The Semi-Annual Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. as at 30 June 2007

September 2007

Selected financial data

	In PLN '000		In EUR '000***	
	First half of 2007	First half of 2006	First half of 2007	First half of 2006
	period from 01/01/07 to 30/06/07	period from 01/01/06 to 30/06/06	period from 01/01/07 to 30/06/07	period from 01/01/06 to 30/06/06
Interest income	942,858	783,601	244,987	200,913
Fee and commission income	460,368	376,861	119,620	96,626
Profit before tax	549,617	444,500	142,810	113,969
Net profit	439,570	343,746	114,216	88,135
Increase/decrease of net cash	898,743	39,646	238,659	9,805
Total assets*	36,790,147	35,990,735	9,769,544	9,394,115
Due to Central Bank*	-	250,113	-	65,283
Financial liabilities valued at amortized cost*	26,077,572	25,991,136	6,924,843	6,784,072
Shareholders' equity	5,216,797	4,980,432	1,385,309	1,231,744
Share capital	522,638	522,638	138,785	129,257
Number of shares	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN / EUR)	39.93	38.12	10.60	9.43
Capital adequacy ratio (%)*	13.17	14.10	13.17	14.10
Earnings per ordinary share (PLN / EUR)	3.36	2.63	0.87	0.67
Diluted net profit per ordinary share (in PLN)	3.36	2.63	0.87	0.67

** The comparable financial data as at 31 December 2006.*
*** The presented ratios are related to, respectively: dividends to be paid in 2007 from the appropriation of the 2006 profit and dividends distributed in 2006 from the appropriation of the 2005 profit.*
**** The following foreign exchange rates were applied to transfer PLN into EUR: for the balance sheet – NBP mid exchange rate as at 30 June 2007 of PLN 3.7658 (as at 31 December 2006: PLN 3.8312, as at 30 June 2006: 4.0434); for the income statement – the arithmetic average of month – end NBP exchange rates in first half of 2007 – PLN 3.8486 (in the first half of 2006: PLN 3.9002).*

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Consolidated income statement

in thousands of PLN	*Note*	**01.01. - 30.06. 2007**	**01.01. – 30.06 2006**
Interest and similar income	*4*	942,858	783,601
Interest expense and similar charges	*4*	(360,015)	(275,469)
Net interest income	*4*	**582,843**	**508,132**
Fee and commission income	*5*	460,368	376,861
Fee and commission expense	*5*	(96,708)	(74,433)
Net fee and commission income	*5*	**363,660**	**302,428**
Dividend income	*6*	801	100
Net income on financial instruments and revaluation	*7*	242,025	178,865
Net gain on investment (deposit) securities	*8*	10,740	33,166
Net profit on investment (capital) instruments	*9*	43,993	-
Other operating income		53,400	59,246
Other operating expenses		(27,638)	(20,439)
Net other operating income	*10*	**25,762**	**38,807**
General administrative expenses	*11*	(701,281)	(681,796)
Depreciation expense	*12*	(55,485)	(66,407)
Profit / (loss) on sale of tangible fixed assets	*13*	(590)	117,289
Net impairment charges	*14*	45,663	11,262
Operating income		**558,131**	**441,846**
Share in profits / (losses) of undertakings accounted for under the equity method		(8,514)	2,654
Profit before tax		**549,617**	**444,500**
Income tax expenses	*15*	(110,047)	(100,754)
Net profit		**439,570**	**343,746**
Weighted average number of ordinary shares	*16*	130,659,600	130,659,600
Net profit per ordinary share (in PLN)	*16*	3.36	2.63
Diluted net profit per ordinary share (in PLN)	*16*	3.36	2.63
Including:			
Net profit for Bank's shareholders		439,570	343,746
Net profit for minority shareholders		-	-

Explanatory notes on pages: 9 – 87 are integral parts of financial consolidated statement

Consolidated balance sheet

In thousands of PLN	*Note*	**30.06.2007**	**31.12.2006**
ASSETS			
Cash and balances with central bank	***17***	2,073,502	535,623
Financial assets held-for-trading	***18***	4,754,021	4,556,471
Debt securities available-for-sale	***19***	8,905,521	8,247,313
Equity investments accounted for under the equity method	***20***	59,395	67,910
Other equity investments	***21***	28,611	54,618
Loans and advances	***22***	18,167,774	19,516,218
to financial sector		*6,305,906*	*9,319,272*
to non-financial sector		*11,861,868*	*10,196,946*
Property and equipment	***24***	622,147	638,246
land, buildings and equipment		*606,797*	*628,860*
investment property		*15,350*	*9,386*
Intangible assets	***25***	1,281,972	1,285,753
Income tax assets	***27***	260,589	274,124
Other assets	***28***	632,436	801,920
Non-current assets held-for-sale	***29***	4,179	12,539
Total assets		**36,790,147**	**35,990,735**
LIABILITIES			
Liabilities due to central bank		-	250,113
Financial liabilities held-for-trading	***18***	3,692,286	3,316,847
Financial liabilities valued at amortized cost	***30***	26,077,572	25,991,136
deposits from		*25,075,939*	*25,036,782*
financial sector		*6,515,932*	*6,156,605*
non-financial sector		*18,560,007*	*18,880,177*
other liabilities		*1,001,633*	*954,354*
Provisions	***31***	48,292	44,378
Income tax liabilities	***27***	14,657	5,687
Other liabilities	***32***	1,740,543	964,771
Total liabilities		**31,573,350**	**30,572,932**
EQUITY			
Share capital	***33***	522,638	522,638
Share premium	***33***	3,028,809	3,027,470
Revaluation reserve	***33***	(185,538)	(81,501)
Other reserves	***33***	1,446,371	1,407,081
Retained earnings		404,517	542,115
Total equity		**5,216,797**	**5,417,803**
Total liabilities and equity		**36,790,147**	**35,990,735**

Explanatory notes on pages: 9 – 87 are integral parts of financial consolidated statement

Consolidated statement of changes in equity

In thousands of PLN	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	Minority equities	**Total equity**
Balance as at 1 January 2006	**522,638**	**3,010,452**	**(64,554)**	**1,196,052**	**584,011**	**-**	**5,248,599**
Valuation of financial assets available-for-sale	-	-	(139,933)	-	-	-	(139,933)
Transfer of valuation of sold financial assets available-for-sale to profit and loss account	-	-	(33,166)	-	-	-	(33,166)
Deferred income tax on valuation of financial assets available-for-sale	-	-	32,889	-	-	-	32,889
Foreign exchange gains and losses	-	-	-	2,083	(3,411)	-	(1,328)
Net profit	-	-	-	-	343,746	-	343,746
Dividends to be paid	-	-	-	-	(470,375)	-	(470,375)
Transfers to capital	-	17,018	-	212,835	(229,853)	-	-
Closing balance as at 30 June 2006	**522,638**	**3,027,470**	**(204,764)**	**1,410,970**	**224,118**	**-**	**4,980,432**

Consolidated statement of changes in equity

In thousands of PLN	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	Minority equities	**Total equity**
Balance as at 1 January 2007	**522,638**	**3,027,470**	**(81,501)**	**1,407,081**	**542,115**	**-**	**5,417,803**
Valuation of financial assets available-for-sale	-	-	(115,950)	-	-	-	(115,950)
Transfer of valuation of sold financial assets available-for-sale to profit and loss account	-	-	(13,763)	-	-	-	(13,763)
Deferred income tax on valuation of financial assets available-for-sale	-	-	25,676	-	-	-	25,676
Foreign exchange gains and losses	-	-	-	(577)	(258)	-	(835)
Net profit	-	-	-	-	439,570	-	439,570
Dividends to be paid		-	-	-	(535,704)	-	(535,704)
Transfers to capital	-	1,339	-	39,867	(41,206)	-	-
Closing balance as at 30 June 2007	**522,638**	**3,028,809**	**(185,538)**	**1,446,371**	**404,517**	**-**	**5,216,797**

Explanatory notes on pages: 9 – 87 are integral parts of financial consolidated statement

Consolidated statement of cash flows

In thousands of PLN	**01.01. – 30.06. 2007**	**01.01. – 30.06. 2006**
A. Cash flows from operating activities		
I. Net profit (loss)	**439,570**	**343,746**
II. Adjustments to reconcile net profit or loss to net cash provided by operating activities:	**467,108**	**(472,307)**
Current and deferred tax income, recognized in income statement	110,047	100,754
Share in net profits / (losses) of undertakings accounted for under the equity method	8,514	(2,654)
Amortization	55,485	66,407
Impairment	(42,053)	(16,347)
Net provisions (recoveries)	(3,610)	5,085
Income on sale of investments	32	(119,685)
Received interest	852,040	657,066
Retained interest	(379,123)	(273,427)
Other adjustments	(1,059,145)	(1,078,900)
Cash flows from operating profits before changes in operating assets and liabilities	**(457,813)**	**(661,701)**
Increase / decrease in operating assets (excl. cash and cash equivalents)	**40,657**	**(1,620,457)**
Increase / decrease in loans and receivables	687,998	(1,240,096)
Increase / decrease in debt securities available for sale	(653,310)	(809,575)
Increase / decrease in equity investments	10,665	(2,122)
Increase / decrease in assets held-for-trading	(192,589)	560,638
Increase / decrease in other assets	187,893	(129,302)
Increase / decrease in operating liabilities (excl. cash and cash equivalents)	**884,264**	**1,809,851**
Increase / decrease in advances from central bank	(250,000)	-
Increase / decrease in financial liabilities valued at amortized cost	262,634	1,611,982
Increase / decrease in liabilities held-for-trading	375,439	(314,861)
Increase / decrease in other liabilities	496,191	512,730
Cash flows from operating activities	**906,678**	**(128,561)**
Income taxes (paid) refunded	**(90,039)**	**(66,026)**
III. Net cash flows from operating activities	**816,639**	**(194,587)**
B. Cash flows from investing activities		
Cash payments to acquire tangible assets	(32,520)	(24,981)
Cash receipts from the sale of tangible assets	2,104	5,534
Cash payments to acquire intangible assets	(7,287)	(4,268)
Cash receipts from the sale of intangible assets	-	139
Cash receipts from the disposal of tangible assets available-for-sale	7,223	174,927
Dividends received	-	100
Net cash flows from investing activities	**(30,480)**	**151,451**
C. Cash flows from financing activities		
Inflows from long-term loans from financial sector	130,279	185,215
Repayment of long-term loans from financial sector	(17,695)	(102,433)
Net cash flows from financing activities	**112,584**	**82,782**
D. Effect of exchange rate changes on cash and cash equivalent	**(1,708)**	**1,293**
E. Increase in net cash	**898,743**	**39,646**
F. Cash at the beginning of reporting period	**1,321,162**	**1,005,340**
G. Cash at the end of reporting period	**2,219,905**	**1,044,986**

Explanatory notes on pages: 9 – 87 are integral parts of financial consolidated statement

Explanatory notes to the consolidated financial statements

1. General information about the Issuer

This consolidated semi-annual report shows the results of operations of the Capital Group of Bank Handlowy w Warszawie S.A. ("the Group"), composed of Bank Handlowy w Warszawie S.A. ("the Bank") as the parent and its subordinated entities.

