Notes to consolidated Financial Statement of The Capital Group of Bank Handlowy w Warszawie SA for the second quarter of 2005

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Notes to consolidated quarterly SAB-QSr 2/2005 report for the second quarter of 2005

This consolidated quarterly report shows the results of operations of the Capital Group of Bank Handlowy w Warszawie SA ("the Group"), composed of Bank Handlowy w Warszawie SA ("the Bank") as the parent and its subsidiaries. The list of subsidiaries belonging to the Bank's Capital Group and other subordinated entities, together with the consolidation method applied to each of them, is presented further on in the notes.

1. The basis of preparation of the consolidated quarterly report

On 7 December 2004, the General Meeting of Shareholders of Bank Handlowy w Warszawie SA adopted a resolution that the Bank's individual financial statements would be prepared in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations issued as Commission Regulations. Effective from 1 January 2005, the Bank is required to prepare its individual and consolidated financial statements in accordance with IAS.

1.1 Accounting principles

General information

The financial statements of the Bank's Capital Group for the three months ended 30 June 2005 were prepared in accordance with the following:

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

and in compliance with regulations specified in:

- International Accounting Standards, International Financial Reporting Standards (IFRS) and related interpretations issued as Commission Regulations, collectively hereinafter called *IAS*, referred to in Art. 2.3 of the Polish Accounting Act of 29 September 1994 (Journal of Laws of 2002 No. 76/694, as amended);
- in matters on which IAS are silent, the Polish Accounting Act and Regulations and orders issued pursuant thereto.

This report for the second quarter of 2005 complies with IAS 34 on interim financial reports and IFRS 1 on first-time adoption of IAS.

These financial statements have been prepared on a historical cost basis, with the exception of financial assets recognized at fair value through the income statement, financial assets available for sale and derivative instruments. All changes in accounting policies have been made in compliance with the transitional provisions of the relevant standards.

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

Property, plant and equipment and intangible assets (excluding goodwill)

Property, plant and equipment and intangible assets are stated at historical cost less accumulated depreciation or amortization and impairment write-offs. The historical cost of an item of property, plant and equipment comprises any directly attributable costs of purchasing and bringing the asset into use.
Subsequent expenditure relating to an item of property, plant 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 and the depreciation and amortization rates set in the approved depreciation and amortization schedule for the year ended 31 December 2005.

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

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

As at each balance sheet date, the residual values of non-current assets and their useful lives are reviewed and the depreciation and amortization schedule is adjusted, where appropriate.
Assets with original cost less than PLN 3,500 are 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, plant and equipment include rights to perpetual usufruct of land obtained by the Group free of charge in prior years under the then applicable regulations.
Historically, fixed assets were periodically subjected to revaluation with the indices published by the President of the Central Statistical Office. The results of revaluation were reflected in the revaluation reserve in the Bank's equity. It should be noted that no revaluation based on the indices published by the Central Statistical Office has taken place since 31 December 1995.
Depreciated items of property, plant 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, plant 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, plant 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 tangible fixed assets. The Group recognizes them initially at fair value. Any excess of the fair value of the given property over its carrying amount at the time of initial recognition is recognized in the revaluation reserve and any excess of the carrying amount of the given property over its fair value is recognized in the income statement for the period. The Group ceases to depreciate any property recognized as an investment property. Fair value gains on an investment property are recognized in the income statement in the period in which they are made. Fair value losses on an investment property are set off against any revaluation surpluses. Any excess of fair value losses is recognized in the income statement of the Group.

Goodwill

Goodwill is an excess of the cost of the acquisition over the fair value of the Group's interest in the identifiable net assets of the acquired subsidiary /associate as at the acquisition date. Goodwill on acquisition of subsidiaries is recognized in intangible assets. Goodwill on acquisition of associates is recognized in investments in associates. Goodwill is not amortized and instead it is tested for impairment annually and presented in the balance sheet net of accumulated impairment write-offs. Gains or losses on disposal of any entity take into account the carrying amount of goodwill attributable to the sold entity.

Goodwill arising on acquisitions effected before 1 January 2004, i.e. the date of the Bank's transition to IAS was calculated as the difference between the cost of the acquisition of the given subsidiary /associate and the net assets of the acquired entity as at the acquisition date.

Foreign currencies

(a) The functional currency and the presentation currency

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

(b) Transactions and balances

Balance sheet and off-balance sheet items expressed in foreign currencies are stated at the exchange rate of the functional currency prevailing on the balance sheet date.
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions.
Foreign exchange gains or losses arising from the remeasurement of balance sheet items expressed in foreign currencies and the settlement of foreign currency transactions are recognized as foreign exchange income or expense, respectively.
The NBP mid exchange rate for the given currency is applied as at the balance sheet date.
The exchange rates of the major currencies applied in the preparation of these financial statements are:

PLN

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

Investments: shares in subordinated entities

Subordinated entities comprise subsidiaries and associates.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies usually accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.
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. Material unrealized gains and losses on transactions between Group companies are also eliminated unless a loss on an intra-Group transaction provides evidence of an impairment of the assets transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency in all material respects with the policies adopted by the Group.

(b) Associates

Associates are all entities over which the Group has significant influence but not control, usually accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment write-off) determined at the acquisition date. The Group's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in *Other reserves* is recognized in *Other reserves*. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.
Material unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated have been changed where necessary to ensure consistency in all material respects with the policies adopted by the Group.

Shares in subordinated entities defined as subsidiaries and associates are classified as financial assets available for sale.
Shares in subordinated entities held for disposal are recognized in the balance sheet at cost, less accumulated impairment write-offs.

Investments: shares in other entities

Shares in entities other than subordinated entities are classified as financial assets available for sale and presented in accordance with IAS 39.

Segment reporting

Business segments were adopted as the primary reporting format, as the risks and returns are linked to differences between products. The Group is managed at the level of three major segments: Corporate and Investment Bank, Consumer Bank and CitiFinancial offering cash loans. Revenues and results of the individual business segments of the Group are presented in Note 19.

Financial assets

The Group classifies its financial assets into the following categories:
- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity investments;
- available-for-sale financial assets.

The Group determines the classification of its financial assets at the time of their purchase. On its transition to IAS, the Group did not reclassify its financial assets and retained the classification applied at the time of their purchase in accordance with the provisions in the Regulation of the Finance Minister about the detailed rules for the recognition, valuation, disclosure and presentation of financial instruments of 12 December 2001 (Journal of Laws No. 149/1674, as amended).

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. All derivative instruments are also categorized as held for trading unless they are designated as hedges.

(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 money, goods or services directly to a debtor with no intention of trading the receivable. This category comprises in the first instance amounts due in respect of loans and purchased debts.

(c) Held-to-maturity financial assets

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the intention and ability to hold to maturity. If the Group has sold more than an insignificant amount of held-to-maturity assets, the classification of the entire category is changed to *available-for-sale financial assets*.

(d) Available-for-sale financial assets

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

Purchases and sales of financial assets recognized at fair value through profit or loss, held to maturity or available for sale are accounted for in the Group's balance sheet at settlement date, i.e. the date that the Group acquires/transfers title to an asset in exchange for a liability to pay the transaction price/a

transaction price receivable. Such purchases or sales of financial assets are subject to fair value adjustments from the date that the Group assumes an obligation to purchase or sell the given asset. Loans and other receivables are recognized at the time of payment of cash to the borrower.
Financial assets are initially recognized at fair value plus material transaction costs, with the exception of financial assets recognized at fair value through the profit and loss account. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.
Available-for-sale financial assets and financial assets recognized at fair value through profit or loss are subsequently recognized at fair value. Changes in fair values of financial assets at fair value through profit or loss are recorded in the income statement when taking place. Changes in fair values of financial assets available for sale, excluding changes due to accrued interest income, are recognized directly in equity until subsequent derecognition or impairment, when the cumulative gain or loss is transferred from equity to the income statement.
Dividends in respect of equity instruments available for sale are recognized in the income statement when the right of the entity to receive payment is established.
Loans and receivables and held-to-maturity investments are carried at amortized cost.
The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques.

