Notes to the consolidated quarterly SAB-QSr 1/2005 report for the first 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 31 March 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 first 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%	

Komentarz [m1]: licenses (except the main operating system, which is depreciated at the rate of 20%)

Komentarz [m2]: fixed assets

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.

Komentarz [m3]: Historically, fixed assets were periodically subjected to value adjustments 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

		31 March 2005	31 December 2004	31 March 2004
1	USD	3.1518	2.9904	3.8813
1	CHF	2.6341	2.6421	3.0409
1	EUR	4.0837	4.0790	4.7455

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, in the first quarter of 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 IFRS 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 31/03/2004	As of 01/01/2004
Shareholders' equity				
Shareholders' equity according to Polish Accounting Standards	6.155,553	6.155,553	6.037,989	5.947,523
Corrections related to the introduction of IFRS/IAS, including:	75.860	83.357	32.261	11.900
- reversal of the goodwill amortization	*72.445*	*72.445*	*18.111*	
- change of assessment of the financial assets impairment	*19.232*			
- change of direct acquisition costs of credit	*(22.137)*			
- positive valuation of properties recognized as investment properties	*6.320*			
- consolidation differences	*10.912*	*10.912*	*14.150*	*11.900*
Shareholders' equity after changes	**6.242,325**	**6.238,910**	**6.070,250**	**5.952,869**
Net profit (loss)				
Profit according to Polish Accounting Standards		416.132	65.399	
Corrections related to the introduction of IFRS/IAS, including:		*78.797*	26.915	
- reversal of the goodwill amortization		*72.445*	*18.111*	
- consolidation differences		*6.352*	*8.804*	
Net profit (loss) after changes		**494.929**	**92.314**	

Unitary financial data

in PLN '000

	As of 01/01/2005	As of 31/12/2004	As of 31/03/2004	As of 01/01/2004
Shareholders' equity				
Shareholders' equity according to Polish Accounting Standards	6.152,785	6.152,785	6.035,500	5.946,930
Corrections related to the introduction of IFRS/IAS, including:	11.414	(10.801)	(27.148)	(45.109)
- *reversal of the goodwill amortization*	*72.445*	*72.445*	*18.111*	
- *reversing accounting for by the equity method*	*(83.246)*	*(83.246)*	*(45.259)*	*(45.109)*
- *change of assessment of the financial assets impairment*	*34.245*			
- *change of direct acquisition costs of credit*	*(18.350)*			
- *consolidation differences*	*6.320*			
Shareholders' equity after changes	**6.164,199**	**6.141,984**	**6.008,352**	**5.901,821**
Net profit (loss)				
Profit according to Polish Accounting Standards		414.214	65.503	
Corrections related to the introduction of IFRS/IAS, including:		*34.308*	17.961	
- *reversal of the goodwill amortization*		*72.445*	*18.111*	
- *reversing accounting for by the equity method*		*(38.137)*	*(150)*	
Net profit (loss) after changes		**448.552**	**81.464**	

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

As of 31 March 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 31 March 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 first quarter of 2005

In the first quarter of 2005 the structure of the Bank’s Capital Group and the composition of entities associated with the Bank changed as a result of the following events:

- On 29 December 2004, an agreement on sale of all shares of an associated company, Creditreform Polska Sp. z o.o. (“Creditreform”), held by the Bank to Creditreform Frankfurt Emil Vogt KG with its registered office in Frankfurt-am-Mein, Germany. The block of shares sold constituted 49.03% of the capital of Creditreform and the same number of votes in the Meeting of Shareholders of that company. The agreement provides that the profit for the accounting year 2004 generated by Creditreform, attributed to the shares held by the Bank on the date of signing the agreement, will be paid out no later than within two months of the adoption of the resolution on the payment of a dividend by Meeting of Shareholders of Creditreform. In accordance with the conditions of the agreement, the transfer of ownership of the shares took place in January 2005, at the date of payment of the entire selling price by the buying party.
- On 20 January 2005, the Bank concluded with a subsidiary, Handlowy Inwestycje II Sp. z o.o. (“Inwestycje II”), in which it had shares constituting 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 raise of initial capital on 4 February 2005, the initial capital of Inwestycje II amounts to PLN 471,400.00 and is divided into 4,714 shares with a nominal value of PLN 100 each, whereas one vote at the Meeting of Shareholders is attributed to each share. Before the sale of shares, the share held by the Bank constituted 34.44% of the initial capital of MZH and authorized the holder to exercise 34.44% of the total number of votes at the General Meeting. As a result of this transaction, the Bank has 9.84% share in the initial capital of MZH and the same percentage of votes at the Company General Meeting.
- On 14 March 2005, the Bank entered into the agreement pursuant to which it sold – to Mr. Zbigniew Opach – 2,357 shares in the subsidiary, Inwestycje II Sp. z o.o. (previously, “Handlowy-Inwestycje II” Sp. z o.o.) (“Inwestyje II”), with the nominal value of PLN 100 each and with total nominal value of PLN 235,700, constituting 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, constituting 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 constituting 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.