Bank Handlowy w Warszawie S.A. has its registered office in Warsaw at ul. Senatorska 16, 00-923 Warszawa. The Bank was founded on the strength of the Notarial Deed of 13 April 1870 and is registered in the Register of Entrepreneurs in the National Court Register maintained by the District Court for Warsaw, XII Commercial Department in Warsaw, under KRS number 0000001538.

The Bank was given REGON number: 000013037 and tax identification number NIP: 526-030-02-91

The Bank and the Group were set up for unspecified period of time.

Issued capital of the Bank equals 522,638,400 zł and is divided into 130,659,600 common shares, with nominal value of 4.00 zl per share. The Bank's shares are quoted at the Warsaw Stock Exchange.

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

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

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

investment operations.

The Group consists of the Bank and the following subordinated entities:

Subsidiaries	**Registered office**	**% of votes at the General Meeting of Shareholders**	
		30.06.2007	**31.12.2006**
Entities fully consolidated			
Dom Maklerski Banku Handlowego S.A.	Warsaw	100.00	100.00
Handlowy – Leasing Sp. z o.o.	Warsaw	100.00	100.00
Handlowy Investments S.A.	Luxembourg	100.00	100.00
PPH Spomasz Sp. z o.o. in liquidation	Warsaw	100.00	100.00
Entities accounted for under the equity method			
Handlowy Inwestycje Sp. z o.o.	Warsaw	100.00	100.00
Handlowy Investments II S.a.r.l.	Luxembourg	100.00	100.00
Bank Rozwoju Cukrownictwa S.A.	Poznań	100.00	100.00

Financial data of subsidiaries that are not fully consolidated are immaterial to the consolidated financial statements.

2. Significant accounting policies

Statement of compliance

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

In addition, the summary semi-annual unconsolidated financial statements have been prepared in accordance with accounting policies described in this note except for the principles of recognition and measurement of equity investments in subordinated and associated entities, which are described in Note 1 of the abbreviated semi-annual financial statements of the Bank.

Basis of preparation

These consolidated semi-annual financial statements have been prepared for the period from 1 January 2007 to 30 June 2007. The comparable financial data is presented for the period from 1 January 2006 to 30 June 2006, and for the balance sheet as at 31 December 2006. The financial statements are presented in PLN, rounded to the nearest thousand.

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

Currently, equity compensation programs offered by the Bank are deemed to be cash-settled programs. In accordance with IFRIC 11 interpretation these programs should be deemed as shares payments settled in capital instruments. Interpretation is in force for one-year period and is not effective until 1 march 2007. The Group is estimating what will be the impact of the change on the financial statement.

IFRS 8 concerning operational segments, which replaced IAS 14 was published on 30 November 2007. IFRS is waiting for approval of European Union.

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

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

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

In order to retain comparability of the financial data with the current period presentation, adequate changes have been introduced to the way the financial data for 1H 2006 have been presented, compared with the data previously published in the Interim Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the period ended on 30 June 2006. The changes concerned the manner of grouping and presentation of selected business operations and have not impacted the balance sheet footing or the financial result of the Group. Moreover, we have introduced the changes relating to the expanding of the group of the entities consolidated using the full consolidation method, as of 2006. The impact of expansion of the group of the consolidated entities on the individual lines of the consolidated Income Statement and the Group's equity previously disclosed in the interim consolidated financial statements are presented in Note 45.

In these financial statements, the Group for the first time followed the rules of IFRS 7 – Financial Instruments: Disclosures, in force as of 1 January 2007.

Basis of consolidation

Subordinated entities comprise subsidiaries and associates.

Subsidiaries

Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank has directly or indirectly power to govern the financial and operating policies to obtain financial benefits from its activities. Control is usually connected with the possession of a majority of votes in governing bodies.

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured, as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Any identifiable purchased assets and assumed liabilities, including contingent liabilities, acquired in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. Any excess of the cost of acquisition over the fair value of the Group's interest in the acquired identifiable net assets is recognized as goodwill. If the cost of acquisition is lower than the fair value of the net assets of the acquired subsidiary, the difference is recognized directly in the income statement.

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

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

Associates

Associates are those entities in which the Group indirectly or directly has significant influence but not control, usually accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method. Initially, investments in associates are recorded at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment write-off) determined at the acquisition date.

The Group's share in its associates' post-acquisition profits or losses is recognized in the income statement, and its share in post-acquisition movements in other reserves is recognized in other reserves. When the Group's share in losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

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

Foreign currency translation

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

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

Foreign exchange gains and losses resulting from revaluation of balance sheet items denominated in foreign currencies and settlement of transactions in foreign currencies are included in net profit on foreign exchange.

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

in PLN		30 June 2007	31 December 2006	30 June 2006
1	USD	2.7989	2.9105	3.1816
1	CHF	2.2730	2.3842	2.5803
1	EUR	3.7658	3.8312	4.0434

Financial assets and financial liabilities

Classification

The Group classifies its financial instruments into the following categories:

- financial assets or financial liabilities valued at fair value through profit or loss;
- loans and receivables;
- available-for-sale financial assets;
- other financial liabilities.

In the reporting period, the Group did not classify any assets to investments held-to-maturity.

The Group classifies financial assets to particular categories on the date of their first recognition.

a) Financial assets or financial liabilities valued at fair value through profit or loss

This category has two sub-categories: financial assets and liabilities held-for-trading and those designated to measurement at fair value through profit or loss at initial recognition.
Assets or liabilities are included in this category when they were purchased with the primary objective of selling or purchasing to generate short-term profits, are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of generating short-term profits, or when they are classified to this category at management's discretion. All derivative instruments and selected debt securities are also categorized as "Held-for-trading".

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides funds, goods or services directly to the debtor for any purpose except for the generation of short-term profits from trading in such loans or receivables. This category comprises in the first instance amounts due in respect of loans, purchased debts and receivables securities that are not quoted in an active market.

c) Available-for-sale financial assets

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

d) Other financial liabilities

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

Recognition and exclusions

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

Loans and receivables are recognized at the time of payment of cash to the borrower.

Financial assets are derecognized when the rights to receive cash flows from the assets have expired or the Group has transferred substantially all risks and rewards of ownership.

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

Measurement

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

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

After initial recognition, financial liabilities are valued at amortized cost using the effective interest method, except financial liabilities that are measured at fair value through profit or loss. Financial liabilities that are measured at fair value through profit or loss, including derivatives liabilities, are carried at fair value.

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

The fair value of shares in companies other than subsidiaries and associates quoted in an active market results from their current purchase price. If the market for specific financial assets is inactive (this also applies to not-quoted securities), such investments are stated at purchase method less impairment write-downs.

Finance lease receivables

The Group enters into lease agreements, on the basis of which the Group transfers to the lessee in return for a payment or series of payments the right to use an asset for an agreed period.

Leases where the Group transfers substantially all the risk and rewards incidental to ownership of the leased assets are not included in the balance sheet. A receivable representing an amount equal to the net investment in the lease is recognized.

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

Equity investments – stocks and shares in other entities

Stocks and shares in entities other than subordinated entities are classified as available-for-sale financial assets.

Derivative instruments

Derivative financial instruments are stated at their fair values on the trade date. Fair values are determined by reference to their prices in an active market, including prices in recent market transactions, or using valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivative instruments with positive fair values are shown in the balance sheet as financial assets held-for-trading and all derivative instruments with negative fair values, as financial liabilities held-for-trading.

Embedded derivatives are accounted for as separate derivatives, if the risks and economic characteristics of the embedded derivative are not closely related to the risks and characteristics of the host contract and the host contract is not measured at fair value in the profit and loss account.

Hedge accounting

The Group does not apply hedge accounting.

Offsetting financial instruments

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

Cash pooling

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

Sale and repurchase agreements

The Group enters into purchase and sale transactions under agreements to resell and repurchase the same financial assets, so called repurchase and reverse repurchase transactions on securities.
Securities sold under repurchase agreements continue to be shown as the Group's assets and the Group discloses liabilities resulting from the repurchase clause. In the case of securities purchased under agreements to resell, securities are presented in the balance sheet as loans and advances. Any differences between sale/purchase prices and repurchase/resale prices are recognized respectively as interest income and expense using the effective interest rate method.

Impairment of assets measured at amortized cost

On a commitment basis, the Group classifies assets measured at amortized cost into the portfolio of assets that are individually significant and the portfolio of assets that are not individually significant (portfolio basis). On the balance sheet date, the Group assesses if there is objective evidence of impairment of a financial asset or a group of financial assets.
Objective evidence of impairment of a financial asset or group of financial assets includes the following events:

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

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

Write-downs to a provision created to cover incurred but not recognized credit losses

The Group creates a provision for incurred but not recognized credit losses ("IBNR"). The IBNR provision reflects the level of a credit loss in the period from the last individual assessment of receivables to the balance sheet date, which is assessed on the basis of historic losses on assets with similar risk characteristics as the risk characteristics of the asset group covered by the IBNR provision calculation process. The IBNR provision covers all receivables for which no evidence of impairment was found at the individual level or for which such evidence was found, but the individual assessment of possible impairment did not confirm the need to write them down. The IBNR provision is calculated using statistical models for asset groups that are combined in portfolios having similar credit risk characteristics In the presentation of the financial statements of the Group, the provision for incurred but not recognized credit risk is deducted from credit exposures.