Offsetting financial instruments

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

Repo/ reverse repo transactions

The Group enters into purchase/sale transactions under an agreement to resell/repurchase the same financial assets, so called sell-buy-back and buy-sell-back respectively as well as repo and reverse repo transactions on securities.
Securities sold under repurchase agreements continue to be shown as the Group's assets and the Group discloses liabilities resulting from the repurchase clause. In the case of securities' purchase under the resell agreement, securities are reported in the Group's balance sheet as loans and advances.
Any differences between sale/purchase prices and repurchase/resale prices are recognized as interest income and expense, respectively.

General risk provision

In accordance with the Banking Act and accounting policies applicable in prior years, the Bank created a general risk provision in the past, with a corresponding entry in the income statement, to cover unidentified banking risks. IAS does not permit general risk provisions, therefore the Group has reversed the existing provision through the income statement.

Assets taken over for debts

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

Provisions, impairment write-offs

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

(a) provisions for incurred but not reported loan losses ("IBNR")

In accordance with IAS 39, the Group recognizes provisions for incurred but not reported loan losses. An IBNR provision reflects the likelihood of occurrence of a loss event and estimated loan loss due to such an event for the period between the most recent individual assessment of the receivable and the balance sheet date. An IBNR provision is calculated for all receivables for which there is no evidence of impairment on an individual basis or where, in spite of there being such evidence, an individual assessment of the asset for impairment did not indicate that an impairment write-off should be recorded. An IBNR provision is calculated based on statistical models for groups of assets combined into similar credit risk portfolios. The provision for incurred unidentified credit risk is presented as a deduction from lending exposures in the balance sheet.

(b) impairment write-offs on individually significant assets

Loan loss provisions for receivables considered to be individually significant for which there is evidence of impairment are calculated as the difference between the carrying amount of the given asset and the present value of future cash flows expected to be derived from their repayment, realization of collateral or sale. Future cash flows are discounted to the present value using the effective interest rate of the given instrument.
The Group recognizes changes in the present value of estimated cash flows over time, and therefore changes in the required provision, as interest income in the income statement. If the present value of estimated cash flows increases due to an event taking place after impairment, the impairment write-off is reversed.

(c) impairment write-offs on individually insignificant assets

Loan loss provisions for receivables, which are considered to be individually insignificant, and for which there is evidence of impairment are calculated on a portfolio assessment basis by reference to the Group's experience of losses on assets with similar risk characteristics, taking into account discounting.
Provisions for loan losses on receivables from the financial, non-financial and public sectors, impairment write-offs on securities and other assets adjust relevant assets in the balance sheet. Whereas provisions for off-balance sheet commitments are stated under *provisions* in the liabilities and equity section of the balance sheet.

Uncollectible loans are written off against provisions. If a previously written-off amount is recovered, the related impairment write-offs are reversed accordingly in the income statement.

Accruals and prepayments

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

Equity

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

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 assets and all derivative instruments with negative fair values, as liabilities.
Embedded derivatives are accounted for as separate derivatives if the risks and economic characteristics of the embedded derivative are not closely related to the risks and characteristics of the host contract and the host contract is not measured at fair value through profit or loss.

Hedge accounting

The Group does not apply hedge accounting.

Determination of profit or loss

Profit or loss is determined by applying the prudence principle and matching concept, on the accrual basis of accounting. Profit or loss includes all revenue earned and costs incurred in earning it, relating to the given reporting period, irrespective of their payment or receipt dates.

Interest income and expense

Interest income comprises interest received and receivable in respect of placements with other banks, loans and securities. Interest income and discount on financial assets are recognized in the income statement on the accrual basis. Interest income and expense comprise all interest income and expense relating to financial instruments measured at amortized cost. Income received in advance is recognized in the income statement in the period to which it relates.
Interest expense on liabilities, relating to the given period, is also recognized in the income statement on the accrual basis.

Commission income and expense, bank fees

Fee and commission income and expense is recognized in the income statement on the accrual or cash basis of accounting, depending on their classification in accordance with IAS 18. Commission, which is an integral part of the effective interest rate for instruments measured at amortized cost, less any costs directly attributable to obtaining the financial instrument, is presented in interest income.
IAS 39 requires that income and expenses relating to instruments measured at amortized cost should be recognized in the income statement using the effective interest method. In 2005, the Group incorporated the effective interest method into the information system applied by the Corporate Bank. Before 2005, fees and commission other than one-off completed transactions were recognized in the income statement using the straight-line method. The Group has been applying the sum of digits method also called the Rule of 78, which is an approximation of the effective interest method, in the Consumer Bank since 2002.

Awards, retirement and long-service bonuses

Employees, depending on their position, may be awarded an incentive fund bonus, a bonus based on a plan applicable in a given area or a discretionary annual bonus on the terms and conditions set forth in the internal payroll regulations. Bonuses are awarded after the period for which employees' performance is evaluated.
Employees may also be awarded Citibank stock options. Under IFRS 2 *Share-based payment*, the Citibank stock option program is accounted for as cash-settled. A provision is recognized for future payments and shown in the balance sheet under *other liabilities*. The provision is calculated using the

option pricing model. In compliance with the standard, the fair value of options is initially determined at the grant date, and then as at each reporting date, until complete settlement. The total amount of costs recognized as at the given reporting date is determined by the fair value of options as at the reporting date and the rights vested in the given period.
Under the payroll system of the Group employees are granted retirement bonuses. Their amount depends on the number of years of service in the Group immediately before gaining the right to such bonuses. Moreover, employees whose contracts of employment were signed on the basis of the Collective Labor Agreement are eligible for long-service bonuses. For the purpose of granting such bonuses, the length of service of employees employed before 1 March 2001 includes those employment periods, which had been taken into account under the Collective Labor Agreement in force since 1 January 1997. A provision is recognized for future payments and shown in the balance sheet under *other liabilities*. Provisions for future pension benefits and long-service bonuses are calculated using actuarial methods.
The Group operates a funded defined contribution plan. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are paid.

Other operating income and expenses

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

Corporate income tax

Corporation income tax comprises the Group's current and deferred tax liabilities.
Deferred tax is calculated using the balance sheet liability method, taking into account assets and liabilities whose corporate income tax realization/settlement is expected in future tax years and which are the basis for calculating deferred tax provisions or assets. Deferred tax is recognized in the income statement or revaluation reserve, as appropriate. Deferred tax assets and provisions are presented in the balance sheet on a net basis.
Following the introduction of the EU Guarantee Fund Act of 16 April 2004 (Journal of Laws No. 121/1262) and the related new Art. 38a in the Corporate Income Tax Act, the Group shows a receivable from the Budget in respect of its right to reduce its taxation liabilities in the years 2007 to 2009.

1.2 Information about material changes in estimated values

Due to the introduction of IAS starting from 1 January 2005, the Group changed the method of estimation of the impairment of financial assets. The previous rules specified in the Regulation of the Minister of Finance of 10 December 2003 concerning the principles of establishment of provisions for risk related to operations of banks (Journal of Laws No. 218, item 2147) were replaced with the requirements of IAS 39. As of each balance sheet date an assessment is performed to determine whether there has been objective evidence reflecting the impairment of credit exposures. If so, a revaluation write-off is made in the amount of the difference between the balance sheet value and the estimated present value of the expected future cash flow from the particular credit exposure. Financial assets, for which either no evidence of impairment has been found at the individual level or, despite evidence of impairment did not indicate any need for performing the revaluation write-off, were covered by a statistical analysis by the Group.

