigious and global brands).

In June 2005 the Bank lowered APR for cardholders making the product proposition even more attractive to customers, as well as bringing the offer closer to market pricing.

In 2005 the Bank also changed the design of cards in accordance with the global branding standards of Citigroup. The card, which is issued in Poland, now looks exactly the same as Citibank credit cards being issued worldwide, including the U.S. The main changes concern the new "Citi" logo on the card as well as a new design of the Silver Credit Card.

As part of the customer focused strategy, in 2005 the Bank started an extensive upgrade project where selected credit cardholders are receiving upgraded products (Silver to Gold and Gold to Platinum cardholders) on preferential, promotional terms.

2005 was another very good year for the "Komfort" Installment Plan in terms of number of transactions converted into the scheme, which proves that the Bank offer is well designed and meets Customers' needs.

Retail Banking

Bank accounts

Throughout 2005 there were several marketing activities focused on acquisition of new to the Bank CitiGold customers. Also there were promotional activities aimed to acquire new profitable CitiOne customers, who receive their salary into a Citibank Handlowy account ("Photo camera for summer"– promotion). As a result of the above activities the number of CitiGold and CitiOne customers significantly increased. In connection with several interest rate reductions the deposit rates decreased systematically. As a result alternative distributions channels have been promoted by the Bank – mainly investment products. Similar to previous years customers were encouraged to use alternative access channels to Personal Account – Citibank Online (internet banking) and CitiPhone (telephone banking). The customers were also encouraged to use non-cash debit cards.

As at 31 December 2005 the Bank operated 324,000 current accounts.

Loan Products

2005 was a year of continuous modification of the Citibank Loan granting policy, which led to widening the group of potential borrowers.

There was also an introduction of a new innovative policy of granting loans for selected professions based only on income estimation (the customer is not required to provide documents confirming income).

During 2005 the Bank tested a new innovative system of applying for the loan. As a result, the time taken to grant a loan in Warsaw's branches was reduced to 29 minutes, from submitting an application until money transfer into the bank account.

Moreover, the Bank conducted many promotional activities for specific groups of professionals and also supporting local acquisition initiatives.

As a result of the above actions, the Bank managed to double the volume of loan acquisition in 2005 in comparison to 2004.

In addition customers could benefit from new insurance options related to Citibank Loan from August 2005. These benefits were introduced in cooperation with MetLife Limited and MetLife Insurance Limited. Now, customers are able to insure themselves against unemployment, temporary incapacity to work and permanent incapacity to work.

Investment products

In 2005 the Bank introduced two new Regular Savings Plans – in January with Union Investment funds, in July with ING funds. They enable investment in bonds, balanced and equity funds.

In March 2005 the Luxembourg open-end offshore funds were launched, which are offered in CitiGold branches. Currently the Bank offers 48 offshore funds in EUR, USD and GBP, managed by Citigroup Asset Management Limited, which belong to the three fund families: Citi FCP, CitiMoney FCP and CitiSicav, including CitiChoice Multi-Manager fund-of-funds.

In 2005 the Bank organized 39 subscriptions of Market Linked Deposits and 28 subscriptions of Structured Notes in USD, EUR and PLN. In June for the first time the club-deal transaction in GBP was concluded.

In 2005 the sales of Regular Savings Plans almost doubled versus 2004 sales. In 2005 the Bank organized 29 investment seminars for current and potential customers

Insurance products

In February 2005 the Bank introduced to its offer life insurance for Citibank Credit Card holders, Hospitalizacja Profit. The insurance is provided by MetLife Towarzystwo Ubezpieczeń na Życie SA (previously CitiInsurance) and covers life protection, hospitalization and surgical operation benefit in case of sickness and personal accident.

In August 2005 the Bank improved its offer of insurance for installment loan, which is provided by MetLife Limited and MetLife Insurance Limited. The customer can choose simple life insurance and also a Job Loss option or Health option.

At the end of the fourth quarter the Bank introduced to its offer New Endowment Insurance "Polisa na Dobre Życie" provided by MetLife. This insurance replaced the previous endowment insurance, which was offered to the Bank's customers since 2002. The New Endowment Insurance is more flexible for customers. Besides basic life insurance it allows the customer to choose five additional insurance coverages.

In the last quarter of 2005 the Bank started cooperation with another insurance company – AIG, with whom the Bank offers a new optional package of insurance for Citibank Credit Card holders "Safety Package". The new Package with extended insurance cover replaced the previous "Safety Package".

2005 was a record year for insurance in terms of amount of written premium. Written premiums in the Single Premium Unit Linked product provided by AEGON (previously Nationwide) reached the level of PLN 600 million.

Internet

In 2005, the Bank continued to promote the Citibank Online Internet platform. A significant number of customers prefer to make financial transactions through this platform. The number of users that at least once logged on to Citibank Online in Q4, 2005 increased significantly compared with the end of 2004. The expansion of the distribution channel is driven by an appropriate pricing policy and special offers, for example attractive interest rates on T-Deposits, which are available only on the Internet, as well as extensive functionality.