Write-downs for impairment of individually significant assets

The level of the provision for receivables that are deemed individually significant, for which evidence of impairment was detected, is calculated as the difference between the carrying value of an asset and the present value of the future cash flows from expected repayments by the borrower, from cash-settlement of collateral or from sales of receivables. The future cash flows are discounted to the present value with the effective interest rate for a given instrument.

If the present value of the estimated cash flows increases following an event occurring after impairment was identified, the write-down previously made will be reversed through the profit and loss account.

Write-downs for impairment of not individually significant assets

The level of the provision for receivables that are deemed not individually significant, for which evidence of impairment was detected, is calculated on the basis of a portfolio assessment, which is based on the history of losses incurred on assets with similar risk characteristics.

Provisions for receivables from the financial sector, non-financial sector and public sector, and write-downs for permanent impairment of securities and other assets adjust the value of particular asset categories of the balance sheet. Provisions for off-balance sheet commitments are shown in "Provisions" in the liabilities section of the balance sheet.

Non-recoverable loans (i.e. loans for which the Group does not expect any future cash flows and that may be treated as tax deductible costs under separate tax regulations or that were unconditionally written-off under an agreement with the customer) are on the basis of Bank's decision written-down against provisions. If a written-down amount is subsequently recovered, the amount of income is presented in "Other operating income".

Impairment of financial assets available-for-sale

For financial assets classified as available-for-sale, for which there is objective evidence of impairment, accumulated losses recorded in equity as the difference between the purchase price less subsequent repayments and amortization and fair value (taking into account previous impairment write-downs) are transferred to the income statement. Losses on impairment of equity investments classified as available-for-sale are not subject to reversal through the profit and loss account. Losses on impairment of debt instruments classified as available-for-sale are reversed through the profit and loss account if the fair value of a debt instrument increases in subsequent periods and such increase may be reasonably connected with an event that occurred after recognizing the loss.

Impairment of financial assets valued at cost

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

Impairment of assets other than financial assets

The carrying amounts of the Group's assets, excluding deferred tax assets and goodwill and including in particular tangible and intangible assets, are reviewed at each balance sheet date to determine whether there is any evidence of impairment. If so, the asset's recoverable amount is estimated. For goodwill, revaluation write-downs for impairment are recognized if the book value of an asset or of its cash-generating unit exceeds the recoverable amount. Revaluation write-downs for impairment are measured through profit or loss.

In the case of a cash-generating unit, revaluation write-downs for impairment are first deducted from goodwill allocated to such cash-generating units (group of units) and then reduce proportionally the carrying value of other assets in the unit (group of units).

Calculation of recoverable amount

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

Reversal of impairment losses

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

Goodwill

In the consolidated financial statements goodwill represents the excess of the cost of the acquisition over the fair value of the Group's interest in identifiable assets, liabilities and contingent liabilities acquired. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortized, but is tested annually for impairment independently from detecting the evidence of impairment. The impairment loss in respect of goodwill is not reversed.
In respect of associates, goodwill is included in the carrying amount of the investment in the associate.
Profits or losses on the disposal of a subsidiary or an associate include the carrying value of goodwill allocated to the entity sold.

Goodwill resulting from takeovers that occurred before 31 March 2004, i.e. the effective date of IFRS 3 (Business Combinations), was calculated in accordance with the previous accounting policies, as the difference between the cost of acquisition of an entity and the net asset value of the acquired entity at the acquisition date.

Property and equipment and intangible assets (excluding goodwill)

Items of property and equipment and intangible assets (excluding goodwill) are stated at historical cost less accumulated depreciation or amortization and impairment losses. The historical cost of an item of property and equipment includes directly attributable costs of purchasing and bringing the asset into use.

Subsequent expenditure relating to an item of property and equipment is added to the carrying amount of the asset or recognized as a separate asset (where appropriate) only when it is probable that future economic benefits will flow to the Group and the cost of the asset can be measured reliably. Any other expenditure e.g. on repairs and maintenance is recognized as an expense when incurred.

Depreciation and amortization are calculated using the straight-line method over the expected useful life of an asset on the basis of rates that are approved in the depreciation and amortization plan for 2007.

Annual depreciation and amortization rates applied by the Bank are presented in the table below:

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

At each balance sheet date the residual values of non-current assets and their useful lives are reviewed and the depreciation and amortization schedule is adjusted, where appropriate.

Assets with original cost less than PLN 3,500 are fully depreciated on a one-off basis when brought into use. The total cost of other tangible fixed assets depreciated on a one-off basis is not material to the financial statements.

Assets in the course of construction are stated at the total of costs directly attributable to construction, assembly or improvement in progress less impairment write-offs.

Property and equipment includes rights to perpetual usufruct of land obtained by the Bank.

Items of property and equipment are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount of an item of property and equipment or intangible asset is written down to its recoverable amount if the carrying amount exceeds the recoverable amount. The recoverable amount of an item of property and equipment is the higher of its fair value less costs to sell and value in use.

Investment properties

Properties classified by the Group as investment properties are presented in the financial statements as part of property and equipment. The Group applies the fair value model to their valuation. The valuation of investment properties is based on the research of independent experts with appropriate professional qualifications. The changes in value of investment properties are recognized in the profit and loss account.

Employee benefits

Short-term employee benefits

The Group's short-term employee benefits include wages, bonuses, holiday pay, sick pay and social security contributions.
Depending on their individual compensation category, employees may receive an award from the incentive fund, a bonus under the bonus scheme applicable in a given area or a discretionary annual bonus under the internal employee compensation regulations. Bonuses and awards are granted after completion of the period for which the employee's performance is evaluated.
Short-term employee benefits are recognized as an expense in the period when they were incurred.

Share-based payments

The Group's employees are entitled to participate in Citigroup equity compensation plans. In accordance with these plans the Group's employees may receive awards under stock option programs based on stock options granted on Citigroup common stock and also under stock award programs based on shares of Citigroup common stock in the form of deferred stock. These programs are deemed to be cash-settled programs. A provision is created for future payments and is shown in "Other liabilities" and in "General administrative expenses" in the profit and loss account. The costs of the program are determined on the basis of a valuation model. According to IFRS 2, the fair value is, measured at grant date and, subsequently, at each reporting date until the final settlement. Total expenses recorded in a given period are based on the fair value of the options or deferred shares at the reporting date and the part of the rights that were deemed acquired in that period.

Long-term employee benefits

Under its compensation scheme, the Group guarantees its employees retirement benefits, which depend on the length of service with the Group directly prior to the acquisition of the title to such benefits. Employees who are hired under a contract of employment in accordance with the Company Collective Labor Agreement have the right to an additional award for a fixed length of service. A provision is created for future payments. The provision is shown in "Other liabilities" and in "General administrative expenses" in the profit and loss account. Provisions for the future costs of retirement benefits and long-service awards are calculated on the basis of actuarial assumptions. The actuarial measurement is subject to periodic revaluations.

Defined contribution plans

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

Provisions

A provision is recognized in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and if it is probable that the discharge of this obligation will result in an outflow of economic benefits, and the provision amount can be reliably estimated.

Restructuring provision

A restructuring provision is recorded when the following conditions have been met: (i) the Group has a detailed and formalized restructuring plan; (ii) the restructuring has already begun or has been publicly announced; (iii) the provision amount can be reliably estimated. The restructuring provision does not include future operating expenses.

Equity

Equity is stated at nominal value, with the exception of the revaluation reserve of available-for-sale financial assets that is stated after the effect of deferred income tax.

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

Calculating net income

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

Accruals and prepayments

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

Interest income and interest expenses

For financial instruments, interest income and interest expense is recognized through the profit and loss account using the effective interest method.

The effective interest method calculates the amortized cost of a financial asset or a financial liability and allocates interest income or interest expense to appropriate periods. The effective interest rate is a rate that precisely discounts the estimated future inflows or payments in the expected period until the maturity of the financial instrument to the carrying value of a financial asset or a financial liability. When calculating the

effective interest rate, the Group takes into account all the terms and conditions of a financial instrument agreement (e.g. prepayments, call options, etc.), but excludes potential future losses in connection with non-recoverable loans. The calculation covers all the commissions payable to and receivable from the parties to the agreement, integral components of the effective interest rate, transaction costs and any other premiums and discounts. As a result, commissions that are an integral part of the effective interest rate are recognized as components of interest income.
In the case of financial assets or groups of similar financial assets for which impairment losses were recognized, interest income is measured using the interest rate that was used to discount the future cash flows to estimate such impairment losses.

Fee and commission income and expenses

Fee and commission income is generated when the Bank renders financial services to its customers. The Group classifies its commission into the following categories:
- commissions that are an integral part of the effective interest rate;
- commissions for services rendered;
- commissions for executing significant transactions,

Commissions, that are an integral part of the effective interest rate, are recognized in the income statement adjusted by the calculation of the effective interest rate and shown in the interest income.

Commissions for services rendered and for executing significant transactions are recognized in the income statement, in proportion to the completion of the services rendered, or a single amount after completing the rendering of a service, respectively and are shown in commission income.

In the case of loans and borrowings with undetermined installment payment dates, e.g. overdrafts or credit cards, commissions and fees are recognized using the straight-line method until the expiry date of a credit limit. Such commissions and fees are recognized as commission income.

Other operating income and expenses

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

Income tax

Income tax consists of current tax and deferred tax. Income tax is recognized in the income statement, except for taxes related to amounts that are allocated directly to equity.