In the previous periods covered by mid-year financial statements the Group did not create provisions (impairment losses) for receivables classified as normal due to the decrease of provisions for the said receivables by 25% of the balance of provision for general risk.

Together with the application of IAS, the Group replaced the amortization of goodwill with an annual impairment test. In accordance with the provisions of the IFRS 1 regulating the principles of applying IAS for the first time, the Group ran a test of goodwill for the company formed through the merger of Bank Handlowy w Warszawie and Citibank (Polska) SA from the point of view of impairment. The goodwill was estimated on the basis of the provisions of IAS 36 concerning the determination of the value in use of cash-generating units. Tests ran as of 1 January 2004 (the beginning of the earliest period for which the Group is presenting data comparable in accordance with IAS) and as of 1 January 2005 did not indicate any impairment.

1.3 Impact of the application of IAS on capital and net profit at the end of the 2004 reporting periods presented

Consolidated financial data

in PLN '000

	As of 01/01/2005	As of 31/12/2004	As of 30/06/2004	As of 01/01/2004
Shareholders' equity				
Shareholders' equity according to Polish Accounting Standards	6,155,553	6,155,553	5,835,202	5,947,523
Corrections related to the introduction of IFRS/IAS, including:	119,972	83,138	46,371	4,564
- *reversal of the goodwill amortization*	*72,445*	*72,445*	*36,223*	
- *change of assessment of the financial assets impairment*	*52,652*			
-*commission for settlement change of direct acquisition costs of credit*	*(22,138)*			
- *positive valuation of properties recognized as investment properties*	*6,320*			
- *consolidation differences*	*10,693*	*10,693*	*10,148*	*4,564*
Shareholders' equity after changes	**6,275,525**	**6,238,691**	**5,881,573**	**5,952,087**
Net profit (loss)				
Profit according to Polish Accounting Standards		416,132	224,816	
Corrections related to the introduction of IFRS/IAS, including:		78,831	41,278	
- *reversal of the goodwill amortization*		*72,445*	*36,223*	
- *consolidation differences*		*6,386*	*5,055*	
Net profit (loss) after changes		**494,963**	**266,094**	

In the quarterly report for the second quarter of 2005, due to verification of the financial data, there were some changes in comparison to the formerly published report for the first quarter of 2005. The changes involve the presentation of the impact of applying IAS on the Group's equity as of 1 January 2005- the day of first time adoption of IAS. An adjustment to Group's equity due to applying IAS increased by PLN 44,112 thousand as a result of above mentioned changes.

Unitary financial data

in PLN '000

	As of 01/01/2005	As of 31/12/2004	As of 30/06/2004	As of 01/01/2004
Shareholders' equity				
Shareholders' equity according to Polish Accounting Standards	6,152,785	6,152,785	5,831,501	5,946,930
Corrections related to the introduction of IFRS/IAS, including:	50,921	(10,801)	(27,137)	(45,109)
- reversal of the goodwill amortization	*72,445*	*72,445*	*36,223*	
- reversing accounting for by the equity method	*(83,246)*	*(83,246)*	*(63,360)*	*(45,109)*
- change of assessment of the financial assets impairment	*73,753*			
- change of direct acquisition costs of credit	*(18,351)*			
- consolidation differences	*6,320*			
Shareholders' equity after changes	**6,203,706**	**6,141,984**	**5,804,364**	**5,901,821**
Net profit (loss)				
Profit according to Polish Accounting Standards		414,214	221,179	
Corrections related to the introduction of IFRS/IAS, including:		*34,308*	17,972	
- reversal of the goodwill amortization		*72,445*	*36,223*	
- reversing accounting for by the equity method		*(38,137)*	*(18,251)*	
Net profit (loss) after changes		**448,552**	**239,151**	

In the quarterly report for the second quarter of 2005, due to verification of the financial data, there were some changes in comparison to the formerly published report for the first quarter of 2005. The changes involve the presentation of the impact of applying IAS on the Group's equity as of 1 January 2005- the day of first time adoption of IAS. An adjustment to Bank's equity due to applying IAS increased by PLN 39,507 thousand as a result of above mentioned changes.

1.4 Information about the Capital Group of Bank Handlowy w Warszawie SA

As of 30 June 2005, the structure of the Bank's Capital Group (subsidiaries) was as follows:

No.	Company	Registered office	Core business	Share in the total number of votes at the General Meeting of Shareholders*	Consolidation / valuation method
1.	Dom Maklerski Banku Handlowego SA	Warsaw	financial	100.00	full method
2.	Citileasing Sp. z o.o.	Warsaw	financial	100.00	full method
3.	Handlowy Leasing SA	Warsaw	financial	100.00	full method
4.	Handlowy Zarządzanie Aktywami SA	Warsaw	financial	100.00	full method
5.	Towarzystwo Funduszy Inwestycyjnych Banku Handlowego SA	Warsaw	financial	100.00	full method
6.	Handlowy Inwestycje Sp. z o.o.	Warsaw	financial	100.00	valuation under the equity method
7.	Handlowy Investments SA	Luxembourg	financial	100.00	valuation under the equity method
8.	Handlowy Investments II S.a.r.l.	Luxembourg	financial	100.00	valuation under the equity method
9.	Bank Rozwoju Cukrownictwa SA	Poznań	financial	100.00	valuation under the equity method
10.	Polskie Pracownicze Towarzystwo Emerytalne DIAMENT SA under liquidation	Warsaw	financial	79.27	valuation under the equity method
11.	PPH Spomasz Sp. z o.o. under liquidation	Warsaw	non-financial	100.00	not subject to the valuation under the equity method

*direct and indirect

As a result of adaptation to the requirements of the International Financial Reporting Standards, the scope of entities covered by consolidation based on the full method was extended to include entities of a strategic nature: Citileasing Sp. z o.o., Handlowy Leasing SA, Handlowy Zarządzanie Aktywami SA (asset management company) and Towarzystwo Funduszy Inwestycyjnych Banku Handlowego SA (investment fund company). Other subsidiaries, with the exception of PPH Spomasz Sp. z o.o. under liquidation, are covered by the valuation under the equity method in the consolidated financial statements. The financial data of those entities are very small in relation to the financial data of the Bank – the dominant entity, and immaterial to present a true and fair view of the assets and financial situation as well as the financial results of the Bank's Group.

As of 30 June 2005, the structure of other subordinated (associated) entities is as follows:

No.	Company	Registered office	Core business	Share in the total number of votes at the General Meeting of Shareholders*	Consolidation / valuation method
1.	Handlowy Heller SA	Warsaw	financial	50.00	valuation under the equity method
2.	KP Konsorcjum Sp. z o.o.	Warsaw	financial	49.99	valuation under the equity method
3.	NIF FUND Holdings PCC Ltd.	Guernsey	non-financial	23.86	not subject to the valuation under the equity method

*direct and indirect

Changes in the structure of subordinated entities in the second quarter of 2005

In the second quarter of 2005 the structure of the Bank's Capital Group and the composition of entities associated with the Bank did not change.

2. Brief description of the Bank's Group activities in the second quarter of 2005

1. Corporate and Investment Bank

- *Summary of the segment results*

In the second quarter of 2005, income before taxes of the Corporate and Investment Bank amounted to PLN 195 million, which was 18 % higher than in the second quarter of 2004.