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

- **Bank Handlowy w Warszawie SA - parent entity**

1. Corporate and Investment Bank

- *Summary of segment results*

In the first quarter of 2005, income before taxes of the Corporate and Investment Bank was PLN 157,1 million, i.e. 106 % higher than in the first quarter of 2004.

In the first quarter of 2005, profit on banking activity grew from PLN 346 million to PLN 348 million, i.e. by 1%, reflecting a careful credit strategy. As a result credit activities were limited and as well activity on financial markets was moderate. In the first quarter of 2005 in comparison to the corresponding period of the previous year, net interest income increased by 3% from PLN 122 million to PLN 127 million. Net commission income increased by 3% from PN 88 million to PLN 90 million, and profit on assets and financial commitments dropped by 17% from PLN 33 million to PLN 27 million. The result on foreign exchange operations improved marginally in relation to the corresponding period in 2004 and amounted to PLN 103 million.

The main factor that caused the improvement in results was the significant decrease in operating expenses of the segment by 27% to PLN 182 million in the first quarter of 2005. The decrease was mainly due to group layoffs in 2004. In the first quarter of 2005 the restructuring of the branch network contributed to a drop in depreciation expenses by 11% from PLN 28 million to PLN 25 million as compared to the corresponding period in 2004.

- *Corporate Finance*

The Bank proactively supports the development of the largest enterprises in Poland as an independent funding provider, a lead arranger or a syndicate member as well as an arranger of funding in capital markets. In the first quarter of 2005, the largest transactions included:

- A 5-year syndicated loan for one of the retail chains in Poland for an amount of EUR 106 million. In the transaction the Bank is playing the role of an authorized lead arranger and credit agent;

- An agreement of mandate for the arrangement of the income bond issue program for a water and sewerage company with a debt limit of up to PLN 400 million. Under the program, the Bank is playing the role of a transaction co-arranger.

In addition, the Bank has entered an agreement to provide advisory services related to the restructuring of debt for a customer from the fuel and power industry. In the transaction, the Bank played the role of a coordinator.
As of the end of March 2005 the Bank had a leading share in the market for short-term debt securities issuance at the level of 22.5%.

- *Trade Finance*

In relation to trade finance products, the main objective of the Bank was to maintain position both with regard to the implementation of new solutions and with regard to the development of electronic service platforms. The Bank's offer of trade finance products was not only based on tested solutions and banking practices considered to be the best, but also innovative structuring solutions in order to meet specific needs of customers and create a possibility for broader servicing of applications submitted to the bank via electronic data transmission media.

Traditionally, the key products related to the trade service and financing area have been the guarantees and letters of credit issued by the Bank, the servicing of the collection against documents as well as discounting of receivables documented by bills of exchange and invoices (factoring). The bank's offer has been extended to include the possibility of issuing guarantees required under the European Union Program, PHARE, and the World Bank.

An important role in the servicing of trade finance has been played by a number of significant performance bonds issued by the Bank, where the amount of an individual instrument exceeded PLN 5 million. A number of customs guarantees, with the value of a single guarantee exceeding PLN 10 million, should also be considered to be among important transactions.

The interest in invoice discounting programs is growing. The solutions offered by the Bank have been extended to include additional service areas related to the new type of reports generated by the Bank for the customers' purposes, related to the so-called soft collection and monitoring of proceeds. The achievements in the first quarter of 2005 include the implementation of a program to finance suppliers of one of the largest superstore chains in Poland amounting to PLN 8 million.

- *Global Transaction Services (GTS)*

In the first quarter of 2005 the Bank introduced a new type of a pre-paid card into its offer. The launch of the product is addressed to business entities, and in particular to public sector institutions (municipality and town offices, public and private universities). The card is used to distribute funds from allowance and grant funds. Thanks to the application of this solution, Municipal Offices may, for example, forward the family allowances, unemployment benefit, and funds under other social assistance programs to pre-paid cards, rather than have them paid out in the cash department of the office. The forwarding of student grants by universities as well as municipality and town offices seems similar.