A deferred tax provision is calculated using the carrying value method by computing temporary differences between the carrying value of assets and liabilities, in the balance sheet, and the tax base of assets and liabilities. In the balance sheet, the Group discloses deferred tax assets net of deferred tax provisions. A deferred tax asset is recognized only to the extent that it is probable that a tax benefit will be realized in the future.

Following the introduction of the EU Guarantee Fund Act of 16 April 2004 (Journal of Laws No. 121 item 1262) and the related new Art. 38a in the Corporate Income Tax Act, the Bank has recognized a receivable from the Budget in respect of its right to reduce its tax liabilities in the years 2007 to 2009.

Segmental reporting

A segment is a separate area of an entity's operations that either distributes goods or renders services in a specific sector environment (business segment) or distributes goods or renders services in a specific economic environment (geographical segment). A segment is exposed to certain risks and derives benefits that are specific only to that segment. The business segment has been adopted as the reporting segment in the Group since both risks and rates of return result from differences between products. The Group is managed at the level of three main business segments – Corporate and Investment Bank and Consumer Bank. Detailed information about the segments is presented in Note 3.

Assets and liabilities, revenues and financial results of the Group's segments, are measured in accordance with the accounting policies adopted by the Group.

Non-current assets held-for-sale

Assets or groups of assets together with liabilities directly associated with those assets shall be classified as non-current assets held-for-sale, if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. For this to be the case the assets or group of assets must be available for immediate sale in their present condition and the sale is highly probable, which means that there is a commitment to a plan to sell the assets and an active program to locate a buyer and complete the plan was initiated. Further, the assets or group of assets must be actively marketed for the sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.
Non-current assets held-for-sale are measured at the lower of their carrying amount and fair value less costs to sell and are not subject to depreciation.

Accounting estimates and judgments

The determination of the carrying values of selected assets and liabilities at the balance sheet date requires estimating the effect of uncertain future events on these items. The estimates and assumptions are subject to continuous evaluation and are based on historical experience and other factors, including expectations for future events, which seem justified in a given situation. The most crucial estimates applied in the preparation of the financial statements are presented below:

Fair value of derivatives

The fair value of financial instruments not quoted on active markets is determined using valuation techniques. If valuation techniques are used to determine the fair values, these methods are periodically assessed and verified. All the models are approved before application. As far as possible, only observable data are used in the models, although in some areas, the entity's management must use estimates. Changes in the assumptions relating to the estimated factors may affect the fair values of financial instruments disclosed.

The Group applies the following methods of measurement of particular types of derivative instruments:
- fx forwards – discounted cash flows model;
- options - Garman - Kohlhagen model;
- interest rate transactions - discounted cash flows model;
- futures - current quotations.

Impairment of loans

At each balance sheet date, the Group assesses whether there is objective evidence of impairment of loan exposures. If so, the Group records a write-down equal to the difference between the carrying value and the estimated present value of the future cash flows from a given loan exposure. The Group applies statistical analysis of financial assets in respect of which evidence of impairment has not been identified individually, or despite evidence of impairment, the individual assessment of the given asset has not indicated the necessity of recording an impairment write-down.

The Group uses estimates to determine whether there is objective evidence of impairment and to calculate the present value of future cash flows. The methodology and assumptions used to determine the impairment level of loans are regularly reviewed and updated, as required.

Impairment of available-for-sale assets

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

Impairment of financial assets valued at cost

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

Impairment of goodwill

The Group carried out impairment tests of goodwill as at 31 December 2005 and 31 December 2006. The estimate of goodwill has been performed on the basis of the provisions of IAS 36 concerning determination of the value in use of cash generating units. The tests did not show any impairment.

Employee benefits

Provisions for future payments in respect of employee benefits guaranteed by the Company Collective Labor Agreement are subject to periodic estimation by an independent actuary.
At each balance sheet date, the Group estimates the level of the provision related to bonuses granted to employees in the form of Citigroup stock option programs and stock award programs. The amount of the provision is determined on the basis of the methodology described in IFRS 2, using an option-pricing model. Determination of the provision amount requires application of estimates relating to the expected level of employee turnover, the expected level of dividends paid by Citigroup and expected option exercise dates.

3. Segmental reporting

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

Corporate and Investment Bank

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

Consumer Bank

Within the Consumer Bank segment (currently presented including CitiFinancial) the Group provides products and financial services to individuals and also to micro enterprises and individual entrepreneurs though the Citibusiness offer. Apart from maintaining bank accounts and providing an extensive lending and deposit offer, it also offers credit cards to customers, provides asset management services, and acts as agent in the sale of investment and insurance products. Customers of the Consumer Bank have the branch network, ATMs, telephone services, and electronic banking services at their disposal and a network of financial agents offering products of this segment.

The valuation of segment assets and liabilities, income and segment results is based on the Group's accounting policies as described in note 2 (Significant accounting policies).

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

The Group conducts its operations solely in the territory of Poland and no significant differences in risk were identified as regards the geographical location of its outlets. Therefore results of the Group have not been presented by geographical area.

Consolidated income statement by business segment for the first half of 2007

In thousands of PLN	**Corporate and Investment Bank**	**Consumer Bank**	**Total**
Net interest income	259,102	323,741	582,843
Net fee and commission income	155,175	208,485	363,660
Dividend income	784	17	801
Net income on financial instruments and revaluation	225,602	16,423	242,025
Net gain on investment (deposit) securities	10,740	-	10,740
Net gain on investment (capital) instruments	40,204	3,789	43,993
Other operating income	33,332	(7,570)	25,762
General administrative expenses	(327,292)	(373,989)	(701,281)
Depreciation expense	(39,348)	(16,137)	(55,485)
Profit/ (loss) on sale of tangible fixed assets	(616)	26	(590)
Net impairment losses	52,169	(6,506)	45,663
Operating income	**409,852**	**148,279**	**558,131**
Share in profits / (losses) of undertakings accounted for under the equity method	(8,514)	-	(8,514)
Profit before tax	**401,338**	**148,279**	**549,617**
Income tax expenses			(110,047)
Net profit			**439,570**

Assets and liabilities of the Group by business segment as at 30 June 2007

In thousands of PLN	**Corporate and Investment Bank**	**Consumer Bank**	**Total**
Assets including:	32,526,828	4,263,319	36,790,147
Non-current assets held-for-sale	*4,179*	-	*4,179*
Liabilities	31,244,691	5,545,456	36,790,147

Consolidated income statement by business segment for the first half of 2006

In thousands of PLN	**Corporate and Investment Bank**	**Consumer Bank**	**Total**
Net interest income	229,053	279,079	508,132
Net fee and commission income	153,183	149,245	302,428
Dividend income	100	-	100
Net income on traded financial instruments and revaluation	159,688	19,177	178,865
Net gain on investment (deposit) instruments	33,166	-	33,166
Other operating income	28,457	10,350	38,807
General administrative expenses	(337,369)	(344,427)	(681,796)
Depreciation expense	(48,538)	(17,869)	(66,407)
Profit/ (loss) on sale of tangible fixed assets	104,421	12,868	117,289
Net impairment losses	24,678	(13,416)	11,262
Operating income	**346,839**	**95,007**	**441,846**
Share in profits / (losses) of undertakings accounted for under the equity method	2,654	-	2,654
Profit before tax	**349,493**	**95,007**	**444,500**
Income tax expenses			(100,754)
Net profit			**343,746**

Assets and liabilities of the Group by business segment as at 31 December 2006

In thousands of PLN	**Corporate and Investment Bank**	**Consumer Bank**	**Total**
Assets, including:	32,161.847	3,828,888	**35,990,735**
non-current assets held-for-sale	*12,539*	-	*12,539*
Liabilities	29,824,930	6,165,805	**35,990,735**

4. Interest income

In thousands of PLN	**01.01. – 30.06. 2007**	**01.01. - 30.06. 2006**
Interest and similar income from:		
Central Bank	14,136	6,985
Placements in banks	159,604	121,991
Loans and advances, of which:	525,340	458,601
financial sector	*10,605*	*9,665*
non-financial sector	*514,735*	*448,936*
Debt securities available-for-sale	209,035	145,717
Debt securities held-for-trading	34,743	50,307
	942,858	**783,601**
Interest expense and similar charges for:		
Central Bank	(100)	(9)
Deposits from banks	(73,254)	(41,989)
Deposits from financial sector (excl. banks)	(38,658)	(34,356)
Deposits from non-financial sector	(239,533)	(194,536)
Loans and advances received	(8,470)	(4,579)
	(360,015)	**(275,469)**
	582,843	**508,132**

Net interest income for the first half of 2007 includes interest received on impaired loans, of PLN 9,828 thousand (for the first half of 2006: 17,045 thousand)

5. Net fee and commission income

In thousands of PLN	**01.01. – 30.06. 2007**	**01.01. - 30.06. 2006**
Fee and commission income:		
Insurance and investment products	173,089	125,384
Payment and credit cards	92,992	62,851
Payment services	65,869	59,013
Custody services	48,794	44,949
Brokerage operations	39,682	42,789
Cash management	17,593	19,478
Off-balance sheet guarantee liabilities	9,979	8,599
Off-balance sheet financial liabilities	4,320	3,557
Other	8,050	10,241
	460,368	**376,861**
Fee and commission expense:		
Payment and credit cards	(37,322)	(21,526)
Insurance and investment products	(30,130)	(31,052)
Brokerage operations	(14,581)	(10,902)
Fees paid to KPWiG	(7,691)	(4,762)
Brokers fees	(5,387)	(4,473)
Other	(1,597)	(1,718)
	(96,708)	**(74,433)**
	363,660	**302,428**

The net commission result for the first half of 2007 comprises commission incomes (other than incomes covered by the calculation of the effective interest rate process), which are related to financial assets and liabilities not valued at their fair value through profit and loss account in amount of PLN 98,623 thousand (for the first half of 2006: PLN 68,877 thousand) and commission expenses in amount of PLN 37,322 thousand (for the first half of 2006: PLN 21,526 thousand).