In 2005, the CitiGSM service became more and more popular among customers. The CitiGSM service provides daily balances on current account or credit card account that are confirmed via SMS. The Citibank online electronic statement service and CitiGSM, which enable customers to be in control of their finances 24 hours a day from anywhere in the world, continue to be very popular among customers.

SME Banking and Citibusiness

Since 2004 the Consumer Bank offers CitiBusiness services designed for small and medium-sized enterprises. The target market of CitiBusiness are business entities, regardless of their legal status, with annual sales turnover not exceeding PLN 8 million, and whose business activity has not been excluded from the Bank's target market.

The CitiBusiness offer is based on the concept of selling products and services in the form of three Product Packages. Thanks to their variety they meet all the needs of the enterprises from the target market. Packages currently available include the following: CitiBusiness Liabilities, for transactionally active enterprises; CitiBusiness Finance, for enterprises looking for sources of financing their current operations and investments; and CitiBusiness Premium, for enterprises expecting prestige services and a comprehensive product offering.

The current offer is being distributed through Consumer Banking distribution channels, such as CitiPhone 24 hours, Citibank Online electronic banking and the network of Consumer Banking branch offices and Citibank Online ATMs as well as corporate offices that provide service for retail consumers.

Customers can link their personal accounts and company accounts. This solution is designed for customers who conduct business activities as private individuals or who are professionals. The solution enables them to manage their company finances through their personal account. Additionally, it allows for cost reduction due to free transfers between the related accounts.

The CitiBusiness offering is aimed at building the Bank's image as a partner for entrepreneurs and companies in different stages of their development. The Bank's experience, knowledge of financial services and modern technologies translate into a comprehensible, customer-friendly offer in the form of Packages, available through various channels. The CitiBusiness offering should be perceived as competitive in terms of price and should be identified with all widely known advantages of the Bank: high quality, modern services and professionalism.

In the second half of 2005 CitiBusiness has been intensively repositioned with the aim to improve efficiency in back office, credit and distribution processes and to grow sustainability of the business. This has led to an organization that is now well positioned for enhanced services to its customers and future growth.

CitiFinancial

The strategic goal of CitiFinancial is to be the fastest growing and most profitable venture in Poland's retail loan market, which is being implemented on the basis of stable and strong relationships with customers. Customer needs and control of product profitability are the main pillars of its plan. The main advantage is an individual approach toward every single customer to build mutually beneficial long-term cooperation.

CitiFinancial's target market covers 15.5 million of individuals representing more than 7 million households. This is a significant market, with access guaranteed by the appealing credit offer of CitiFinancial. A majority of the target customers have income not exceeding the average level for Poland and appreciate convenient access to the Bank's outlets. To this end, the network of branches located in the vicinity of shopping centers and housing districts is being developed dynamically. At the end of 2005, CitiFinancial had 61 branches, i.e. 22 new outlets more than in 2004. Sales by brokers developed at a similar pace in 2005.

The product offer of CitiFinancial includes unsecured cash loans with an insurance option. For customers who want to repay liabilities incurred in other banks CitiFinancial has a debt consolidation loan. By the end of 2005, CitiFinancial extended its product offer by mortgage--backed consumer loans. These products are characterized by higher amounts and lower risk, and are secured by mortgage on real estate. They are offered to customers who want to consolidate installments or repay other high-interest loans. The development of that product will be an important focus for CitiFinancial in the years to come.
The group of products created and sold under the CitiFinancial brand name have shown strong sales growth, which confirms that the Bank has adopted an appropriate market penetration model

Branch Network

In 2005, the Bank continued efforts to reorganize its branch network in order to optimize operating costs and accessibility for both retail and corporate customers.

The number of corporate outlets decreased to 41 during the year – a reduction by one outlet as a result of merger with a retail branch. At the same time, the number of retail outlets that serve corporate customers increased to 13 (by three). In total, corporate customers are served by 54 outlets (i.e. two more as compared with the end of 2004).

As of the end of 2005, the branch network of the Consumer Bank had 86 branches (as at the end of 2004). During 2005, the Consumer Bank opened one Investment Center, one branch for CitiGold Wealth Management customers and three multipurpose branches, and closed five loss-making multipurpose outlets. In addition, 23 corporate braches also serve individual customers (the number did not change in 2005).

The rapid expansion of CitiFinancial's branch network was continued in 2005 to the level of 61 outlets (an increase by 22).
In total, at the end of 2005, the Bank had 188 outlets, i.e. 21 more as compared with the end of 2004, and increased the cross-service capacity between the segments.