As a result of work on the reduction of the number of paper orders implemented in the Bank, a solution called ZetaFax, i.e. "electronic form for manual transfer", has been developed. The basic goal of introducing the solution is to increase the number of orders processed electronically, as well as to reduce significantly the number of errors and mistakes made by customers by introducing tools verifying the information, filled in by the customer in the transfer instruction.

The Bank introduced a solution allowing the settlement of mass payments (for all types of bills, e.g. for gas, telephone, electricity, rent, etc.) in Payment Service Points maintained by third parties, to the benefit of creditors who have not entered into separate agreements with the Bank.

In the first quarter of 2005 the Bank implemented the Working Capital Management project, during which almost 100 customer analyses were prepared, allowing for the specificity of the customers' activities, their size and development. The analyses conducted were used to prepare individual offers aimed at optimizing the finance management. The continuation of this project will enable the Bank to identify the needs and requirements of customers, which will help prepare adjusted offers and tighten the cooperation between the Bank and its customers.

- *e-banking*

In the first quarter of 2005 the Bank implemented additional functionality that expands the possibility of generating electronic statements of accounts for customers using Internet banking system CitiDirect. CitiDirect Online is a key electronic banking system for the Bank's customers. It provides complex management of funds: payments and fast access to information concerning the balance on current accounts and transactions.
At the end of the first quarter of 2005 over 8,000 customers have been using the Bank's electronic banking system.

- *Custody services*

On 28 February 2005, an agreement was signed in relation to the acquisition by Bank Handlowy w Warszawie SA of part of a bank enterprise including the operations consisting in maintaining securities accounts, money and bank accounts, and performing the function of a depositary for investment funds from ABN Amro Bank (Polska) SA. The agreement came into effect on 1 March 2005.

- *Treasury Products*

In the first quarter of 2005, the Bank reinforced its position in the derivatives market. In particular, option instruments were in high demand as their sale increased by 90% in comparison to the last months of the previous year. The Bank also noted good results in the sale of Market Linked Deposit (MLD). This was prompted by additional functionalities of the MLD product introduced in the first quarter of 2005.

Thanks to the growing customer base, the first quarter of 2005 was another period of the Bank's strong involvement in trade intermediation in the secondary market for debt securities, where the Bank noted the highest volume of trade in its history.

- **Dom Maklerski Banku Handlowego SA ("DM BH") – a subsidiary**

In the first quarter of 2005, the company further strengthened its leading position in the market of brokerage services as reflected in its share of the stock market. During the reporting period, the value of share purchase and sale transactions settled by DM BH in the stock market at the Warsaw Stock Exchange reached PLN 9,563 million, setting a new record of 13.9% over the previous top quarter. Increased trading recorded by DM BH in the first quarter of 2005 was attributable to improved business climate in the stock market of the Warsaw Stock Exchange and resulted partly from market share increase from 21.0% to 22.8%. Once again, DMBH managed to retain the largest share in stock trading among brokerage offices and houses, exceeding on two counts 23% market share (23.68% in January and 23.41% in March). The strength of DM BH was well illustrated by the fact that the trading volume reported by the second largest stood at 14%.

- **Handlowy-Leasing SA / Citileasing Sp. z o.o. – subsidiaries**

In the first quarter of 2005, new product programs were launched, namely machine tool funding program and forklift funding program. New programs were designed to extend the product range of Handlowy-Leasing SA and provide a response to the market's needs in these areas.

In the first quarter of 2005, active acquisition campaigns were also conducted within the framework of existing programs: transport equipment funding, plastics processing equipment funding and printing equipment funding programs reactivated in 2004. Handlowy-Leasing SA also issued new lease financing agreements within the framework of the second application to obtain additional assistance from EU structural funds targeting small and medium enterprises under the Sector Operating Program – Enterprise Competitiveness Improvement.

In the first quarter of 2005, a number of steps were taken to facilitate sale of leasing products among the customers of the Bank through a cycle of presentations and training events arranged for its staff members.

In the first quarter of 2005, the company launched its website offering customers rapid access to corporate information and local contact persons. A telephone information service was also put in place.

- **Handlowy Zarządzanie Aktywami SA ("HanZA") – a subsidiary**

The value of assets entrusted for management to Handlowy Zarządzanie Aktywami SA as of 31 March 2005 amounted to PLN 2,821.9 million. A 15.7% increase over the figure reported at end 2004 was due to a significant growth in assets held by the funds making up Towarzystwo Funduszy Inwestycyjnych Banku Handlowego SA which are managed by HanZA. Asset growth was also stimulated by institutional customers. The value of portfolios held by institutional customers at the end of the first quarter of 2005 climbed PLN 56.8 million in relation to the end of the fourth quarter of 2004.