6. Dividend income

In thousands of PLN	**01.01. – 30.06. 2007**	**01.01 – 30.06. 2006**
Securities available-for-sale	619	-
Securities held-for-trading	182	100
	801	**100**

7. Net gain on financial instruments an revaluation

In thousands of PLN	**01.01. - 30.06. 2007**	**01.01. - 30.06. 2006**
Net income on financial instruments valued at fair value through profit and loss account:		
Debt instruments	37,638	(6,573)
Derivative instruments including:	54,833	12,510
Interest rate	*53,362*	*6,969*
Equity	*1,317*	*3,798*
Commodity	*154*	*1,743*
	92,471	**5,937**
Net income on FX operations		
Operations on FX derivative instruments	154,776	373,432
FX gains and losses (revaluation)	(5,222)	(200,504)
	149,554	**172,928**
	242,025	**178,865**

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

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

Net result on FX operations contains gains and losses from revaluation of assets and liabilities denominated in foreign currency and from FX derivative instruments like forward, swap and options.

8. Net gain on investment (deposit) securities

In thousands of PLN	**01.01. – 30.06. 2007**	**01.01. – 30.06 2006**
Profits realized on available-for-sale securities:	12,815	37,031
Losses realized on available-for-sale securities:	(2,075)	(3,865)
	10,740	**33,166**

9. Net gain on investment (capital) securities

In thousands of PLN	**01.01. - 30.06. 2007**	**01.01. - 30.06. 2006**
Net gain on investment (capital) securities available-for-sale	**43,993**	**-**

10. Net other operating income

In thousands of PLN	**01.01. – 30.06. 2007**	**01.01. – 30.06. 2006**
Other operating income:		
Data processing for related parties	30,994	28,714
Income from office rent	3,925	2,714
Settlement of perpetual usufruct right to land	758	3,228
Investment property	145	3,178
Other income related to shares granted by MasterCard	-	6,120
Other	17,578	15,292
	53,400	**59,246**
Other operating expenses:		
Provisions for UOKiK dispute	(10,228)	-
Investment property	(3,011)	(3,255)
Vindication expenses	(2,544)	(2,764)
Other	(11,855)	(14,420)
	(27,638)	**(20,439)**
	25,762	**38,807**

11. General administrative expenses

In thousands of PLN	**01.01. – 30.06. 2007**	**01.01. – 30.06. 2006**
Staff expenses:		
Remuneration costs, including:	(276,091)	(255,668)
Provisions for retirement benefits	*(8,184)*	*(7,781)*
Perks and rewards including:	(68,119)	(77,130)
Payments related to own equity instruments	*2,089*	*(6,417)*
Rewards for long time employment	*(5,674)*	*(2,348)*
	(344,210)	**(332798)**
Administrative expenses		
Telecommunication fees and hardware purchases	(84,339)	(92,503)
Advisory, audit, consulting and other services	(62,456)	(64,508)
Building maintenance and rent	(53,331)	(54,701)
Marketing	(37,433)	(30,451)
Transaction costs	(32,635)	(21,966)
Postal services	(14,211)	(13,780)
Training and education	(5,005)	(4,408)
*Other expenses	(67,661)	(66,681)
	(357,071)	**(348,998)**
	(701,281)	**(681,796)**

General administrative expenses for the first half of 2007 include wages and employee awards payable to members of the Management Board that amounted to PLN 7,623 thousand (for the first half of 2006: PLN 5,678 thousands).

12. Depreciation expense

In thousands of PLN	**01.01. – 30.06. 2007**	**01.01. – 30.06. 2006**
Depreciation of tangible assets	(44,420)	(49,000)
Depreciation of intangible assets	(11,065)	(17,407)
	(55,485)	**(66,407)**

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

In thousands of PLN	**01.01. – 30.06. 2007**	**01.01. - 30.06. 2006**
Profits on:		
Assets held-for-sale*	-	116,379
Investments in subordinated entities	177	867
Other tangible fixed assets	544	245
	721	**117,491**
Losses on:		
Assets held-for-sale*	(1,137)	-
Other tangible fixed assets	(174)	(202)
	(1,311)	**(202)**
	(590)	**117,289**

*Refers to fixed assets classified as at 31 December 2006 as held-for-sale and sold in presented periods (see Note 29)

14. Net impairment losses

Net impairment write-downs of financial assets

In thousands of PLN	**01.01. – 30.06. 2007**	**01.01. - 30.06. 2006**
Impairment write-downs:		
Loans and receivables valued at amortized cost	(177,860)	(272,148)
Other	(9,828)	(17,043)
	(187,688)	**(289,191)**
Reversals of impairment write-downs:		
Loans and receivables valued at amortized cost	**229,741**	**305,538**
	42,053	**16,347**

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

In thousands of PLN	**01.01. – 30.06. 2007**	**01.01. - 30.06. 2006**
Charges to provisions for off-balance sheet commitments	(35,584)	(45,944)
Releases of provisions for off-balance sheet commitments	39,194	40,859
	3,610	**(5,085)**
Net impairment losses	**45,663**	**11,262**

15. Income tax expense

Recognized in the income statement

In thousands of PLN	**01.01. – 30.06. 2007**	**01.01. – 30.06. 2006**
Current tax:		
Current year	(104,097)	(81,785)
Adjustments for prior years	8,856	(1,188)
	(95,241)	**(82,973)**
Deferred tax:		
Origination and reversal of temporary differences	(14,137)	(16,805)
Movement in receivables arising from tax deductions	(669)	(976)
	(14,806)	**(17,781)**
Income tax expense	**(110,047)**	**(100,754)**

Reconciliation of effective tax rate:

In thousands of PLN	**01.01. – 30.06. 2007**	**01.01. – 30.06. 2006**
Profit before tax	549,617	444,500
Income tax at the domestic tax rate of 19%	(104,427)	(84,455)
Expenses not tax deductible	(16,987)	(15,392)
Taxable income not in income statement	(58,462)	(25,089)
Deductible expenses not in income statement	45,931	20,279
Non taxable income	15,092	4,524
Other	8,806	(621)
Income tax expense	**(110,047)**	**(100,754)**
Effective tax rate	**20%**	**23%**

Deferred tax recognized directly in equity

Deferred tax recognized directly in equity as at 30 June 2007 is related to debt and capital instruments available-for-sale and amounts to PLN 44,794 thousand (30 June 2006: PLN 48,031 thousand).

16. Earnings per share

As at 30 June 2007 earnings per share amounted to PLN 3.36 (30 June 2006: PLN 2.63)

The calculation of earnings per share as at 30 June 2007 was based on the consolidated profit attributable to owners of ordinary shares of PLN 439,570 thousand (30 June 2006: PLN 343,746 thousand) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2007 of 130,659,600 (30 June 2006: 130,659,600).
The Bank does not have any ordinary shares that may have a dilution impact.

17. Cash and balances with the Central Bank

In thousands of PLN	**30.06.2007**	**31.12.2006**
Cash at hand	329,777	366,211
Current balances with Central Bank	1,743,725	169,412
	2,073,502	**535,623**

On the current account in the National Bank of Poland (NBP), the Group maintains an obligatory reserve with the declared balance as at 30 June 2007 of PLN 828,329 thousand (31 December 2006: PLN 756,858 thousand). The Group may use the obligatory reserve provided that the sum of the average monthly balance on the current account in NBP is not lower than the declared balance.

18. Financial assets and liabilities held-for-trading

In thousands of PLN	**30.06.2007**	**31.12.2006**
Financial assets held for trading		
Debt securities		
Bonds and notes issued by:		
Banks	88,592	84,368
Financial sector	103,136	43,834
Non-financial sector	60,641	54,476
Government	1,129,523	1,353,377
Other debt securities issued by:		
Banks	19,131	41,311
	1,401,023	**1,577,366**
Including:		
Listed	*1,129,359*	*1,353,177*
Unlisted	*271,664*	*224,189*
Derivative financial instruments	**3,346,021**	**2,973,728**

In thousands of PLN	**30.06.2007**	**31.12.2006**
Equity instruments	**6,977**	**5,377**
Including:		
Listed	*6,977*	*5,376*
Unlisted	-	*1*
	4,754,021	**4,556,471**

Debt securities held for trading (maturity):

In thousands of PLN	**30.06.2007**	**31.12.2006**
up to 1 month	64,785	32,234
1 month - 3 months	179,858	156,559
3 months - 1 year	158,620	185,929
1 year - 5 years	205,827	602,736
over 5 years	791,933	599,908
	1,401,023	**1,577,366**

In thousands of PLN	**30.06.2007**	**31.12.2006**
Financial liabilities held- for- trading:		
Short positions in financial assets	269,340	278,109
Derivative financial instruments	3,395,946	3,038,728
	3,692,286	**3,316,847**

As at 30 June 2007 and 31 December 2006 the Group did not hold any financial assets and financial liabilities initially designated for valuation at fair value through the profit and loss account.