Information technology (IT)

The objective of IT development is to provide optimal processes while ensuring data security and continuity, and implementation of new solutions reflecting technological progress, product needs and the Bank's regulatory environment.
The following solutions influenced the development of a leading--edge product range, improvement of its quality and efficiency, and reduction of its cost:

- Implementation of the new version of the Goniec client software containing the extensions required by the regulatory authorities;
- Implementation of distribution of the report on ZUS payment details;
- Installation of telecom and IT infrastructure in new branches of CitiFinancial;
- In transaction services, implementation of the new Customer Relationship Management (CRM) application to automate the management of customer relationships, control of execution of the anti-money laundering policy (AML), aggregation and presentation of financial and operational data;
- Implementation of P2P/FlexCube interface. P2P is a global Citigroup platform for procurement (including invoice processing, purchase automation, vendor management etc.);
- Implementation of a new version of the Unikasa system for mass payments processing, following the termination of the agreement with the previous vendor, to be more competitive on the Polish market. The new solution will enable acquisition of more customers and increase revenue;
- Initiation of new FlexCube release implementation, to improve customer service levels, reduce risks in transaction processing and comply with local/global regulatory requirements;
- Initiation of new changes within compliance. The advantages include reducing the risk of frauds within Internet banking. Disposable passwords have been implemented that allow the authorization of the clients;
- Implementation of an interface to a data warehouse system for monitoring suspect transactions made by Maestro Cards, that enables the Authorization Team to immediately restrict the cards or the accounts;
- New application for Treasury to increase customer service security by providing new process for customer verification and authorization;
- New application allowing service for a high volume of customers and transactions in the area of international investment funds;
- Implementation of new IVR system (automatic banker for telephone service) and integrated CPO desktop agent's application for 24hrs business and commercial card information service, i.e. credit, debit, Paylink, CitiConnect issued to Bank and SKOK customers/card holders. The solution allows checking recent transactions, provides card balance information and transfers do call center advisor available 24/7. The solution implemented is unique in the local market and places the Bank ahead of the competition;
- Implementation of a series of functional modifications and enhancements in IVR GCB/CitiBusiness application, including customer satisfaction survey, playback of personalised/dedicated marketing and information messages to selected customers, upfront balance information, cash transfers from credit card accounts, and automatic fax transmission with customer transaction history directly from IVR – service offered mainly to CitiBusiness customers;
- Implementation of changes in FlexCube to ensure compliance with new regulations and reporting requirements;
- Implementation of the Effective Interest Methodology, notably for loans, deposits and debt securities and to enable the Risk Management Division and Finance Division to calculate loan impairment provisions in accordance with IFRS.

The total investment in IT incurred in 2005 amounted to PLN 36 million in the Corporate and Investment Bank and PLN 13 million in the Consumer Bank.

Other Information about the Bank

Rating

The Bank has a full rating from the international rating agency Moody's Investors Service.

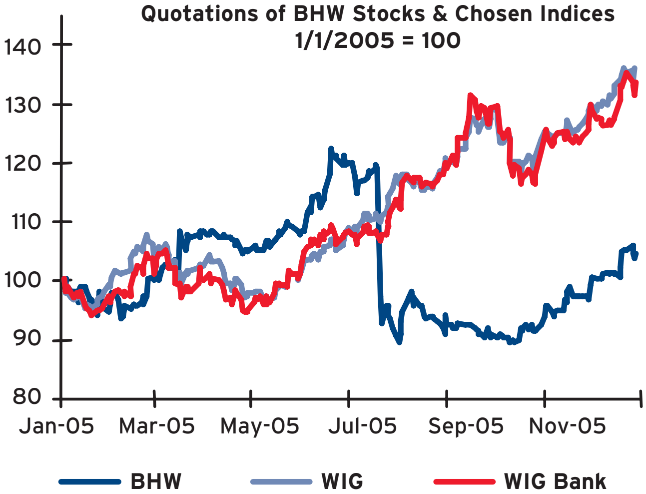
Since January 2003 Moody's has maintained an A2 rating for long--term deposits (investment grade 6 on the 21 point rating scale) and Prime-1 for short-term deposits (1st on the 4 point rating scale). The Bank's ratings are at the highest level available for entities domiciled in Poland.

Additionally, on 31 October 2004, the agency notified the Bank of a change in outlook of the financial strength rating, now at D+ level, from stable to positive, which was justified by the Bank's leading market position in the area of credit cards, corporate and investment banking, capital market expertise, as well as cash and trade services and the expansion of mass-market consumer banking under the CitiFinancial brand.

The Bank's Performance on the Warsaw Stock Exchange

In 2005, the price of the Bank's shares on the Warsaw Stock Exchange (WSE) rose from PLN 64.1 (December 31, 2004) to PLN 66.50 (December 30, 2005), by 4% despite the payment a dividend of 11.97 per share. In July 2005 the Bank observed a significant decrease in its share price due to the expiry of rights to its 2004 dividend.