- **Towarzystwo Funduszy Inwestycyjnych Banku Handlowego SA ("TFI BH") – a subsidiary**

The first quarter of 2005 proved very successful for Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A. The value of fund assets managed by TFI BH amounted to PLN 1,319.6 million as on 31 March 2005, representing a 31.6% increase over the end of the previous quarter. At the end of the first quarter of 2005, there was a change in leadership in terms of the value of managed assets. CitiZrównoważony Środkowoeuropejski FIO [CitiZrównoważony Central European FIO], whose assets grew over 47% to reach PLN 340.4 million as on 31 March 2005, became the new leader. This dynamic of asset growth reflects the appeal of the fund's new investment strategy to Polish investors. The fund was first introduced in September 2004 to extend the range of investment options and include stock markets of Central European countries. Asset growth can be also traced to excellent investment returns reported recently by that fund. The previous quarter's leader in terms of the value of assets under management - CitiSenior Specjalistyczny Fundusz Inwestycyjny Otwarty [CitiSenior Specialist Open-ended Investment Fund] – also proved popular with investors in early 2005. Its assets grew in the first quarter by 19.3% in excess of PLN 300 million as on 31 March 2005. The fund which posted the highest growth dynamic in the first quarter of 2005 proved to be CitiObligacji Fundusz Inwestycyjny Otwarty – a 49% increase from PLN 168.9 million at year end 2004 up to PLN 251.7 million as on 31 March 2005. Asset growth during that period was also reported by CitiPieniężny FIO (42.9%), CitiPłynnościowy SFIO (22.5%), Fundusz Własności Pracowniczej PKP SFIO [Employee Equity Fund] (14.5%) and CitiAkcji FIO (13.7%).

All of the open-ended funds managed by TFI BH, except for CitiAkcji FIO Fund, yielded a profit for investors in the first quarter of 2005 – CitiZrównoważony Środkowoeuropejski FIO – grew 5.22%, CitiObligacji FIO – 2.88%, CitiSenior SFIO – 2.26%, CitiPieniężny FIO – 1.62%, CitiPłynnościowy SFIO – 1.58%, and Fundusz Własności Pracowniczej PKP SFIO – 14.54%.

2. Consumer Bank

- *Summary of segment results*

In the first quarter of 2005, income before taxes of the Consumer Bank amounted to PLN 11 million. In the corresponding period in 2004 it was PLN 45 million.

In the first quarter of 2005, the profit on banking activity amounted to PLN 177 million, representing an increase of PLN 19 million, i.e. by 12 % as compared to the first quarter of 2004. Mainly resulted from increase in interest income by PLN 18 million (19%) owing to an increase in volume of credits by 34%. The net commission income dropped insignificantly by 3 % from PLN 55 million to PLN 53 million.

In the same period, the extension of distribution channels through the opening of new branches and a related increase in staff employment resulted in the first quarter of 2005 an increase in both direct expenses by PLN 29 million (26%) and amortization by PLN 1 million (14%) as compared to the same period of 2004. The purpose of bearing these additional costs is to improve income growth in future financial periods.

In the first quarter of 2004 impact on segment's results had a positive specific provisions balance, resulting from the one-off reversal of charges following a change in the regulations concerning the creation of specific provisions. Costs of charges to impairment of credits in the first quarter of 2005 amounted to PLN 14 million and reflected to level of credit risk portfolio.

- *Credit Cards*

At the end of the first quarter of 2005, the portfolio of credit cards serviced reached 535,000, representing an increase of 15% in relation to the same period of the previous year and by 5% in relation to the previous quarter. Thus, the Bank achieved the best acquisition results in its history and is maintaining its position of an unquestionable leader in the credit card market in Poland.

In the first quarter of 2005 the high sale of credit cards was mainly the result of the persistently high demand for the Citibank Visa Silver and MasterCard Silver credit cards, which accounted for almost 80%

of acquisition. The total card portfolio shows an upward trend, both in number of card and in terms of turnover, which is translated into profitability. The first quarter of 2005 was also a period of record sales of the "Komfort" Installment Repayment Plans, which enable credit card holders to arrange advantageous installments for a shopping payment.