In the second quarter of 2005, profit on banking activity increased by 20% in comparison to the second quarter of 2004 and amounted to PLN 390 million. The segment had good results despite lower net interest income, amounting to PLN 129,5 million, which decreased by 12% in comparison to the corresponding period of 2004. The increase in profit on banking activity was mainly due to two factors. Net commission income, which maintained at a stable upward trend of 2% as compared to the corresponding period of 2004, amounted to PLN 96 million. Income recorded on sale of the part of Treasury Bonds portfolio as a result of interest rate decrease in the second quarter of 2005 was the second factor. In addition, fluctuations on the FX market helped the result on banking activity. Although, the FX volatility had a negative impact on results on financial assets and liabilities for trading, which amounted to PLN 127 million of loss in the second quarter of 2005 but had a positive impact on profit on banking activity through results on foreign exchange, which amounted to PLN 222 million, as compared to loss of PLN 88 million in the corresponding period of the previous year.

In the second quarter of 2005, the total expenses of the Corporate and Investment Bank amounted to PLN 183 million, or 36% higher than in the corresponding period of 2004. It is mainly due to one-off expense decrease in the second quarter of 2004, resulting from the release and provisions adjustment to the scale of restructuring processed. The provisions were created in the first quarter of 2004 for group lay-offs and management options. Cumulative expenses (i.e. for the period of 2 quarters) amounted to PLN 364 million and was 4% lower compared to the corresponding period of the previous year.

The Corporate and Investment Bank recorded a release of credit provisions of PLN 13 million, which was driven by irregular loans repayments and limited costs of newly acquired receivables. In the second quarter of 2004 release of credit provisions amounted to PLN 3,5 million.

The Corporate and Investment Bank noted an increase in volume of corporation loans, which in the second quarter of 2005 amounted to PLN 7,8 billion and was 10% higher compared to the first quarter of 2005.

a) Transaction Banking

- *Trade finance*

In the area of trade financing products, the Bank's core task was to maintain its leadership role both in the scope of implementing new solutions and in the field of developing electronic service platforms.

In Q2 of 2005, the Bank implemented two new trade finance products: financing of trade receivables in domestic trading, documented with invoices based on an insurance policy of Korporacja Ubezpieczeń Kredytów Eksportowych Spółka Akcyjna (Export Credit Insurance Corporation), and prepaid letters of credit.

Additionally, the offer has been extended with another functionality in the scope of electronic distribution channels, granting the clients a possibility of submitting electronic applications for opening import letters of credit, applications for issuing guarantees and direct debits for import collections.

- *Cash management products*

In Q2 of 2005, the Bank experienced continued dynamic growth of the bill payment product called "Unikasa". A number of new agency outlets was launched, both within the network of current clients and newly gained regional displayers.
Additionally, a decision was made to change the product's branding. The former branding in orange colors has been replaced with green color. The purpose of the change is to "refresh the brand" and improve product's brand awareness in the context of its active promotion throughout the country. Changing the color serves differentiating our solution from competition.

In Q2 of 2005, the Bank implemented the Automatic Banker for clients using corporate cards. The service enables obtaining automatic access by telephone to information about cards.

- *Electronic banking*

In an effort to modernize its offer and apply information tools, the Bank has introduced a possibility of full SWIFT MT101 services. Thanks to this functionality, the Bank's clients may be beneficiaries of payments ordered via this tool and may initiate such payments, thus managing their account in another bank.

- *EU related products*

In response to the Clients needs, the Bank extended its product offer with a special package called "Europa Przedsiębiorstw" ("Europe of Enterprises") as part of which the clients applying for EU aid funds may use a friendly credit program. The offer is addressed to all the enterprises and regional self-government entities wishing to avail themselves of an opportunity posed by the European Union and the possibility of competing on the international markets. Apart from the dedicated credit program, a number of products have been prepared to improve the financing of trading operations and enable effective accounting for and management of funds obtained from subsidies.
As part of the EU programs, the Bank concluded a cooperation contract with Bank Gospodarstwa Krajowego and the Polish Agency for Enterprise Development, which helped to considerably develop the Program offer.
Additionally, the Bank commenced cooperation with a number of consulting firms, which will help the clients of our Bank prepare the documentation required to file an application for subsidies and step by step pass through the complicated process of fund raising. The consulting firms provide the services to our clients on preferential terms.

To ensure efficient information flow on EU programs between the Bank and the clients, a dedicated Hotline is in operation. Marketing activities were also initiated (press articles, www website, conferences, etc.) to help the clients get to know the Bank's offer.

- *Bank's product distributed through other financial institutions*

To develop the "Italian Desk" project implemented in 2004 – supporting the Bank and its Italian partner in financing of trade between Polish and Italian enterprises, the Bank began implementation of a new solution called "Borderless Banking", which consists in active support of selling the Bank's products via other financial institutions. The purpose of the proposed cooperation model is to derive mutual benefits for the Bank and for the cooperating institutions by extending the assortment of products, cost optimization and extending the reach of the banks' operations

b) Capital Markets and Banking

- *Treasury products*

In Q2 of 2005, the Bank achieved a 30% market share on the secondary market of derivative instruments. The considerable fluctuations of market variables have additionally resulted in high activity on the market of derivative instruments – the Bank achieved a 24% share in agency services for trading in these instruments. The Bank also achieved the highest (33%) share in foreign currency transactions on the interbank market.

- *Dom Maklerski Banku Handlowego S.A. ("DM BH") – a brockerage subsidiary*

In Q2 of 2005, Dom Maklerski Banku Handlowego SA maintained its leadership position on the market of brokerage services with the market share of 21,1%. In the period under analysis, the transaction volume generated via DM BH on the shares market on the Warsaw Stock Exchange amounted to PLN 6,768 million. The volume of transaction executed by DM BH in Q2 of 2005 reflected a 23,3% decrease in the transaction volume on the market.

- *Handlowy Zarządzanie Aktywami S.A. („HanZA") – an asset management subsidiary*

The balance of assets entrusted to Handlowy Zarządzanie Aktywami S.A. for management as of the end of Q2 of 2005 was PLN 3,337 million. The balance turned out to be higher by more than 115% compared with the balance as of the end of Q2 of 2004 when HanZA managed assets on the level of PLN 1,552 million.
Assets of individual clients in 2005 amounted to PLN 1,230 million, with the majority share of assets of CitiFunds belonging to Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A. (Fund Management Company), and managed by HanZA – PLN 1,022 million. Assets of institutional clients amounted to over PLN 2,107 million, of which PLN 663 million related to CitiFunds assets. The remaining assets came mainly from insurance companies and other financial institutions.
In Q2 of 2005, the portfolios managed by HanZa achieved results similar to the corresponding benchmarks. The highest yield on a very vulnerable market of shares in the first half of the year was achieved by the portfolios with balanced strategy, investing on average a half of the assets in shares quoted on the Warsaw Stock Exchange and a half in debt securities – 3.62%. On the other hand, the portfolios of debt securities, which are the most frequently chosen product among institutional clients, generated yield on the level of 3.04%, which should be considered a very good result compared with the benchmark result on the level of 2.53%. Good results in the second quarter of 2005 were also achieved by the variable exposure strategies – yield of 2.28% compared with the benchmark of 2.10% and money market strategies – yield of 1.65% compared with the benchmark of 1.50%.

- *Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A. („TFI BH") – a funds manager subsidiary*

Assets of the funds managed by Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A. amounted to PLN 1,685 million as of the end of Q2 of 2005 compared with PLN 1,046 as of the end of the similar period in 2004.