Quotations of BHW Stocks, PLN



Interest Rates

The average interest rate used by the Bank for deposits and loans in 2005 is included in explanatory notes to the Financial Statements.

Awards and Honors

In 2005, the Bank received the following awards and honors:

- Citibank Handlowy was the winner of the 5th edition of the Colors of Volunteering competition in the category of Employee Volunteerism;
- SpeedCollect Plus won the award of the "Banking Technology Magazine" as the Best Corporate Banking Achievement for 2005;
- Citibank Handlowy was the winner of the European Clearing Survey's ranking of the "Global Investor" magazine as the best clearing bank for debentures and stocks;
- The Bank was honored as the Patron of the Year 2005 by the National Philharmonic in Warsaw;
- Citibank Handlowy won the Superbrands Poland title;
- Citibank Handlowy took third place in the "Dream Employer" in the financial sector, prepared by the Students Scientific Consulting Group of the Warsaw School of Economics;
- The CitiGold account won first place in the ranking of "Rzeczpospolita" in the category of personal accounts for affluent and demanding customers;
- The Citibank credit card was named the safest card by Rzeczpospolita;
- The promotional logo Entrepreneur Friendly Bank for Citibank Handlowy in 2004;
- Dom Maklerski Banku Handlowego S.A. received for the third time running the Golden Bull Award granted by the President of the Warsaw Stock Exchange for the largest share in the equity market turnover on the Warsaw Stock Exchange.

Sponsoring Activity and Cultural Patronage

- The Bank as the Patron of the Year 2005 of the National Philharmonic sponsored a concert by the Academy of St. Martin--in-the-Fields Orchestra and a symphonic concert by the Warsaw Philharmonic Orchestra and Female Choir, conducted by Grzegorz Nowak;
- The Bank sponsored "Heaven" – a studio long play by Anna Maria Jopek;
- The Bank sponsored two "The Age of Jazz" concerts: by Jan Garbarek (saxophone) & The Hilliard Ensemble as well as The Manhattan Transfer (jazz vocal group);
- The Bank was a strategic sponsor of the "One passion, two visions" photo exhibition of David Michael Kennedy and Tomek Niewiadomski in the Cane Factory in Warsaw;
- The Bank sponsored a charity Children's Day concert in Kraków by the Beethoven Academy in aid of the children's home in Cholpon Ata in Kyrgyzstan;
- The Bank sponsored the concert of the Al Di Meola Group during the Wrocław Non Stop Festival.

Special purpose investment companies

In 2005 the Group performed capital operations through three special purpose investment companies. The activity of these entities was financed by the Bank by contributions to equity, subordinated loans and by financial results. As a result of reducing this activity, the investment companies will be sold or liquidated in the future.

Selected income statement and balance sheet items*

Company	Headquarters	Bank's stake in company's equity	Total assets 31.12.2005	Equity 31.12.2005	Net profit/(loss) 2005
		%	PLN thousand		
Handlowy Inwestycje Sp. z o.o.	Warsaw	100.00	16,869	10,196	235
Handlowy Investments S.A.	Luxembourg	100.00	88,711	(71,916)	(4,058)
Handlowy Investments II S.a.r.l.	Luxembourg	80.97	33,860	9,180	(1,414)

**unaudited*

Significant Risk Factors relating to the Group's Operations

Major risk factors and threats to the Group's operating environment

Economy

Economic forecasts prepared by the Bank assume that Poland's economy should accelerate in 2006. The GDP growth rate should increase to 4.2%, as compared with 3.2% in 2005. The key driver of growth should be domestic demand – both consumption and capital expenditure should recover.

Increasing consumption should be supported by the pensions indexation, planned for 2006, and an increase in the wage bill due to rising employment and wages. On the other hand, an investment recovery should be driven by high capacity utilization and very low interest rates (the Bank's forecast assume that the Council will reduce interest rates by 50 basis points in 2006). However as in previous years, changes in investment spending are extremely hard to predict. Therefore, the main risk factor for Poland's growth is the possibility that the investment recovery will be delayed. If so, demand pressure would weaken and the inflation rate would drop even further, despite it already being at a very low level.

In that scenario, the Monetary Policy Council could opt for deep cuts of interest rates. The fluctuation of Poland's currency will also have a significant impact on monetary policy decisions. If the zloty strengthens beyond expectations, the scale of interest rates cuts will have to be larger in order to ease monetary policy.

Another important risk for Poland's economy in 2006 may be the persistent uncertainty about the direction of the Government's fiscal policy. Changes in public finance may affect the way foreign investors perceive Poland's economy and, as a result, generate fluctuations in the FX market. An adverse FX trend could have a negative impact on financial results and general financial standing of the Bank. Simultaneously, a possible increase in political uncertainty could hinder investment recovery, which could lead to a lower demand for the Bank's products.
It is also possible that political turbulence will create major changes in the institutional environment and operating conditions of the Bank.