Derivative financial instruments as at 30 June 2007

In thousands of PLN	Notional amount with remaining life of					Fair values	
	less than three months	**between three months and one year**	**between one year to five years**	**more than five years**	**Total**	**Assets**	**Liabilities**
Interest rate instruments	**9,947,048**	**183,514,157**	**208,858,925**	**46,548,311**	**448,868,441**	**2,903,423**	**2,922,778**
FRA-purchase	-	66,313,400	28,350,000	-	94,663,400	85,899	28,105
FRA-sale	-	72,231,550	30,595,000	-	102,826,550	24,097	100,828
Interest rate swaps (IRS)	9,125,309	38,363,044	147,690,250	42,522,377	237,700,980	2,560,342	2,545,350
Currency- interest rate swaps (CIRS)	89,296	192,374	2,015,983	2,525,934	4,823,587	219,071	238,698
Interest rate options purchased	-	10, 000	50,000	750,000	900,000	9,466	-
Interest rate options sold	-	100,000	50,000	750,000	900,000	-	9,471
Future contracts-purchase*	110,361	3,579,307		-	3,689,668	4,247	289
Future contracts-sale*	622,082	2,634,482	107,692	-	3,364,256	301	37
Currency instruments	**25,924,397**	**26,866,472**	**3,971,386**	**673,650**	**57,435,905**	**419,587**	**451,310**
FX forward	6,504,322	5,694,901	579,904	332,689	13,111,816	106,932	163,042
FX swap	11,312,309	2,825,026	268,532	-	14,405,867	115,194	94,044
Foreign exchange options purchased	4,019,749	9,107,046	1,544,631	161,730	14,833,156	194,379	2,916
Foreign exchange options sold	4,088,017	9,239,499	1,578,319	179,231	15,085,066	3,082	191,308
Securities transactions	**1,874,117**	**28,000**	**99,476**	**-**	**2,001,593**	**11,534**	**10,381**
Share options (purchase)	-	14,000	49,738	-	63,738	7,966	1,978
Share options (sale)	-	14,000	49,738	-	63,738	1,978	7,966
Securities purchased pending delivery	1,026,587	-	-	-	1,026,587	846	302
Securities sold pending delivery	847,530	-	-	-	847,530	744	135
Commodity transactions	**58,643**	**25,375**	**58,593**	**-**	**142,611**	**11,477**	**11,477**
Swaps	34,175	5,139	7,709	-	47,023	7,881	7,881
Purchase options	12,234	10,118	25,442	-	47,794	3,596	-
Sold options	12,234	10,118	25,442	-	47,794	-	3,596
Derivative instruments total	**37,804,205**	**210,434,004**	**212,988,380**	**47,221,961**	**508,448,550**	**3,346,021**	**3,395,946**

* Exchange-traded products

Derivative financial instruments as at 31 December 2006

In thousands of PLN	Notional amount with remaining life of					Fair values	
	less than three months	**between three months and one year**	**between one year to five years**	**more than five years**	**Total**	**Assets**	**Liabilities**
Interest rate instruments	**10,379,000**	**127,810,506**	**162,394,716**	**36,837,648**	**337,421,870**	**2,601,365**	**2,672,608**
FRA-purchase	-	48,134,300	21,550,000	-	69,684,300	4,739	80,699
FRA-sale	97,000	47,669,440	26,750,000	-	74,516,440	81,169	6,479
Interest rate swaps (IRS)	9,449,582	30,870,857	111,354,658	33,303,156	184,978,253	2,222,075	2,379,685
Currency- interest rate swaps (CIRS)	682,455	90,471	2,740,058	2,034,492	5,547,476	281,870	195,598
Interest rate options purchased	-	-	-	750,000	750,000	8,806	-
Interest rate options sold	-	-	-	750,000	750,000	-	8,806
Future contracts-purchase*	118,096	769,496	-	-	887,592	-	1,341
Future contracts-sale*	31,867	275,942	-	-	307,809	2,706	-
Currency instruments	**31,299,157**	**11,314,005**	**592,047**	**690,632**	**43,895,841**	**346,268**	**341,285**
FX forward	5,000,068	3,138,063	126,006	342,246	8,606,383	84,589	118,015
FX swap	19,661,080	1,558,737	171,919	-	21,391,736	127,738	90,079
Foreign exchange options purchased	3,286,353	3,261,761	146,471	165,291	6,859,876	133,864	15
Foreign exchange options sold	3,351,656	3,355,444	147,651	183,095	7,037,846	77	133,176
Securities transactions	**545,442**	**36,446**	**1,502**	-	**583,390**	**6,269**	**5,019**
Share options (purchase)	-	18,223	751	-	18,974	4,450	90
Share options (sale)	-	18,223	751	-	18,974	90	4,450
Securities purchased pending delivery	92,207	-	-	-	92,207	924	74
Securities sold pending delivery	453,235	-	-	-	453,235	805	405
Commodity transactions	**4,055**	**95,857**	**1,799**	-	**101,711**	**19,826**	**19,826**
Swaps	1,343	45,465	1,799	-	48,607	15,066	15,066
Purchase options	1,356	25,196	-	-	26,552	4,760	-
Sold options	1,356	25,196	-	-	26,552	-	4,760
Derivative instruments total	**42,227,654**	**139,256,814**	**162,990,064**	**37,528,280**	**382,002,812**	**2,973,728**	**3,038,738**

*Exchange-traded products

Foreign currency contracts

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

	Weighted average contracted exchange rates		**Notional amount**	
In thousands of PLN	**30.06.2007**	**31.12.2006**	**30.06.2007**	**31.12.2006**
Buy Euro				
Less than three months	3.8660	3.9438	6,342,395	3,510,777
Between three months and one year	3.8723	3.9961	10,623,101	2,789,323
More than one year	3.8780	3.9239	1,981,803	633,090
Sell Euro				
Less than three months	3.8405	3.9028	8,209,120	4,541,265
Between three months and one year	3.8723	3.9694	10,314,405	3,120,562
More than one year	3.8772	3.9195	1,466,733	487,578
Buy US Dollars				
Less than three months	2.8979	2.9581	3,737,193	8,925,606
Between three months and one year	2.9070	3.0706	3,418,890	2,547,342
More than one year	2.8567	2.8704	988,448	410,142
Sell US Dollars				
Less than three months	2.8585	2.9483	5,800,711	12,868,304
Between three months and one year	2.9320	3.0562	2,651,951	2,813,338
More than one year	2.8714	2.8685	720,259	402,183
Buy Swiss Franc				
Less than three months	2.2811	2.3869	29,776	103,475
Sell Swiss Franc				
Less than three months	2.2728	2.3857	22,048	219,585
Buy Pound Sterling				
Less than three months	5.5620	5.7153	226,946	91,303
Between three months and one year	5.9033	5.8512	10,081	4,394
Sell Pound Sterling				
Less than three months	5.6008	5.7129	192,823	1,256
Between three months and one year	5.8724	-	11,257	-

19. Debt securities available-for-sale

In thousands of PLN	**30.06.2007**	**31.12.2006**
Bonds and notes issued by:		
Central Bank	2,466,325	378,413
Government	6,439,196	7,868,900
	8,905,521	**8,247,313**
Including:		
Listed instruments	*6,378,024*	*7,795,947*
Unlisted instruments	*2,527,497*	*451,366*

Debt securities available-for-sale (maturity):	**30.06.2007**	**31.12.2006**
In thousands of PLN		
up to 1 month	2,097,600	16,996
1 month - 3 months	12,917	12,887
3 months - 1 year	394,276	399,147
1 year - 5 years	3,256,329	5,030,034
over 5 years	3,144,399	2,788,249
	8,905,521	**8,247,313**

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

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

In thousands of PLN	**01.01. -30.06. 2007**	**01.01. -31.12. 2006**
As at 1 January	**8,247,313**	**7,171,157**
Increases (in respect of)		
Purchases	79,813,384	91,359,979
Amortization of discount, premium and interest	68,188	142,082
Decreases (in respect of)		
Purchases	(78,993,618)	(90,209,113)
Revaluation	(127,126)	(28,885)
FX differences	(83,022)	(149,215)
Amortization of discount, premium and interest	(19,598)	(38,692)
As at the end of a period	**8,905,521**	**8,247,313**

20. Equity investments accounted for under the equity method

In thousands of PLN	30.06.2007	31.12.2006
Stocks and shares in subordinated entities	**59,395**	**67,910**
Including:		
Listed instruments	-	-
Unlisted instruments	59,395	67,910

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

In thousands of PLN	01.01. -30.06. 2007	01.01. -31.12. 2006
As at 1 January	**67,910**	**61,884**
Increases (in respect of)		
Revaluation	779	6,850
Decrease (in respect of)		
Revaluation	(9,294)	(824)
As at 30 June	**59,395**	**67,910**

21. Other equity investments

In thousands of PLN	30.06.2007	31.12.2006
Stocks and shares in other entities	63,730	87,642
Impairment	(35,119)	(33,024)
	28,611	**54,618**
Including:		
Listed instruments	*7,981*	*34,009*
Unlisted instruments	*20,630*	*20,609*

The change in other equity investments is as follows:

In thousands of PLN	01.01. -30.06. 2007	01.01. -31.12. 2006
As at 1 January	**54,618**	**66,419**
Increases (in respect of)		
Purchase	2,930	97,518
Revaluation	31,649	8,011
Conversion of debt into shares	-	3,689
Decreases (in respect of)		
Sales	(31,452)	(120,205)
Revaluation	(29,134)	(814)
As at the end of the period	**28,611**	**54,618**

Financial information on subordinated entities as at 30 June 2007

Subordinated entities consolidated under the full method

In thousands of PLN

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY – LEASING* Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	97,47	876,860	673,120	203,740	29,255	3,771
HANDLOWY – INVESTMENTS S.A. 1)	Luxemburg	Investment activity	Subsidiary undertaking	100.00	83,284	47,460	35,824	34,275	33,909
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary undertaking	100.00	786,917	694,782	92,135	48,693	11,077
PPH SPOMASZ Sp. z o.o. under liquidation	Warsaw	-	Subsidiary undertaking	100.00	Entity under liquidation				

Other entities

In thousands of PLN

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
BANK ROZWOJU CUKROWNICTWA S.A.	Poznań	Banking	Subsidiary undertaking	100.00	40,255	40,681	51	40,271	681	170
HANDLOWY - INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	80.97	7,878	7,951	214	7,737	66	(173)
HANDLOWY INWESTYCJE Sp. z o.o. 2)	Warsaw	Investment activity	Subsidiary undertaking	100.00	8,070	19,105	4,806	14,299	424	225

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

The explanation of indirect relationships:

1/ Indirect relationship via Handlowy Investments S.A

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY - INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	19.03	1.501	7.951	214	7,737	66	(173)

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

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	2.53	3,125	876,860	673,120	203,740	29,255	3,771

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

Financial data concerning subordinated entities as at 31 December 2006

Subordinated entities consolidated under the equity method

In thousands of PLN

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY – LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	97.47	785,080	586,883	198,197	60,557	24,279
HANDLOWY – INVESTMENTS S.A. 1)	Luxembourg	Investment activity	Subsidiary undertaking	100.00	44,878	47,553	(2,675)	96,169	49,443
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary undertaking	100.00	929,457	826,244	103,213	85,275	24,219
PPH SPOMASZ Sp. z o.o. under liquidation	Warsaw	-	Subsidiary undertaking	100.00	Entity under liquidation				

Other entities

In thousands of PLN

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
BANK ROZWOJU CUKROWNICTWA S.A.	Poznań	Banking	Subsidiary undertaking	100.00	40,255	40,590	489	40,101	2,239	1,037
HANDLOWY - INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	80.97	17,172	33,543	21,850	8,204	2,601	1,576
HANDLOWY INWESTYCJE Sp. z o.o.2)	Warsaw	Investment activity	Subsidiary undertaking	100.00	8,070	18,964	5,058	13,906	11,914	8,263

The financial data of subordinated entities is based on audited financial information available at the time of preparation of these statements excluding Handlowy Inwestycje Sp. z o.o., Handlowy Investment S.A., Handlowy - Investment II S.a.r.l. and PPH Spomasz Sp. z o.o. under liquidation

The explanation of indirect relationships:

1/ Indirect relationship via Handlowy Investments S.A.