CitiZrównoważony Środkowoeuropejski Fundusz Inwestycyjny Otwarty (CitiBalanced Central European Open Investment Fund) was the largest fund in terms of assets. Throughout the entire second quarter, its assets were growing dynamically (by more than 33%) and as of the end of the period amounted to more than PLN 447 million (compared with slightly more than PLN 121 million as of the end of Q2 of 2004). At the same time, it should be noted that nearly 100% of the assets of this fund are assets from individuals, which still proves the enormous popularity among the Polish individual investors of the investment strategy of this fund (changed from September 2004) consisting in widening the spectrum of the investment opportunities for the shares markets of the Central Europe countries. After 10 months from introducing the changes in the investment strategy, it continues to be the most popular fund in the offer of TFI BH, which at the same time shows some of the best results in the recent period among all the balanced strategy funds present on the Polish market.

In spite of achieving such a considerable growth of assets, CitiZrównoważony Środkowoeuropejski FIO was not the most dynamically growing fund in the offer of TFI BH in Q2 of 2005 – a similar percentage growth of assets (over 31%) was achieved by CitiObligacji Fundusz Inwestycyjny Otwarty (CitiBonds Open Investment Fund), whereas the largest growth of nearly 56% was achieved by CitiPieniężny Fundusz Inwestycyjny Otwarty (CitiMoney Open Investment Fund). However, in the case of the former fund, there is high volatility of the assets balance resulting from the nature of this fund, which is mainly intended for investors who wish to achieve high investment yield within a short period of time. The assets of CitiPieniężny FIO increased only in June by nearly PLN 50 million, compared with little over PLN 150 million of the entire fund's assets at the end of the period.

CitiSenior Specjalistyczny Fundusz Inwestycyjny Otwarty (CitiSenior Specialist Open Investment Fund) turned out to be the second largest fund as of the end of June 2005 – its assets increased in Q2 of 2005 by 23.50% and amounted to almost PLN 368.4 million as of 30 June 2005. This fund systematically achieves very high asset growth. The increase achieved in a similar period of 2004 (nearly 20%) does not differ considerably from the increase noted in Q2 of 2005. Nearly 60% of the fund's assets are assets of institutional clients, mainly institutions for which TFI BH runs Employee Pension Plans. It should be noted that each period, the growth of the assets of the fund's individual clients increases.

In spite of considerable fluctuations on the market, all the open funds managed by TFI BH brought profits to the investors in Q2 of 2005. It was particularly a better quarter compared with the prior one for the shares fund – CitiAkcji FIO, which yielded return during the period of 2.16%. The highest result in the period from April to June 2005 was achieved by CitiZrównoważony Środkowoeuropejski FIO – 2.72%. CitiObligacji FIO brought yield to the investors on the level of 2.46%, CitiSenior SFIO – 2.33%, CitiPłynnościowy SFIO – 1.37%, CitiPieniężny FIO – 1.27% and Fundusz Własności Pracowniczej PKP SFIO – 2.37%.

c) Loan products

- *Corporate Finance*

The Bank actively supports the development of the largest enterprises in Poland, granting them financing on its own and by arranging of or participating in syndicates, and arranging fund-raising from the capital market. The largest transactions in Q2 of 2005 included:

1. Signing a 5-year syndicate loan agreement for a leading supplier of telecommunications services in Poland for the amount of EUR 900 million. The Bank's share in the transaction is EUR 50 million. The Bank acts as the authorized main arranger and facility agent.
2. Signing a 2-year syndicate loan agreement for a key player on the rail transport market for the amount of EUR 130 million. The Bank's share in the transaction was on the level of EUR 15 million. The Bank acted as the authorized lead arranger and facility agent in the transaction.
3. Signing an assignment contract for arranging the program for issuing medium-term bonds for the amount of PLN 250 million for a company from the food sector. The Bank acted as the transaction arranger and dealer.

Moreover, the Bank finalized a contract for consulting services related to debt restructuring for a client from fuel and energy sector. The Bank acted as the coordinator in the process of obtaining relief, and cooperated with all the financial institutions offering their services to the client.

At the end of Q2 of 2005, the Bank had a leading share in the market of issuing short-term debt securities (amounting to 23%) and serviced 26 debt security issue programs.

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

In Q2 of 2005, the companies continued their activities in the fields of middle and big-ticket leasing and vendor financing. The focus was both on the offer directed to BHW clients and to clients gained by contacts with the dealers network.

The companies continued active sales of both the established programs and the newly implemented (in the previous quarter) programs for financing of metal working machines and forklifts and machinery for processing of plastic.

2. Consumer Bank

- *Summary of the segment results*

In the second quarter of 2005, income before taxes of the Consumer Bank amounted to PLN 41 million, which was 13 % lower than in the corresponding period of the previous year.

In the second quarter of 2005, the segment recorded PLN 190 million of the profit on banking activity, representing an increase of 4 % as compared to the second quarter of 2004. Better results were achieved mainly thanks to the growth of the loan book and active interest margin management, which improved the net interest income to PLN 120 million, or 4% higher than in the second quarter of 2004. In the same period, the Consumer Bank increased net commission income to PLN 61 million, which was 7 % higher than in the corresponding period of the prior year, mainly due to active sale of credit cards and investments products.

In the second quarter of 2005 Segment's total expenses and amortization amounted to PLN 143 million and PLN 10 million respectively, or 15% and 25% higher than in the corresponding period of 2004, mainly due to continuation of the expansion of distribution channels and increase in employment.
In the second quarter of 2005, the segment recorded a net release of direct provisions amounting to PLN 3,8 million.

a) Credit cards

The second quarter of 2005 was a period of numerous significant changes in the offer of Citibank Credit Cards. A new, most prestigious card offered by Citibank Handlowy was introduced on the Polish market - Citibank Platinum Credit Card (VISA and MC) entitling its holder to use a number of additional services and privileges and the highest available credit limit. The debt interest rate on the card is 21.84%.
Apart from implementing the new Platinum card, reduction of interest rates on credit cards was another significant event, thanks to which our offer became more competitive. The interest rate for the Silver card was set on the level of 25.80% and for the Gold card – on the level of 23.88%. The new interest rate applies to transactions concluded after 20 June 2005. The clients may spread the former outstanding balance over a period of 24 months with the cost of financing of 14.99%.

At the end of Q2 of 2005, the portfolio of serviced credit cards reached the number of 550 thousand, which constitutes a 3% increase compared with Q1 of 2005 and 8.5% increase compared with the similar period of the prior year. The results enable maintaining the position of a leader on the market of credit cards in Poland.

Q2 of 2005 was also a record period for sales of "Komfort" Retail Repayment Plans. Another newly implemented product proved a success: Transfer of Cash from the Citibank Credit Card with a possibility of repayment through the "Komfort" Retail Repayment Plan.

b) Retail banking

- *Retail loans*

In Q2 of 2005, there was a considerable increase in acquisition of credit products through the use of the potential of the Bank's current clients, accompanied by widening the target market. The number of loans granted in Q2 of 2005 was higher by 114% compared with the similar period of the prior year. The Bank also carried out an advertising campaign in media and numerous promotion campaigns, including promotions for existing clients.
In the area of mortgage loans, the Bank continued cooperation with GE Money Bank and Nykredit Bank Hipoteczny S.A.

- *Bank accounts*

The Bank carried out numerous promotion campaigns in order to gain new clients in the area of personal accounts and term deposits, including encouragement of the clients from the existing credit card client base.

In Q2 of 2005, a new duration of the T-Deposit was added – of 3 weeks.

- *Investment products*

Sales of Savings Plans in Q2 increased by 8.7% compared with Q1 of 2005. In Q2, 7 subscriptions and 2 dedicated (club-deal) issues of Market Linked Deposits took place as well as 9 subscriptions of Structured Bonds. In June, a Structured Bonds transaction was concluded for the first time in pound sterling.