Regulatory Risk

Any changes in economic policy and the legal system may significantly affect the financial situation of the Bank. Regulations of the banking sector, including regulations issued by the Finance Minister, resolutions of the Management Board of the National Bank of Poland ("NBP"), orders issued by the President of the NBP and resolutions of the Commission for Banking Supervision ("KNB"), are of utmost importance.

The most relevant regulations cover:

- acceptable concentration of loans and total receivables (Banking Act);
- maximum limit of equity that may be invested in the capital market (Banking Act);
- solvency and credit risk standards (resolutions of the KNB);
- mandatory reserves (establishment and transfers) (NBP Act, Banking Act, resolutions of the KNB and resolutions of the Management Board);
- taxes and similar charges;
- the anti-usury act that determines the maximum statutory interest rates and maximum commissions and fees for consumer loans;
- restrictions in granting loans.

Competition within the Banking Sector

Competition between banks in different segments of the Polish banking sector seems to be strong. Companies will increasingly utilize financial alternatives to bank loans, such as issuance of short-term debt securities and leases, and will fund their operations from earnings. The pressure imposed by companies in good financial condition to reduce credit and non-credit margins will not come to an end in the near future.

After Poland's accession to the European Union, foreign banks have shown more interest in the Polish market of banking services. Banks from the EU have now an advantage as they do not have to start from scratch or acquire a bank. An institution based in any member state of the EU has only to notify its intent to operate in another market to the European supervision authorities. Foreign banks may operate cross--border activities in Poland, i.e. without their actual presence. By the end of 2005, the Commission for Banking Supervision received more than 100 notifications. At present, representative offices are carrying out such operations, i.e. banking institutions are opened without a registered office in Poland. They focus on large corporations, but the possibility cannot be excluded that in time foreign banks will attempt to conquer the retail market. It is highly probable that the increasing foreign investments in the banking sector and the emerging unified European market of financial services will lead to greater competition in the market for banking services, also in activities such as FX transactions, settlements of foreign trade transactions and investment banking.

Despite the large number of institutions that have notified their intent to open operations in Poland, we do not expect sizeable changes in the structure of the banking sector. Those institutions that are really interested in the Polish market, and that deem it attractive, have already been developing their presence here for several years. As a result, banks operating in Poland offer products comparable with those that are distributed in other EU countries. The competitive struggle will focus on the quality of services and the efficiency and speed of customer service. The factor that could potentially reduce competition is the continued consolidation of the banking sector. The Bank is well prepared to face European rivals, there is, however, a risk that the increasing competition could affect its earnings.

Equity Investment Risk

Equity investments can be divided into two categories: strategic and restructuring. The strategic portfolio includes the Bank's shares in Polish financial institutions of a strategic significance to the Bank due to their operations. Investments are owned directly by the Bank or indirectly via the Bank's wholly-owned special purpose investment vehicles. At the end of 2005, the value of net equity investments including subordinated loans and accrued interest amounted to PLN 364.2 million as compared with PLN 450.6 million as of December 31, 2004. Moreover, due to a number of macroeconomic effects, the situation in equity markets and other factors having an impact on activities of the companies in which the Bank is a shareholder may mean that the selling price of owned shares may turn out to be lower than expected, or even lower than their value in the Bank's books of account, which may have a negative impact on the financial situation of the Bank. The Bank has already created substantial provisions related to its equity investments and, hence, the risk level connected with a further drop in the value of the Bank's investment portfolio is moderate.

Prospects for the Group's development

Strategic Investment Portfolio

The strategic investment portfolio comprises up equity shares in companies which help the Group to expand its product range and presence and also strengthen its competitive position on the financial services market in Poland. Examples of these investments include Dom Maklerski Banku Handlowego S.A., Handlowy Leasing S.A. and Citileasing Sp. z o.o.

Brokerage activities

Brokerage activity of the Group is performed by the Bank's wholly-owned subsidiary Dom Maklerski Banku Handlowego SA (DMBH). The major clients of DMBH in terms of revenue generation are institutional investors. DMBH aims at increasing its efforts to seek new institutional customers, especially among foreign institutions. In addition, DMBH will focus on increasing its share in servicing of domestic retail customers. Cost efficiency in this case will be achieved by close cooperation of DMBH with the Consumer Banking Sector.

Leasing activity

Leasing activity is conducted through the Bank's two subsidiaries: Handlowy Leasing S.A. (100% indirect equity stake held by Bank Handlowy via Citileasing Sp. z o.o.) and Citileasing Sp. z o.o. (direct equity stake of 97.47%, the remaining 2.53% owned by Handlowy – Inwestycje Sp. z o.o.).