- *Consumer Loans*

In the first quarter of 2005 the Bank noted a record value of credit granted: it increased by 40% in comparison with the previous quarter (excluding CitiFinancial), which resulted from increasing the maximum amount of credit granted to PLN 120,000 and extending the target market. The development of the product was supported by a television campaign, introducing new credit positioning.

As regards mortgage loans, the Bank continued its cooperation with GE Bank Mieszkaniowy (currently, GE Money Bank SA.) and Nykredit Bank Hipoteczny SA.

- *Bank Accounts*

In March 2005 CitiGold – Wealth Management account – received the title of the best offer in the ranking of the Rzeczpospolita daily for the second time. The ranking concerned the offer for wealthy people and underscored the prestige and convenience of the CitiGold offer. The factors in obtaining the best rating for the CitiGold offer are the Bank's modern banking products and individual approach to discerning customers.

- *Investment Products*

In the first quarter of 2005, the Bank introduced the Capital Accumulation System (SAK) with the Union Investment TFI funds for sale. This is another systematic savings plan in the Bank's offering. Under SAK customers can invest in a bond fund, a balanced fund and in three equity funds.

In March 2005, the Bank, through a network of CitiGold branches, commenced in the sale of foreign fund – open-end investment funds registered in Luxembourg. Under the offer, three types of funds managed by Citigroup Asset Management Limited (CAM) are available: Citi FCP, CitiMoney FCP and CitiSicav. The offering includes jointly 51 subfunds, available in EUR, USD and GBP, belonging to the three types of funds mentioned above.

Additionally, under the foreign funds, the possibility of investing in the so-called fund of funds (CitiChoice Multi-Manager) is worthy of note. The newly introduced European legal regulations for the first time enable the investment funds in the EU to invest their resources directly in other funds – on the same terms which are applicable to investments in stocks or bonds. CAM is one of the first financial institutions benefiting from those new legal solutions. Through the access to fund of funds offered by CAM, the Bank customers have an opportunity to invest in the best funds available and managing them as a single investment portfolio.

The sale of Citifundusze Saving Plans in the first quarter of 2005 increased by almost 30% in comparison with the fourth quarter of 2004. During that period, the Bank completed 12 subscriptions of the Citibank Investment Deposits (MLD) and 5 subscriptions of Structured Bonds.

In the first quarter of 2005, the Global Consumer Bank organized 10 seminars devoted to investment products for current and potential customers of the Bank.

- *e-banking*

At the end of the first quarter of 2005 the number of Citibank Online users exceeded 256,000 representing an increase of 53% as compared with the same period of the prior year. The volume of transactions made via Citibank Online was 75% of Consumer Bank's total transactions. The development of e-banking is supported with appropriate pricing and special offers, e.g. premium interest rates on T-Lokata deposits, available only through the Internet, as well as an extensive range of functionalities.

In the first quarter of 2005, The Bank ran several Internet campaigns to promote reatail banking products: the "commission-free credit" campaign, the T-Deposit (Internet deposit) campaign, an offer of a credit card without the annual fee if the application is submitted via the Internet, and an offer of personal accounts and investment products.

In addition, the Bank actively promotes the Online Bank Statement service, where it reports an increasing number of users and, thus, generates substantial savings. At the end of the first quarter of 2005, the number of users of this service exceeded 25,000. The number of CitiGSM customers, notified about their bank balance by an SMS-message, increased by 29% during the period from March 2004 to March 2005.

3. *CitiFinancial*

- *Summary of segment results*

In the first quarter of 2005 the Bank noted a significant, more than threefold increase in revenue in comparison with the first quarter of 2004. In that period, net interest income grew from PLN 6 million to over PLN 21 million (by 372%), and net commission income grew from PLN 0.4 million to PLN 1.1 million (by 275%).

The result was achieved through the rapid increase of assets, almost by PLN 300 million (380%) following the extension of distribution channels. In the first quarter of 2005 the Bank had at its disposal 40 CitiFinancial outlets, an increase of 19 outlets compared to the end of quarter of 2004. Additionally, the Bank cooperated with brokers, who intermediated in sale of credits.

The extension of distribution channels increased operating expenses, which grew from PLN 8.5 million to PLN 20 million (by 235%), but the pace of revenue growth was higher than growth of costs.

CitiFinancial is a relatively new business in the course of strong market expansion and reported in the first quarter of 2005 a loss of PLN 1.5 million, which decreased from PLN 2.9 million in comparison with the same period in 2004.