- *E-banking*

The number of users of Citibank Online at the end of Q2 of 2005 exceeded 282 thousand, thus increasing by 54% compared with the prior year. In March, the number of transactions initiated via Citibank Online constituted nearly 80% of the total number of transactions of Global Consumer Bank. Increased activity of this distribution channel is supported by an appropriate pricing policy and by special offers, e.g. T-Deposit with an attractive interest rate, available only through the Internet.

The Bank is also actively promoting the service called Statement Online and registers a continuing increase of the number of its users, thus generating considerable savings. At the end of Q2 of 2005, 8% of the account owners were using this service. The number of CitiGSM clients notified of their account balance by SMS as of Q2 of 2005 was higher by 34% compared with the similar period of the prior year.

3. <u>CitiFinancial</u>

- *Summary of the segment results*

In the second quarter of 2005 the Bank noted a significant, more than two and half-fold increase in profit on banking activity in comparison to the second quarter of 2004. In that period, net interest income increased to PLN 24 million (by 263%) and net commission income amounted to PLN 1,7 million (by 320%).
The expansion of distribution channels increased operating expenses, which in the second quarter of 2005 grew to PLN 26 million (by 212%) but the pace of revenue growth was higher than growth of costs.

In the second quarter of 2005 the net charges for credit risk amounted to PLN 4 million. In relation to the gained assets, they showed a level lower than the expected for the market on which the

CitiFinancial operates. In the same time the Segment's assets increased from PLN 336 million to PLN 440 million in the second quarter of 2005, i.e. by 30%.

In the second quarter of 2005, income before taxes of CitiFinancial was PLN 5 million in comparison to PLN 3,7 million in the second quarter of 2004. CitiFinancial is a new business in the course of strong market expansion and relatively high investments.

- *Marketing activities*

Q2 of 2005 was another period of increased sales of the product offer comprising cash loans. The campaign promoting the "Installment Reduction Center" was continued, which helped the dynamic growth of the loans sales, and the appropriate pricing policy strengthened the competitiveness of CitiFinancial offer

4. <u>Reorganization of the branch network</u>

In Q2 of 2005, the Bank continued extending and reorganizing the network of outlets aimed at optimization of costs and availability for retail and corporate clients. The Bank's network increased by 12 CitiFinancial outlets and at the end of the second quarter of 2005 amounted to total of 185. Specifically, the network consisted of:

1. 42 branches and sub-branches of the Corporate Bank, of which 27 are serving retail clients.
2. 91 branches of the Consumer Bank, including 1 Investment Center and 12 outlets dedicated to clients of CitiGold Wealth Management. 10 branches of the Global Consumer Bank serve the clients of the Corporate Bank.
3. 52 branches of CitiFinancial located in shopping-centers and near housing estates.

The above structure with its variety of solutions is aimed at ensuring optimum access to services for all the current and future clients of the Bank.

3. Description of factors and events impacting the financial performance of the Bank's Capital Group in the second quarter of 2005

For 2 quarters of 2005, the Bank's Capital Group reported net profit of PLN 314,492 thousand, up PLN 48,398 thousand (i.e. 18.2%) compared to the figure reported for the corresponding period of the previous year. Net profit for the second quarter of 2005 amounted to PLN 175,970 thousand in comparison to PLN 173,780 thousand in the corresponding period of the previous year.

Cumulative gross profit (i.e. for the period between January to June) amounted to PLN 397,868 thousand, representing an increase of PLN 69,401 thousand (i.e. 21.1%) in comparison to the corresponding period of the previous year and gross profit for the second quarter of 2005 amounted to PLN 231,273 thousand in comparison to PLN 209,506 thousand in the second quarter of 2004.

The result on banking activity generated in the second quarter of 2005 showed an increase of PLN 119,144 thousand (i.e. 24.2%) over the corresponding period of the previous year.

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

- increase in net income of PLN 2,985 thousand (i.e. 1.1%), mainly due to satisfactory net interest income from term and overnight deposits on interbank market;

- increase in net commission income of PLN 7,026 thousand (i.e. 4.6%), mainly relating to commissions on custody services, on insurance products and other products of Consumer Bank Segment;
- increase in net income from financial assets and liabilities of PLN 78,267 thousand, mainly as a result of higher net income from sales of available-for-sale debt securities – Treasury bonds;

- increase in net income from tradable financial assets and liabilities and net profit on foreign exchange of PLN 37,340 thousand (i.e. by 55.6%), mainly due to positive impact of exchange rate differences (revaluation), higher net income from operations involving securities for trading and decrease in net income from operations involving FX financial instruments.

Operating and general management expenses in the second quarter of 2005 increased by PLN 80,464 thousand (i.e. by 29.6%) compared to the corresponding period of the previous year. It was mainly resulted from the reduction of provisions in the second quarter of 2004 for future payments of management options, due to changes in the price of Citigroup stock as well as personnel changes concerning employees owning the rights to these shares. In the same time in the second quarter of 2005, there was an increase in provisions for future pension benefits, long-service bonuses and compensation expenses, mainly due to a growth in staff employment in Consumer Bank- rapid developing sector of the Bank and an increase in advertising, marketing and advisory services expenses.

In the second quarter of 2005, the release of net provisions for financial assets impairment was lower by PLN 24,224 thousand compared to the second quarter of 2004. This was primarily due to higher net write-offs of off-balance sheet liabilities and litigations in the second quarter of the current year.

In the current reporting quarter there was a reversal of (net) write-offs for impairment of financial assets by PLN 38,567 thousand (i.e. 144.2%) in comparison to the corresponding period of the previous year. It was due to higher impairment release of loans and advances estimated at amortized cost in compliance with regulations specified in IAS.

4. Seasonality or cyclical nature of business activity

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

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

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

6. Dividends

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

General Meeting of the Bank allocated for the payment of dividends:
- the amount of PLN 414,190,932 from 2004 profit
- the amount of PLN 1,149,804,480 originating from previous years' profits transferred from supplementary capital and reserve capital.

The combined amount intended for payment as a dividend shall be PLN 1,563,995,412 which means that the combined dividend per one share shall stand at PLN 11.97
The date of determination of the right to the dividend was designated as 25 July 2005 and the date of dividend payment- as 1 September 2005
The Bank did not issue any preference shares.

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

On 27 July 2005, the Bank concluded a syndicated loan agreement ("Syndicated Loan Agreement") with one of the Bank's clients ("the Borrower"). Based on the Syndicated Loan Agreement, the syndicate of six banks, including the Bank, shall grant to the Borrower a term loan of EUR 600 million ("the Term Loan") and a revolving loan of EUR 300 million ("the Revolving Loan") with the possibility of using it in EUR, USD or PLN. The Bank's share in the Term Loan is EUR 100 million and in the revolving loan – EUR 50 million. The financing period for the Term Loan shall be five years, and for the Revolving Loan – three years. The interest rate of the Term Loan is based on EURIBOR plus the Bank's margin and for the Revolving Loan – EURIBOR, LIBOR or WIBOR plus the Bank's margin. The amounts due from the Term Loan and the Revolving Loan have not been covered by security. The Syndicated Loan Agreement does not contain any provisions relating to contractual penalties, the maximum amount of which may exceed the equivalent of at least 10% of the contract value or at least the PLN equivalent of EUR 200 thousand, translated using the mid exchange rate set for a given currency as of the contract date. The Syndicated Loan Agreement provides that the Borrower shall fulfill the standard terms for launching the Loan. The Syndicated Loan Agreement should be considered as significant since the total value of the resulting benefits meets the criteria set out in Article 5.1.52 of the Decree of the Council of Ministers of 25 March 2005 on current and periodic information to be prepared by issuers of securities. The Syndicated Loan Agreement is the highest value agreement concluded so far with this Borrower. The total value of other agreements concluded by the Bank with the Borrower on the date of signing the Syndicated Loan Agreement was EUR 241 million. The former debt of the Borrower with the Bank of EUR 79 million shall be repaid from the funds made available on the basis of the Syndicated Loan Agreement.