On 10 January 2006 Citileasing Sp. z o.o. (Bidding Company) and Handlowy – Leasing S.A. (Target Company), subordinated entities of the Bank, merged in accordance with the resolution (signed on 2 December 2005) of the Extraordinary Meeting of Partners of Citileasing Sp. z o.o. and the Extraordinary General Meeting of Handlowy Leasing S.A. Following the merger leasing activity is operated under the firm Handlowy – Leasing Sp. z o.o. The Bank and Handlowy-Inwestycje Sp. z o.o. hold shares in Handlowy – Leasing Sp. z o.o. The Bank holds all shares in Handlowy – Inwestycje Sp. z o.o. The Bank holds 97.47% of shares. (6,000 votes) and Handlowy - Inwestycje holds 2.53% of shares (156) votes at the Meeting of Partners.

The new company is going to develop the sale of leasing products among the Consumer Bank and Investment Banking customers.

Restructuring portfolio

Apart from strategic companies, the remaining investments are classified by the Bank in the restructuring portfolio. The Bank's objective is to reduce its exposure in that portfolio.

Corporate Governance

Good Corporate Practices and Principles of Management at the Bank

As declared by the Bank's Management adopted by the resolution of May 19, 2005 and included in current report No. 22/2005 of June 6, 2005, the Bank has undertaken to follow the corporate governance practices determined in the "Good Practice for Public Companies 2005".

The Supervisory Board issued a positive opinion on that statement (the Supervisory Board's resolution of May 24, 2005) and, subsequently, it was approved by the General Meeting of Shareholders of June 21, 2005 (Resolution 11).

The Bank's aim is to be the most respected financial services company in Poland, with a strong sense of business and social responsibility. Since 2003 the Bank respects the corporate governance rules adopted by the Warsaw Stock Exchange in the form of the "Best Practices in Public Companies". The main purpose for adoption of the corporate governance rules as the standard in the Bank is to build transparent relationships between all entities involved in the Company and to ensure proper and diligent management of the Company and its business and ensure fairness to all shareholders.

In order to ensure transparency in the Bank, including in particular relationships and processes between statutory bodies of the Company, the following Best Practices have been introduced in the Bank:

Investor Relations

An integrated part of the Bank's information policy, whose aim is to provide information to all individuals and institutions that need information about the company, are investment relations that provide the information for present and potential investors and capital market analysts. The Bank's information policy is implemented, among other things by:

- Organizing regular meetings with investors and analysts in the form of briefings and conference calls, also in the Bank's headquarters, with participation the Management Board.
- Support from Investment Relations Office during the press conferences for media that are organized during the reports publication.
- Publishing on the Bank's website current information about the Bank and its businesses, and also all current and periodical reports; the website facilitates contact with the Investor Relations office, which provides information about the Bank and its capital group.
- Enabling media representatives to participate in General Meetings.

Transparency

The Bank permanently undertakes actions to improve transparency in the Bank's organization, division of powers and functioning of particular bodies and their mutual relations as follows:

- The Bank presents its financial statements in accordance with International Financial Reporting Standards (IFRS) since 1 January 2005 including the annual consolidated financial statements.
- One half of the Bank's Supervisory Board members are independent members, including the Chairman of the Board.
- Within the Bank's Supervisory Board is the Audit Committee composed of two independent members, including the independent Chairman of the Committee.
- According to the corporate governance rules, the total value of remuneration for all members of the Management Board is included in the annual report. Remuneration of particular Management Board members reflects their scope of duties and liability.
- All significant internal regulations, information and documents related to the Company's Shareholders Meetings are available in the Company's headquarters and on its website.

Minority shareholders protection

The Bank ensures due protection of minority shareholders' rights within the limits defined by the nature of the company and primacy of the majority rule related to it.

In particular, in order to ensure equal treatment of all shareholders the Bank adheres, among others, to the following rules:

- General Meetings always take place in the Company's seat in Warsaw.
- According to the practice adopted in the Company, all important materials for the General Meeting, including draft resolutions with justification and opinion of the Supervisory Board, are made available to Shareholders not later than 7 days before the date of the General Meeting, at the Company's seat and on the Bank's website.

- General Meeting have stable regulations defining detailed principles of debate management and the passing of resolutions.
- Members of the Management Board and Supervisory Board take part in General Meetings and provide explanations and information about the Bank to participants in the meeting within the limits of their competencies.
- Participants in the General Meeting objecting to a resolution are given an opportunity to provide a brief justification of their objections. Moreover, each participant in the General Meeting is given an opportunity to submit written statements to the meeting's minutes.

Bank's authorities and other Corporate Governance Rules

In 2005, the principles of management used by the Bank were amended. These principles are presented in Note 3 of the Bank's Financial Statements.

Changes in the Composition of the Bank's Management Board and Supervisory Board in 2005

Changes in the Composition of the Management Board in 2005

The following changes in the Management Board occurred in 2005:

Resignations:

David J. Smith	Vice-President of the Bank's Management Board, on 3 February 2005,
Sunil Sreenivasan	Vice-President of the Bank's Management Board, on 31 March 2005,
Philip King	Vice-President of the Bank's Management Board, on 26 October 2005.