- Marketing activities

The first quarter of 2005 was another period during which the sale of the product offer including cash loans increased. A campaign promoting the "Installment Reduction Center" was also conducted, which contributed to a dynamic growth of sale of consolidation loans and an appropriate price strategy strengthened the CitiFinancial offer.

4. Reorganization of the Branch Network

In the first quarter of 2005, the Bank continued to reorganize and expand its branch network with a view to cost optimization and enhanced accessibility for retail and corporate customers. The Bank's network grew by 5 outlets in relation to the fourth quarter of 2004 and totaled 173 branches at the end of the first quarter of 2005 made up of:

1) 42 branches and sub-branches of the Corporate Bank, of which 28 handle retail customers.

2) 91 branches of the Consumer Bank, of which 12 are dedicated to CitiGold Wealth Management customers and one Investment Center. Of the total, 10 Consumer Bank branches also handle customers of the Corporate Bank.

3) 40 CitiFinancial branches located in commercial centers and in the vicinity of housing estates.

Corporate Bank and Consumer Bank outlets also handled CitiBusiness customers.

Owing to the range of solutions offered, the above structure is designed to ensure optimum access to services for all current and potential customers of the Bank.

3. Description of Factors and Events Impacting the Financial Performance of the Bank's Capital Group in the First Quarter of 2005

For the first quarter of 2005, the Bank's Capital Group reported a cumulative net profit of PLN 138,522 thousand, up PLN 46,208 thousand (i.e. 50.1%) compared to the figure reported for the first quarter of the previous year.

Cumulative gross profit in the first quarter of 2005 stood at PLN 166,595 thousand and was PLN 47,634 thousand (i.e. 40%) higher than that reported for the first quarter of 2004.

The result on banking activity generated in the first quarter of 2005 showed an increase of PLN 36,836 thousand (or 7.2%) 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 first quarter of 2004 was primarily impacted by:

- increase in net interest income of PLN 38,016 thousand (or 17.1%), mainly due to satisfactory net interest income from the debt securities portfolio and from claims on financial institutions;
- increase in net income from financial assets and liabilities of PLN 24,573 thousand, mainly as a result of higher net income from sales of available-for-sale debt securities – Treasury bonds;
- decrease in net income from tradable financial assets and liabilities of PLN 30,305 thousand, mainly due to lower net income from operations involving FX financial instruments.

Operating expenses and general management expense in the first quarter of 2005 dropped by PLN 29,920 thousand (or 6.5%) compared to the corresponding period of the previous year. It was mainly impacted by group layoffs in 2004.

In the first quarter of 2005, the release of net provisions for financial assets impairment was lower by PLN 35,776 thousand compared to the first quarter of 2004. This was primarily due to the release of net provisions for off-balance sheet liabilities.

In the current reporting quarter, (net) impairment write-offs of financial assets were lower by PLN 29,601 thousand (or 83.5%) compared to the corresponding period of the previous year. The contributing factor proved to be lower (net) write-offs for impairment of loans and advances estimated at amortized cost.

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 first quarter of 2005.

6. Dividends

On 16 March 2005, the Management Board of the Bank adopted a resolution on the proposed distribution of 2004 profit and payment of dividends from previous years' profits. The Bank's Board proposed to allocate for the payment of dividends:
1) the amount of PLN 414,190,932 from 2004 profit;
2) the amount of PLN 1,149,804,480 originating from previous years' profits transferred from supplementary capital and reserve capitals.
The combined amount intended for payment as a dividend shall be PLN 1,563,995,412.

The above proposal implies that the dividend from 2004 profit shall amount to PLN 3.17 per share, and the dividend from previous years' profits shall amount to PLN 8.80 per share. The combined dividend per share shall stand at PLN 11.97.
The Bank's Board proposed 25 July 2005 as the date for determining the right to the dividend and 1 September 2005 as the date of dividend payment. The above proposal by the Bank's Board was submitted to the Supervisory Board for their opinion.
The payment of a dividend from previous years' profits shall require an amendment of the Bank's Articles of Association. Proposed amendments of the Articles of Association were presented by the Board and adopted at the Bank's Extraordinary General Meeting of Shareholders held on 28 April 2005, and subsequently filed for registration in the Entrepreneurs' Register of the National Court Register.
Furthermore, payment of dividend in the amount designated above will require the consent of the Commission for Banking Supervision, pursuant to Article 129 Clause 3 of the Banking Law act of 29 August 1997. Once the relevant positive opinion of the Supervisory Board has been secured, the Bank's Management Board shall apply to the Commission for Banking Supervision for the granting of the said approval.
As soon as the Bank obtains the consent of the Commission for Banking Supervision, its Board shall present its proposal for distribution of 2004 profit and disbursement of dividend from previous years' profits for approval by the Bank's General Meeting of Shareholders.
The Bank did not issue any preference shares.