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY - INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	19.03	1,527	33,543	21,850	8,204	2,601	1,576

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

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY – LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	2.53	3,125	785,080	586,883	198,197	60,557	24,279

The financial data of these entities is based on audited financial information available at the time of preparation of these statements except for Handlowy Inwestycje Sp. z o.o., Handlowy Investment S.A., Handlowy - Investment II S.a.r.l. and PPH Spomasz Sp. z o.o. under liquidation

22. Loans and advances

Loans and advances (by category)

In thousands of PLN	**30.06.2007**	**31.12.2006**
Loans and advances to the financial sector:		
Current accounts of banks	146,403	785,539
Loans, placements and advances, including:	5,743,841	8,200,535
placements in banks	*5,243,706*	*7,769,877*
Purchased receivables	46,524	45,918
Realized guarantees	235	245
Receivables subject to securities sale and repurchase agreements	400,200	302,405
Other receivables	51,533	75,860
	6,388,736	9,410,502
Impairment write-offs	(82,830)	(91,230)
	6,305,906	**9,319,272**
Loans and advances to the non-financial sector:		
Loans and advances	12,021,371	10,669,613
Purchased receivables	281,950	234,666
Realized guarantees	48,060	50,720
Other receivables	906,848	783,424
	13,258,229	11,738,423
Impairment write-offs	(1,396,361)	(1,541,477)
	11,861,868	**10,196,946**
Loans and advances	**18,167,774**	**19,516,218**

Loans and advances - gross (by time to maturity)

In thousands of PLN	**30.06.2007**	**31.12.2006**
Loans and advances to the financial sector:		
up to 1 month	2,826,840	7,211,396
1 month- 3 months	331,875	163,632
3 months- 1 year	2,357,768	1,125,366
1 year- 5 years	808,539	793,509
over 5 years	63,714	116,599
	6,388,736	**9,410,502**
Loans and advances to the non-financial sector:		
up to 1 month	7,620,339	6,682,312
1 month- 3 months	785,854	764,519
3 months- 1 year	1,468,818	1,247,079
1 year- 5 years	3,123,774	2,910,678
over 5 years	259,444	133,835
	13,258,229	**11,738,423**
Loans and advances – gross	**19,646,965**	**21,148,925**

Finance lease receivables

The Group operates on the leasing market through its subordinated entity Handlowy – Leasing sp. z o.o., which was set up on 10 January 2006 as a result of the merger of the subordinated entity Citileasing sp. z o.o. and the entity Handlowy-Leasing S.A. The Group provides finance leases of vehicles, machines and equipment.

Included in loans and advances to the non-financial sector are the following amounts relating to finance lease obligations:

In thousands of PLN	**30.06.2007**	**31.12.2006**
Gross finance lease receivables	975,095	852,864
Unearned finance income	(74,870)	(70,931)
Net finance lease receivables	**900,225**	**781,933**
Gross finance lease receivables by time to maturity:		
Less then 1 year	345,277	318,361
between 1 and 5 years	621,094	534,503
over 5 years	8,724	-
	975,095	**852,864**
Net finance lease receivables by time to maturity:		
Less then 1 year	318,765	284,341
between 1 and 5 years	573,406	497,592
over 5 years	8,054	-
	900,225	**781,933**

As at 30 June 2007 impairment for unrecoverable finance lease receivables amounted to 54,872 thousand (as at 31 December 2006 amounted PLN 54,725 thousand).

Finance lease income is presented in interest income.

23. Impairment of loans and advances

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

In thousands of PLN	**01.01. – 30.06. 2007**	**01.01. – 31.12 2006**
Balance as at 1 January	**1,632,707**	**1,846,200**
Related to:		
Receivables from banks	9,572	11,332
Receivables from other customers of financial and non-financial sector	1,623,135	1,834,868
Change in impairment write-downs	(153,516)	(213,493)
Charges	177,860	575,285
Write-offs	(118,745)	(175,483)
Amounts released	(229,741)	(629,284)
Other	17,110	15,989
Balance as at 30 June	**1,479,191**	**1,632,707**

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

In thousands of PLN	**01.01. – 30.06. 2007**	**01.01. – 31.12 2006**
Related to:		
Receivables from banks	6,808	9,572
Receivables from other customers of financial and non-financial sector	1,472,383	1,623,135

The closing balance of impairment recognized on loans and advances to customers consisted of:

In thousands of PLN	**30.06.2007**	**31.12.2006**
Portfolio impairment loss	384,228	413,670
Individual impairment loss	1,036,423	1,163,040
Incurred but not reported losses	58,540	55,997

24. Property and equipment

Land, buildings and equipment

In thousands of PLN	Land and buildings	Machines and equipment	Vehicles	Other	Under construction	Total
Gross value:						
Balance as at 1 January 2006	**739,406**	**601**	**63,702**	**668,804**	**4,800**	**1,477,313**
Additions:						
Purchases	636	99	727	19,078	34,688	55,228
Transfer from investment property	-	-	-	-	18,000	18,000
Other increases	-	-	-	2,179	-	2,179
Disposals:						
Disposals	-	(6)	(11,044)	(6,489)	-	(17,539)
Classified as "Non-current assets held-for-sale" (see Note 29)	(4,932)	-	-	-	-	(4,932)
Reclassification	15,968	-	10,233	7,402	(36,002)	(2,399)
Other decreases	(4,986)	-	(271)	(24,993)	-	(30,250)
Balance as at 31 December 2006	**746,092**	**694**	**63,347**	**665,981**	**21,486**	**1,497,600**
Balance as at 1 January 2007	**746,092**	**694**	**63,347**	**665,981**	**21,486**	**1,497,600**
Additions:						
Purchases	1,031	94	-	15,454	-	16,579
Reclassification	3,392	-	8,073	1,402	2,073	14,940
Other increases	-	-	-	3,023	-	3,023
Disposals:						
Disposals	(179)	-	(5,526)	(2,448)	-	(8,153)
Classified as investment property	(12,405)			(58)		(12,463)
Other decreases	(3,500)	(4)	(120)	(21,210)		(24,834)
Balance as at 30 June 2007	**734,431**	**784**	**65,774**	**662,144**	**23,559**	**1,486,692**

In thousands of PLN	Land and buildings	Machines and equipment	Vehicles	Other	Under construction	Total
Depreciation and amortization						
Balance as at 1 January 2006	**218,640**	**479**	**25,458**	**571,781**	**-**	**816,358**
Increases:						
Depreciation charge for the period	37,832	114	12,131	46,095	-	96,172
Other increases	-	-	-	1,346	-	1,346
Decreases:						
Disposals	-	(2)	(9,977)	(6,591)	-	(16,570)
Classified as “Non-current assets held-for-sale” (see Note 29)	(752)	-	-	-	-	(752)
Other decreases	(3,462)	-	(97)	(24,255)		(27,814)
Balance as at 31 December 2006	**252,258**	**591**	**27,515**	**588,376**	**-**	**868,740**
**IAS 40*						
Balance as at 1 January 2007	**252,258**	**591**	**27,515**	**588,376**	**-**	**868,740**
Increases:						
Depreciation charge for the period	16,283	51	6,322	21,763	-	44,419
Other increases	-	-	-	2,499	-	2,499
Decreases:						
Disposals	(179)	-	(4,540)	(2,426)	-	(7,145)
Classified as investment property	(4,006)	-	-	(9)	-	(4,015)
Other decreases	(3,469)	(4)	(50)	(21,080)	-	(24,603)
Balance at 30 June 2007	**260,887**	**638**	**29,247**	**589,123**	**-**	**879,895**
Impairment losses						
Balance at 1 January 2006	**1,453**	**-**	**-**	**238**	**-**	**1,691**
Increases						
Decreases	(1,453)	-	-	(238)	-	(1,691)
Balance at 31 December 2006	**-**	**-**	**-**	**-**	**-**	**-**
Carrying amounts						
As at 1 January 2006	519,313	122	38,244	96,785	4,800	659,264
As at 31 December 2006	493,834	103	35,832	77,605	21,486	628,860
As at 1 January 2007	493,834	103	35,832	77,605	21,486	628,860
As at 30 June 2007	473,544	146	36,527	73,021	23,559	606,797

Investment properties

In thousands of PLN	**01.01. – 30.06. 2007**	**01.01. – 31.12. 2006**
Balance as at 1 January	**9,386**	**40,948**
Increases:		
Reclassified from Bank's properties	8,448	-
Revaluation	-	711
Decreases:		
Disposals	(920)	(14,273)
Classified as Bank's properties	-	(18,000)
Revaluation	(1,564)	-
Balance as at the end of a period	**15,350**	**9,386**