Appointments:

Reza Ghaffari	Vice-President of the Bank's Management Board, on 4 February 2005,
Sanjeeb Chaudhuri	Vice-President of the Bank's Management Board, on 28 October 2005.

In 2006 up to the date of sign of the financial statements the following changes in the Management Board occurred after the year end:

- On 1 January 2006 Mr. Witold Zieliński was appointed to the position of Vice-president of the Bank's Management Board.
- On 22 February 2006 Mr. Reza Ghaffari resigned from the position of Vice-president of the Bank's Management Board.

Changes in the Composition of the Supervisory Board in 2005

There were no changes in the composition of the Supervisory Board in 2005.
On 23 January 2006 Mr. Edward Kuczera tendered his resignation from the position of Member of the Supervisory Board to the Chairman of the Bank's Supervisory Board and ceased to be a member of the Supervisory Board of the Bank from 31 January 2005
On 27 February 2005 the Bank's Supervisory Board appointed Mr. Krzysztof Opolski to the position of member of Supervisory Board of Bank Handlowy w Warszawie SA.

Changes relating to Appointments and Discharges of Members of the Management Board and Powers of Members of the Management Board

Members of the Management Board are appointed by the Supervisory Board for a 3-year term. Their mandate expires:

- on the date of a General Meeting that approved the Management Board's report on the Bank's operations and the financial statements for the last full financial year during which a member sat on the Management Board;
- upon death of a member of the Management Board;
- upon the discharge of a member of the Management Board;
- upon the submission of a written resignation to the Chairman of the Supervisory Board.

Powers of Members of the Management Board

The Management Board makes decisions, by way of resolution, concerning matters that are not entrusted by law or the Articles of Association to other governing bodies of the Bank, and in particular the Management Board:

1) formulates the Bank's strategy;
2) adopts annual financial plans, investment plans and reports on their performance;
3) approves reports on operations and financial statements;
4) recommends the appropriation of profits or coverage of losses;
5) determines dividend payment dates, on the basis of limits voted by the General Meeting;
6) approves HR and credit policy, as well as legal principles of the Bank's operations;
7) approves the capital management policy;
8) approves the employment structure;
9) determines the basic organizational structure of the Bank, appoints and discharges heads of Sectors and Divisions, and defines their powers and responsibilities;
10) creates and liquidates committees and determines their powers and responsibilities;
11) determines the Bank's Regulations and submits them to the Supervisory Board for approval;
12) appoints commercial proxies, general authorized representatives and general authorized representatives entitled to substitution;
13) determines, and submits to the Supervisory Board for approval, regulations of management of special funds created from net income;
14) determines audit and control plans for the Bank and approves audit and control reports;
15) decides on other matters that, according to the Articles of Association, are to be submitted to the Supervisory Board or the General Meeting.

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

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

In thousands of PLN				
Name	Salaries, awards and benefits received in the Bank			Other*
	Base salaries and awards	Other Benefits	Shares awarded	
Sławomir Sikora	2,243	167	891	-
Sanjeeb Chaudhuri	24	-	-	-
Reza Ghaffari	1,175	209	204	-
Lidia Jabłonowska--Luba	1,196	12	218	16
Philip King	1,456	470	745	-
Michał Mrożek	1,506	30	343	7
David Smith	14	-	-	-
Sunil Sreenivasan	541	5	-	-
	8,155	**893**	**2,401**	**23**

**Other remuneration received for positions held in governing bodies of subordinated undertakings*

The total amount of "Base salaries and awards" includes the gross amount of base salaries paid in 2005 and awards granted in 2005. According to a decision of the Supervisory Board the remaining amount of awards granted to the members of the Bank's Management Board for 2004, paid in 2005, in total amounted to PLN 4,055 thousand.
The total amount of other benefits includes the gross amount of paid remuneration arising from indemnification for employment contract termination, managerial options granted, benefits in kind, lump-sum payment for the use of company car, insurance policy premium, holiday leave equivalent, dividends and supplementary benefits consistent with the employment contract of foreign employees.

The total amount of salaries, awards and benefits paid or payable to the current and former members of the Bank Management Board in 2004 is as follows:

In thousands of PLN					
Name	Salaries, awards and benefits received in the Bank				Other*
	Base salaries and awards	Other benefits	Shares awarded	Options granted	
Sławomir Sikora	2,291	46	118	-	-
Lidia Jabłonowska-Luba	1,057	3	48	1,500	30
Wiesław Kalinowski	428	2,765	-	-	-
Philip King	2,475	216	168	8,000	-
Michał Mrożek	1,249	14	48	1,500	8
David Smith	3,926	1,556	404	16,000	-
Sunil Sreenivasan	174	3	-	-	-
	11,600	**4,603**	**786**	**27,000**	**38**

Other remuneration received for positions held in governing bodies of subordinated undertakings

The total amount of base salaries and awards includes the gross amount of base salaries paid in 2004

According to a decision of the Supervisory Board the amount of awards granted to the members of the Bank's Management Board for 2003 and paid in 2004 in total amounted to PLN 3,294 thousand.