7. Major Events after the Balance Sheet Date not included in the Financial Statements

No events have taken place after 31 March 2005 or were included in this report that could significantly impact the financial performance of the Bank's Capital Group.

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 first quarter of 2005, none of the above-mentioned events took place at the Bank or units of the Bank's Capital Group, except for transactions concluded in the period whereby the Bank sold its stake in its subsidiary Handlowy Inwestycje II Sp. z o.o. subsidiary and in Creditreform Polska Sp. z o.o. and Mostostal-Zabrze Holding SA associates. Details of the concluded transactions have been presented in Item 1.4.

9. Movements in Off-Balance-Sheet Commitments

In the first 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 such transactions (current – pertaining to FX spot transactions and term – pertaining to FRAs and interest rate swaps) totaling PLN 63,768 million in relation to year end 2004.

10. Selected Financial Data

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 4.0837 as on 31 March 2005 and PLN 4.7455 as on 31 March 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 first quarter of 2005, stands at PLN 4.0153, on an aggregate basis; in relation to the first quarter of 2004 stands at PLN 4.7938, 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 31 March 2005 and on 31 March 2004, which stands at PLN 4.3235 and PLN 4.5840, 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 31 March 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 first 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 first 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 1,172,599 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, especially in the Consumer

Bank Sector. 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 (in the case of bank loans, relevant regulations make the establishment of provisions contingent on the timeliness of loan instalment repayments), 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 Handlowy w Warszawie SA.	PLN 158,534 thousand (loan-related receivable)	8 August 1997 – declaration of bankruptcy.	Case pending.
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 40,586 thousand (loan- and guarantee-related receivable)	On 30 June 2003, 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	PLN 30,953 thousand	The court declared the debtor bankrupt in March 2004.	The Bank submitted the receivable to repay it from

Handlowy w Warszawie SA			the bankrupt's assets for arrangement. Case pending (loan-related receivable).

In the first 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 first quarter of 2005, the Bank and subordinated entities did not enter into any significant transactions with related entities.

16. Information about Major Loan and Advance Surety or Guarantee Agreements

At the end of the first 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

Personnel Changes in the Bank's Governing Bodies in the First Quarter of 2005

On 7 December 2004, the Bank's Supervisory Board appointed Mr. Reza Ghaffari as Vice-President of the Bank's Management Board. The relevant resolution took effect on 3 February 2005 as soon as Mr. Reza Ghaffari obtained the required work permit.

On 3 February 2005, Mr. David J. Smith resigned from the post of Vice-President of the Bank's Management Board and his mandate of Member of the Management Board expired on that date.

On 31 March 2005, Mr. Sunil Sreenivasan resigned from the post of Vice-President of the Bank's Management Board and his mandate of Member of the Management Board expired on that date.

As a result of personnel changes in the Bank's Management Board in the first quarter of 2005, its composition as on 31 March 2005 was as follows:

Management Board

Sławomir Sikora	President of the Bank's Management Board
Philip Vincent King	Vice-President of the Bank's Management Board
Reza Ghaffari	Vice-President of the Bank's Management Board
Lidia Jabłonowska-Luba	Member of the Bank's Management Board
Michał Mrożek	Member of the Bank's Management Board

Other Information

On 15 February 2005, the District Court in Warsaw I Civil Department dismissed the action filed by Marek Gil against Bank Handlowy w Warszawie SA for the payment of PLN 276,508,282.
The suit was brought by Marek Gil on 20 October 2003. As the basis for his claims, Marek Gil, the majority shareholder of Biuro Inwestycyjne CODE S.A. (CODE), quoted the violation by the Bank of the terms of the agreement of 20 June 1999 whereby the Bank was appointed the agent for CODE's bond issue. The court's sentence is not legally valid yet. The filing of the action against the Bank in 2003 was not made public pursuant to the decision No. DSPN/451/186/03 of the Securities and Exchange Commission of 27 October 2003.

On 28 February 2005, having obtained the consent of the Commission for Banking Supervision, the Bank concluded a transfer agreement whereby it committed to purchase part of a banking enterprise that covered operations in the area of maintenance of securities accounts and cash/bank accounts and in the area of depositary services for investment funds from ABN Amro Bank (Polska) SA in Warsaw. The agreement took effect on 1 March 2005.