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

8. Changes in the Company's structure, including mergers, acquisitions or sale of entities making up the Group, long-term investment, restructuring and discontinuance of business activity

In the second quarter of 2005, none of the above-mentioned events took place at the Bank or units of the Bank's Capital Group.

9. Movements in Off-Balance-Sheet Commitments

In the second quarter of 2005, no major movements were reported in the value of off-balance-sheet commitments, including guarantees, letters of credit and unused loans. Movements in off-balance-sheet items involved primarily liabilities related to the execution of purchase/sale operations, i.e. growth in the volume of term transactions– pertaining to FRAs and interest rate swaps totaling PLN 22,261 million in relation to March of 2005.

10. Rules of translating selected financial data into euro

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

1. individual items of balance-sheet assets and liabilities are translated into euro based on the average exchange rate obtaining on the balance-sheet date, as announced by the National Bank of Poland, at PLN 4.0401 as on 30 June 2005 and PLN 4.5422 as on 30 June 2004;
2. individual items of the income statement are translated into euro according to the exchange rate representing the arithmetic mean of average exchange rates announced by the National Bank of Poland, obtaining on the last day of each completed month of the periods covered by the quarterly report which, in relation to the second quarter of 2005, stands at PLN 4.0805, on an aggregate basis; in relation to the second quarter of 2004 stands at PLN 4.7311, on an aggregate basis.
3. earnings per common share and diluted earnings per common share are translated into euro based on the exchange rate representing an arithmetic mean of average exchange rates announced by the National Bank of Poland, obtaining on the last day of each completed month of the period of subsequent 12 months ending on 30 June 2005 and on 30 June 2004, which stands at PLN 4.1928 and PLN 4.6574, respectively.

11. Achievement of 2005 forecast results

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

12. Information about shareholders

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

1) Citibank Overseas Investment Corporation (COIC), a subsidiary of Citibank N.A., held 75% of votes at the General Meeting of Shareholders of Bank Handlowy w Warszawie SA and 97,994,700 shares, i.e. 75% of the authorised share capital of the Bank.
2) International Finance Associates (IFA), a subsidiary of COIC, held 14.3% of votes at the General Meeting of Shareholders of Bank Handlowy w Warszawie SA and 18,722,874 votes, i.e. 14.3% of total votes at the Bank's General Meeting of Shareholders.

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

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

As of the submission date of the consolidated quarterly report, to the best knowledge of the Bank, persons holding management and supervisory positions held 752 shares of the Bank. These shares are held exclusively by supervising persons.
The number of Bank shares held by managing and supervising persons has not changed since the previous consolidated quarterly report.

14. Information on pending proceedings

In the second quarter of 2005, no proceedings relating to the liabilities or receivables of the Bank or its subsidiaries, the value of which would correspond to at least 10% of the Bank's shareholders' equity, were pending before any court, administrative authority or an arbitration court.
In the second quarter of 2005, the total value of all pending court proceedings involving the Bank or its subsidiaries and related to their receivables exceeded 10% of the Bank's shareholders' equity and amounted to PLN 1,257,472 thousand.

The Bank's position regarding this matter is as follows:

The overwhelming majority of the receivables of the Bank and its subsidiaries has arisen from the persistently high number of composition and bankruptcy proceedings in which Bank Handlowy w Warszawie SA or its subsidiaries participate in the capacity of a creditor, as well as proceedings by writ of payment and for appending the enforcement clause to bank executory titles. The aforementioned proceedings resulted from deteriorating financial standing of the Bank's borrowers, especially customers of the Bank's Consumer Bank Sector.
Moreover, it should be pointed out that the litigations described above, especially composition and bankruptcy proceedings, are characterised by long duration and lengthy judicial procedures.
As a result of the aforementioned procedural lengthiness, very few composition and bankruptcy proceedings end in valid court adjudication within a period shorter than two years (and many of them take four or even more years to conclusion). The Bank's report covers some proceedings which commenced several years earlier.
Under applicable laws and regulations, Bank Handlowy w Warszawie SA is obliged to establish provisions for non-performing assets (receivables) as soon as the risk level related to the economic performance of a given receivable increases, and therefore, in practice, as of the date of commencement of composition or bankruptcy proceedings the provision for the receivable has already been established for the relevant amount.
Meanwhile, when bankruptcy proceedings or proceedings for appending an enforcement clause to bank executory title come to an end, the Bank usually recovers at least part of the payment due and is then able to release relevant provisions in whole or in part. The same happens in the case of concluded composition proceedings, where after the debt has been reduced, the debtor repays that part of its liabilities towards the Bank that was not written off.

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

Parties to Proceedings	Litigation Value	Proceedings Commencement Date	Description of Case
Creditor: Bank	PLN 158,534 thousand	8 August 1997 – declaration of bankruptcy.	Case pending.

Handlowy w Warszawie SA.	(loan-related receivable)		
Creditor: Bank Handlowy w Warszawie SA	PLN 65,947 thousand (loan-related receivable)	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	PLN 33,976 thousand (loan-related receivable)	Suit for payment under loan liability.	Case pending. The writ of payment was issued on 8 September 2003. The defendant has raised objections to the writ for payment.
Creditor: Bank Handlowy w Warszawie SA	PLN 47,054 thousand (loan- and guarantee-related receivable)	On 22 June 2001, the court declared the debtor bankrupt.	Case pending. The Bank submitted its receivables to the proceedings.
Plaintiff: Bank Handlowy w Warszawie SA	PLN 14,025 thousand (loan-related receivable)	Suit for payment under a bill of exchange. 21 April 2005.	The Bank obtained the writ for payment. Case pending.
Creditor: Bank Handlowy w Warszawie SA	PLN 30,953 thousand (loan-related receivable)	The court declared the debtor bankrupt in March 2004.	The Bank submitted the receivable to repay it from the bankrupt's assets for arrangement. Case pending (loan-related receivable).

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

15. Information about significant transactions with related entities

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

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

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

17. Other material information

Other Information

On 6 April 2005, the Bank's Management Board accepted the 2004 report on operations of Fundacja Bankowa im. Leopolda Kronenberga, approved a preliminary statement of income and expense items in 2005, and resolved to hand over, on behalf of the Donor, i.e. Bank Handlowy w Warszawie SA, the amount of PLN 2,400,000 to the Foundation to enable the pursuit of its statutory activity. Fundacja Bankowa im. Leopolda Kronenberga was established by the Bank in 1995. Its mission is to promote the common good in the area of education, culture and art, health protection and social care.

On 1 July 2005, Bank Handlowy w Warszawie S.A. ("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 regulate in detail the rights and responsibilities of the parties in connection with individual insurance products, including financial obligations. The general terms of the relationship between the parties of the above-mentioned agreements are provided in the European Selling Agreement dated 1 July 2005, concluded between the Bank, CitiInsurance Polska, CGIG, CLACL, CitiLife S.A./NV, CitiFinancial Europe Plc, Future Mortgages Limited, Citibank Belgium S.A./NV, Citibank Reszvenytarsasag ("the Agreement") and in Annex D "Poland – Additional Terms" to this Agreement concluded between the Bank, CitiInsurance Polska, CGIC and CLACL ("Annex").
The above-mentioned agreements were concluded in connection with carrying out a global acquisition from Citigroup Inc. of the Travelers Life&Annuity Group by MetLife Inc., which resulted in indirect acquisition of CitiInsurance Polska by MetLife Inc.