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

The total amount of salaries, awards and benefits paid or payable to the current and former members of the Supervisory Board of the Bank in 2005 and 2004 is as follows.

In thousands of PLN	2005	2004
Stanisław Sołtysiński	190	107
Göran Collert	73	71
Mirosław Gryszka	116	71
Edward Kuczera	116	71
Jarosław Myjak	73	30
Andrzej Olechowski	116	71
Andrzej Gdula	-	41
	684	**462**

In 2004 and 2005, persons having supervisory functions in the Bank did not receive any remuneration for their positions held in the governing bodies of subordinated undertakings of the Bank
Remuneration paid and payable to persons managing subordinated entities in 2005 and 2004 amounted to PLN 7,454 thousand and 9,348 thousand respectively.
Remuneration paid and payable to persons supervising subordinated entities in 2005 and 2004 amounted to PLN 266 thousand and 609 thousand respectively.

Total Volume and Nominal Value of the Bank's Shares and Shares in Affiliated Companies of the Bank that are held by Members of the Management Board and the Supervisory Board

No member of the Management Board is a shareholder of the Bank or any affiliated company of the Bank. One member of the Supervisory Board owns 752 shares of Bank Handlowy w Warszawie SA (total nominal value of PLN 3,000).

Agreements between the Bank and Members of the Management Board that provide for compensation in case of their resignation or discharge without appropriate justification or as a result of the Bank's takeover

There is one agreement between the Bank and a member of the Management Board that includes a provision for cash compensation in case of termination.

The provision states that when the member of the Management Board is discharged during the term of the agreement (i.e. during the term of office) and when the agreement is terminated upon 3-month notice, the member of the Management Board will be entitled to compensation in an amount equal to annual basic remuneration. Compensation will be paid within 14 days from the termination date. Compensation for the same amount will also be due in case of termination of the agreement without notice due to a serious illness pursuant to Article 53 of the Labor Code.

Other rules

Holders of Securities with Attached Special Control Powers towards the Bank

All the shares issued by the Bank are ordinary bearer shares and give no special control powers towards the Bank.

Limitations related to the Transfers of Ownership Title to the Bank's Securities and Limitations in the scope of Voting Rights connected with the Banks' Shares

In addition to the limitations set forth by the Banking Act (Article 25) – a person who takes or acquires more than 10%, 20%, 25%, 33%, 50%, 66% or 75% of the Bank's total shares must obtain a permit from the Commission for Banking Supervision. A permit is also required to dispose of shares, if the holder exceeded the above limits previously. The Articles of Association impose no other restrictions on transfers of the Bank's shares.

Agreements concluded with registered audit company

On 24 May 2005, the Supervisory Board of the Bank appointed a registered audit company, KPMG Audyt Sp. z o.o. ("KPMG") having its registered office in Warsaw, at Chłodna Street 51, registered audit company no. 458, to conduct an audit and a review of the Bank's financial statements for the year ended 31 December 2005. KPMG was selected in compliance with the applicable laws and regulations.

The contractual fees of KPMG (paid or payable) for the years ended 31 December 2005 and 2004 are presented in the table below:

In thousands of PLN	2005	2004
Audit and review fees of the Bank (1)	1,337	1,195
Audit and review fees of subsidiary entities (2)	754	668
Other assurance fees (3)	352	532
	2,443	**2,415**

(1) The contract fees for the audit include fees paid or payable to KPMG for the annual audit of the stand-alone and consolidated financial statements of the Bank – parent entity (agreement signed on 22 November 2005) and for the review of the semi-annual stand-alone and consolidated financial statements (agreement signed on 21 August 2005)

(2) The contract fees for the audit include fees paid or payable to KPMG for the annual audit of the financial statements of the subsidiary entities.

(3) The fees for assurance services include all other fees paid or payable to KPMG. These fees include assurance services related to the audit and review of financial statements of the Bank – parent entity and subsidiary entities not mentioned in points (1 and 2).

Other information that are required by the Decree of the Ministry of Finance dated 19 October 2005 on current and periodic information provided by issuers of securities (Official Journal from 2005, No. 209, item 1744) and the information is consistent with the financial statements of the Capital Group of Bank Handlowy w Warszawie SA.

Signatures of all Management Board Members

Date	Name	Position/function	Signature
27.03.2006	Sławomir Sikora	President of Management Board	
27.03.2006	Sanjeeb Chaudhuri	Vice-President of Management Board	
27.03.2006	Witold Zieliński	Vice-President of Management Board	
27.03.2006	Lidia Jabłonowska-Luba	Member of Management Board	
27.03.2006	Michał H. Mrożek	Member of Management Board	

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