On 16 March 2005, the Bank's Management Board adopted a resolution on the proposed distribution of 2004 profit and payment of dividends from previous years' profits. Details of the dividend payment have been presented in Item 6.

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.

18. Description of Factors and Events with Potential Impact on Future Financial Performance of the Bank's 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:

- Temporary deterioration of business climate. We expect GDP growth to slow down to 3.9% year-on-year in 2005 from 5.3% year-on-year in 2004. Although weaker economic growth will be primarily due to the statistical effect of a high base in 2004 and the lowering of inventory levels, we believe it will not be reflected in a marked deterioration of the financial standing of the Bank's customers;

- Planned inflow of direct investment may contribute to the expansion of the customer base;

- Process of slackening monetary policy may have an impact on price growth of debt securities but may concurrently contribute to a slight weakening of the domestic currency;

- Increased competition among the banks in the retail customer market in connection with planned expansion of new institutions in Poland's market (including non-banking finance institutions).

19. Reporting by Industry and Geographic Segments

The financial results of the Bank's Capital Group by segments as of 31 March 2005

Profit and loss account	Corporate and Investment Bank	Consumer Bank	CitiFinancial	Total
Net interest income	126,634	112,480	21,262	260,376
Net fees and commissions income	90,133	53,288	1,118	144,539
Profit on assets and financial commitments	27,427	5,914	-	33,341
FX income	103,474	4,961	-	108,435
Other operating income	2,839	(1,502)	(27)	1,310
Profit on banking activity	**350,507**	**175,141**	**22,353**	**548,001**
General administrative expenses	(181,906)	(140,074)	(20,392)	(342,372)
Depreciation expense	(24,563)	(9,725)	(297)	(34,585)
Charges to provisions and revaluation	13,062	(14,338)	(3,173)	(4,449)

Profit before taxation	157,100	111,004	(1,509)	166,595
Corporate income tax				(28,073)
Net profit				138,522

Balance sheet	Corporate and Investment Bank	Consumer Bank	CitiFinancial	Total
Assets	31,422,398	2,002,034	374,099	33,798,531
Liabilities	26,939,611	6,721,570	137,349	33,798,531

The financial results of the Bank's Capital Group by segments as of 31 March 2004

Profit and loss account	Corporate and Investment Bank	Consumer Bank	CitiFinancial	Total
Net interest income	122,456	94,189	5,715	222,360
Net fees and commissions income	87,547	55,189	393	143,129
Profit on assets and financial commitments	33,001	6,072	-	39,073
FX income	102,899	2,394	-	105,293
Other operating income	10,533	378	(50)	10,861
Profit on banking activity	**356,436**	**158,222**	**6,058**	**520,716**
General administrative expenses	(246,618)	(111,221)	(8,453)	(366,292)
Depreciation expense	(28,499)	(8,539)	(151)	(37,189)
Charges to provisions and revaluation	(4,945)	6,991	(320)	1,726
Profit before taxation	76,374	45,453	(2,866)	118,961
Corporate income tax				(26,647)
Net profit				92,314

Balance sheet	Corporate and Investment Banking	Retail Banking	CitiFinancial	Total
Assets	32,138,855	1,568,092	99,063	33,806,010
Liabilities	27,074,335	6,703,091	28,584	33,806,010

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

The notes to the consolidated financial statements for the first 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 first quarter of 2005.

Summary of the Bank's Financial Results

For the first quarter of 2005, the Bank reported a net profit of PLN 118,984 thousand, representing an increase of PLN 37,520 thousand (or 46,1%) over the first quarter of 2004.

Gross profit generated in the first quarter of 2005 amounted to PLN 146,768 thousand and was PLN 41,812 thousand (or 39,8%) higher compared to the gross profit reported for the first quarter of 2004.

The amount of the Bank's net profit for the first quarter of 2005 was primarily influenced by the result on the banking activity and other operating revenues, which improved by PLN 29,993 thousand (or 6%). The Bank's net profit for the first 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 lower (net) impairment write-offs for financial assets by a total of PLN 10,215 thousand compared to the corresponding period of the previous year, and a concurrent increase by PLN 22,034 thousand (or 5,5%) 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 first quarter of 2005 will be made available on the website of Bank Handlowy w Warszawie SA at www.citibankhandlowy.pl

Signature of the Financial Reporting and Control Department Director Date and signature	Signature of the Management Board Member Chief Financial Officer Date and signature
16 May 2005	16 May 2005 ....