18. Description of factors and events with potential impact on future financial performance of the Bank's Capital Group in the second quarter of 2005

The key factors likely to affect the financial results generated by the Bank's Group in the future include:

- Expected interest rate reductions in the second half of the year, which will affect the increase in prices of debt securities and may bring about better results on potential sale of the instruments held by the Bank. The reduction of interest rates accompanied by the approaching parliamentary election may result in the local currency becoming weaker, at the same time improving the financial standing of those clients of the Bank who focus on exports, and deteriorating the situation of the importers.

- Weaker than forecasted economic growth in 2005 may hinder further growth of the client base and increase competition, both on the markets of institutional and individual clients. To compete for clients, banks may reduce margins, which in consequence may lead to reduction of income from core operations.

- The inflow of structured funds will increase the demand for financing and may help increase the lending activities of the Bank. On the other hand, the lower economic growth and the uncertainty as to the timing of Poland entering the Euro zone may discourage some foreign investors against commencing operations in Poland (we anticipate that the inflow of direct investments in 2005 will be lower than the originally expected USD 10 billion).

19. Reporting by industry and geographic segments

The financial results of the Bank's Capital Group by segments as of 30 June 2005

(in PLN '000)

Profit and loss account	**Corporate and Investment Bank**	**Consumer Bank**	**CitiFinancial**	**Total**
Net interest income	256,155	232,814	45,254	534,223
Net fees and commissions income	186,285	114,402	2,788	303,475
Net income realized on assets and financial liabilities other than valued at fair value through the p&l account	102,861	-	-	102,861
Profit on assets and financial liabilities for trading	(129,562)	2,112	-	(127,450)
FX income	324,980	19,052	-	344,032
Other operating income	(2,711)	(2,916)	(40)	(5,667)
Dividends	1,573	-	-	1,573
Profit on banking activity	**739,581**	**365,464**	**48,002**	**1,153,047**
General administrative expenses	(364,059)	(282,733)	(46,622)	(693,414)
Depreciation expense	(49,523)	(19,840)	(627)	(69,990)
Charges to provisions and revaluation	26,258	(10,535)	(7,498)	8,225
Profit before taxation	**352,257**	**52,356**	**(6,745)**	**397,868**
Corporate income tax				**(83,376)**
Net profit				**314,492**

Balance sheet	**Corporate and Investment Bank**	**Consumer Bank**	**CitiFinancial**	**Total**
Assets	32,474,322	2,305,894	439,951	35,220,167
Liabilities	28,677,573	6,435,106	107,488	35,220,167

The financial results of the Bank's Capital Group by segments for 2 quarters of 2005

(in PLN '000)

Profit and loss account	Corporate and Investment Bank	Consumer Bank	CitiFinancial	Total
Net interest income	129,521	120,334	23,992	273,847
Net fees and commissions income	96,152	61,114	1,670	158,936
Net income realized on assets and financial liabilities other than valued at fair value through the p&l account	73,235	-	-	73,235
Profit on assets and financial liabilities for trading	(127,363)	(3,802)	-	(131,165)
FX income	221,506	14,091	-	235,597
Other operating income	(4,309)	(1,414)	(13)	(5,736)
Dividends	1,573	-	-	1,573
Profit on banking activity	**390,315**	**190,323**	**25,649**	**606,287**
General administrative expenses	(183,320)	(142,659)	(26,230)	(352,209)
Depreciation expense	(24,960)	(10,115)	(330)	(35,405)
Charges to provisions and revaluation	13,122	3,803	(4,325)	12,600
Profit before taxation	**195,157**	**41,352**	**(5,236)**	**231,273**
Corporate income tax				**(55,303)**
Net profit				**175,970**

The financial results of the Bank's Capital Group by segments as of 30 June 2004

(in PLN '000)

Profit and loss account	**Corporate and Investment Bank**	**Consumer Bank**	**CitiFinancial**	**Total**
Net interest income	268,974	209,412	14,836	493,222
Net fees and commissions income	181,824	112,300	915	295,039
Net income realized on assets and financial liabilities other than valued at fair value through the p&l account	21	-	-	21
Profit on assets and financial liabilities for trading	170,553	4,442	-	174,995
FX income	15,000	16,410	-	31,410
Other operating income	35,331	(1,834)	(70)	33,427
Dividends	8,047	-	-	8,047
Profit on banking activity	**679,750**	**340,730**	**15,681**	**1,036,161**
General administrative expenses	(380,689)	(234,966)	(20,838)	(636,493)

Depreciation expense	(55,697)	(16,644)	(343)	(72,684)
Charges to provisions and revaluation	(1,437)	4,104	(1,184)	1,483
Profit before taxation	**241,927**	**93,224**	**(6,684)**	**328,467**
Corporate income tax				**(62,373)**
Net profit				**266,094**

Balance sheet	**Corporate and Investment Bank**	**Consumer Bank**	**CitiFinancial**	**Total**
Assets	31,427,900	2,030,255	336,908	33,795,063
Liabilities	27,358,608	6,383,743	52,712	33,795,063

The financial results of the Bank's Capital Group by segments for 2 quarters of 2004

(in PLN '000)

Profit and loss account	Corporate and Investment Bank	Consumer Bank	CitiFinancial	Total
Net interest income	146,518	115,223	9,121	270,862
Net fees and commissions income	94,277	57,111	522	151,910
Net income realized on assets and financial liabilities other than valued at fair value through the p&l account	(5,032)	-	-	(5,032)
Profit on assets and financial liabilities for trading	142,605	(1,630)	-	140,975
FX income	(87,899)	14,016	-	(73,883)
Other operating income	26,342	(2,212)	(20)	24,110
Dividends	8,047	-	-	8,047
Profit on banking activity	**324,858**	**182,508**	**9,623**	**516,989**
General administrative expenses	(135,615)	(123,745)	(12,385)	(271,745)
Depreciation expense	(27,198)	(8,105)	(192)	(35,495)
Charges to provisions and revaluation	3,508	(2,887)	(864)	(243)
Profit before taxation	**165,553**	**47,771**	**(3,818)**	**209,506**
Corporate income tax				**(35,726)**
Net profit				**173,780**

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

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

Summary of the Bank's financial results

For 2 quarters of 2005, the Bank's Capital Group reported a net profit of PLN 277,709 thousand, representing an increase of PLN 38,558 thousand (i.e. 16.1%) over the corresponding period of the previous year. Net profit for the second quarter of 2005 amounted to PLN 158,725 thousand in comparison to PLN 157,687 thousand in the corresponding period of the previous year

Cumulative gross profit (i.e. for the period of January to June) amounted to PLN 357,346 thousand, which is an increase of PLN 67,355 thousand (i.e. 23.2%) in comparison to the corresponding period of the previous year. Gross profit generated in the second quarter of 2005 amounted to PLN 210,578 thousand compared to PLN 185,035 thousand in corresponding period of the previous year.

The amount of the Bank's net profit for the second quarter of 2005 was primarily influenced by the result on the banking activity and other operating revenues, which improved by PLN 111,374 thousand (i.e. 23.2%). The Bank's net profit for the second quarter of 2005 was additionally impacted by lower income from sale of assets other than those intended for sale, reduced value of provisions established for the Bank's liabilities and higher (net) impairment release of financial assets by a total of PLN 189 thousand compared to the corresponding period of the previous year, and a concurrent increase by PLN 85,642 thousand (or 28,3%) of the costs encompassing other operating expenses, costs of the Bank's activity, general management expense, depreciation of fixed assets and amortization of intangible assets

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

Signature of the Financial Reporting and Control Department Director	Signature of the Management Board Member Chief Financial Officer
Date and signature	Date and signature
12 August 2005	12 August 2005
....	....