25. Intangible assets

In thousands of PLN	Goodwill	Patents and trademarks	Software	Other intangible assets	Prepay-ments	Total
Gross value:						
Balance as at 1 January 2006	**1,451,238**	**1,650**	**218,587**	**18,961**	**2,100**	**1,692,536**
Additions:						
Purchases	-	1	7,250	127	1,976	9,354
Reclassification	-	-	770	-	(4,033)	(3,263)
Balance as at 31 December 2006	**1,451,238**	**1,651**	**226,607**	**19,088**	**43**	**1,698,627**
Balance as at 1 January 2007	**1,451,238**	**1,651**	**226,607**	**19,088**	**43**	**1,698,627**
Additions:						
Purchases	-	-	1,765	-	5,524	7,289
Decreases:						
Reclassification	-	-	186	-	(190)	(4)
Balance as at 30 June 2007	**1,451,238**	**1,651**	**228,558**	**19,088**	**5,377**	**1,705,912**
Depreciation and amortization:						
Balance as at 1 January 2006	**205,262**	**1,519**	**166,539**	**5,417**	**-**	**378,737**
Increases:						
Depreciation charge for the period	-	120	27,207	6,815	-	34,142
Decreases:						
Disposals	-	-	(5)	-	-	(5)
Balance as at 31 December 2006	**205,262**	**1,639**	**193,741**	**12,232**	**-**	**412,874**
Balance as at 1 January 2007	**205,262**	**1,639**	**193,741**	**12,232**	**-**	**412,874**
Increases:						
Depreciation charge for the period	-	-	9,508	1,558	-	11,066
Balance as at 30 June 2007	**205,262**	**1,639**	**203,249**	**13,790**	**-**	**423,940**
Carrying amounts						
As at 1 January 2006	1,245,976	131	52,048	13,544	2,100	1,313,799
As at 31 December 2006	1,245,976	12	32,866	6,856	43	1,285,753
As at 1 January 2007	1,245,976	12	32,866	6,856	43	1,285,753
As at 30 June 2007	1,245,976	12	25,309	5,298	5,377	1,281,972

As at 30 June 2007, goodwill includes the amount of PLN 1,243,645 thousand arising from the merger of Bank Handlowy w Warszawie SA and Citibank (Poland) S.A. on 28 February 2001 and the amount of PLN 2,331 thousand as a result of the purchase of an organized part of an enterprise from ABN AMRO Bank (Poland) S.A. on 1 March 2005.

26. Impairment test for goodwill

According to IAS 36 "Impairment of Assets", the Group performs annual impairment tests for goodwill. Tests are performed as at 31 December each reporting year. Detailed information concerning tests, including allocation of goodwill to cash generating units and the basis of valuation of the units' recoverable amounts, is disclosed in note 26 "Impairment test for goodwill" to the annual consolidated financial statements of the Capital Group of Bank Handlowy w Warszawie S.A. as at 31 December 2006.

27. Income tax assets and liabilities

In thousands of PLN	**30.06.2007**	**31.12.2006**
Income tax assets*		
Current tax	6	25,080
Deferred tax	260,583	249,044
	260,589	**274,124**
Income tax liabilities*		
Current tax	**14,657**	**5,687**

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

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

Deferred tax assets are attributable to the following:

In thousands of PLN	**30.06.2007**	**31.12.2006**
Interest accrued and other expense	68,489	68,363
Loan loss provisions	92,184	109,045
Subordinated loans provisions	-	2,880
Unrealized premium	10,929	7,346
Unrealized financial instruments valuation expenses	487,291	637,379
Income collected in advance	27,531	27,055
Valuation of shares	6,389	68
Commissions	5,304	5,666
Debt securities available-for-sale	44,794	19,118
Unrealized cost related to asymmetric transaction	94,223	74,258
Differences between balance sheet and tax value of leases	6,002	-
Other	16,961	16,440
Deferred tax assets	**860,097**	**967,618**

Deferred tax liabilities are attributable to the following:

In thousands of PLN	**30.06.2007**	**31.12.2006**
Accrued interest income	73,096	71,278
Unrealized premium from options	4	8
Unrealized financial instruments valuation income	492,623	618,827
Unrealized securities discount	557	910
Investment relief	22,018	22,377
Valuations of shares	868	667
Differences between balance sheet and tax value of leases	-	303
Other	10,348	4,204
Deferred tax provisions	**599,514**	**718,574**

Movement in temporary differences during the year

In thousands of PLN	**Balance as at 1 January 2006**	**Impact of expanded consolidation scope**	**Adjustments recognized in equity**	**Balance as at 31 December 2006**
Interest accrued and other expense	58,653	9,710	-	68,363
Loan loss provisions	151,179	(42,134)	-	109,045
Subordinated loans provisions	3,896	(1,016)	-	2,880
Unrealized premium	5,371	1,975	-	7,346
Unrealized financial instruments valuation expense	652,181	(14,802)	-	637,379
Income collected in advance	9,737	17,318	-	27,055
Valuation of shares	815	(747)	-	68
Commission	24,205	(18,539)	-	5,666
Debt securities available-for-sale	15,142	-	3,976	19,118
Unrealized cost related to asymmetric transaction	114,417	(40,159)	-	74,258
Differences between balance sheet and tax value of leases	2,610	(2,610)	-	-
Other	24,583	(8,143)	-	16,440
	1,062,789	**(99,147)**	**3,976**	**967,618**

In thousands of PLN	**Balance as January 2006**	**Impact of expanded consolidation scope**	**Balance as at 31 December 2006**
Interest accrued (income)	63,886	7,392	71,278
Unrealized premium from options	40	(32)	8
Unrealized financial instruments valuation income	673,440	(54,613)	618,827
Unrealized securities discount	380	530	910
Investment relief	23,054	(677)	22,377
Valuation of shares	738	(71)	667
Differences between balance sheet and tax value of leases	2,148	(1,845)	303
Other	19,511	(15,307)	4,204
	783,197	**(64,623)**	**718,574**

In thousands of PLN	Balance as at 1 January 2007	Impact of expanded consolidation scope	Adjustments recognized in equity	Balance as at 31 June 2007
Interest accrued and other expense	68,363	126	-	68,489
Loan loss provisions	109,045	(16,861)	-	92,184
Subordinated loans provisions	2,880	(2,880)	-	-
Unrealized premium	7,346	3,583	-	10,929
Unrealized financial instruments valuation expenses	637,379	(150,088)	-	487,291
Income collected in advance	27,055	476	-	27,531
Valuation of shares	68	6,321	-	6,389
Commissions	5,666	(362)	-	5,304
Debt securities available-for-sale	19,118	-	25,676	44,794
Unrealized cost related to asymmetric transaction	74,258	19,965	-	94,223
Differences between balance sheet and tax value of leases	-	6,002	-	6,002
Other	16,440	521	-	16,961
	967,618	**(133,197)**	**25,676**	**860,097**

In thousands of PLN	Balance as at 1 January 2007	Adjustments recognized in income	Balance as at 30 June 20007
Interest accrued (income)	71,278	1,818	73,096
Unrealized premium from options	8	(4)	4
Unrealized financial instruments valuation income	618,827	(126,204)	492,623
Unrealized securities discount	910	(353)	557
Investment relief	22,377	(359)	22,018
Valuation of shares	667	201	868
Differences between balance sheet and tax value of leases	303	(303)	-
Other	4,204	6,144	10,348
	718,574	**(119,060)**	**599,514**

28. Other assets

In thousands of PLN	30.06.2007	31.12.2006
Interbank settlements	34 966	20 259
Settlements related to brokerage activity	363 401	564 624
Accounts receivable	69 311	58 932
Staff loans out of the Social Fund	30 680	33 094
Sundry debtors	96 699	78 145
Prepayments	37 368	46 693
Other assets	11	173
	632 436	**801 920**

29. Non-current assets held-for-sale

In thousands of PLN	**30.06.2007**	**31.12.2006**
Holiday resorts	-	8,360
Own property	4,179	4,179
	4,179	**12,539**

Non-current assets held-for-sale is as fallows:

In thousands of PLN	**01.01. – 30.06. 2007**	**01.01. – 31.12. 2006**
Balance as at 1 January	**12,539**	**30,385**
Decreases:		
Reclassify from non-current assets	-	4,179
Disposals:		
Cash receipts from the sale of associated entities shares	-	(8,056)
Cash receipts from the sale of subordinated entities shares	-	(4,103)
Cash receipts from the sale of organized part of an enterprise	-	(5,486)
Cash receipts from the sale of holiday resorts	(8,360)	(4,380)
Balance as at the end of the period	**4,179**	**12,539**

As at 30 June 2007 non-current assets held-for-sale include Group's own property, that fulfils the requirements of IFRS 5 and therefore was reclassified to this group of fixed tangible assets. An active program to attract potential buyers and complete the sale plan is currently highly advanced. The sale transaction is expected to be completed by the end of 2007.

The explanation of changes in other assets (group of assets) in 2006 and in the first half of 2007, classified in above-mentioned periods to "Non-current assets held-for-sale", has been presented below:

- Shares in the associated entity Handlowy Heller S.A. which was sold on 2 February 2006

- Assets and related liabilities of Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A. („TFI") and Handlowy Zarządzanie Aktywami S.A. („HANZA") which were sold on 1 February 2006

- Organized part of the Bank's enterprise that consists of card's transactions settlements within the Consumer Banking Sector. The Bank rents POS terminals and provides service as a settlement agent in accordance with Electronic Payment Instruments Act of 12 September 2002. The sale was completed on 31 January 2006 in aid of Cardpoint SA, with its headquarters in Poznań.

- Holiday resorts located in Dźwirzyna, Rowy, Skubianka, Łeba and Wisła. In 2006 the resorts in Dźwirzyna, Skubianka and Łeba were sold. Resort in Rowy and Wisła were sold in the first half of 2007.

30. Financial liabilities valued at amortized cost

Financial liabilities valued at amortized cost (by category)

In thousands of PLN	**30.06.2007**	**31.12.2006**
Deposits from financial sector:		
Current accounts, including:	1,786,798	1,334,998
current accounts of banks	*1,414,785*	*1,197,581*
Deposits, including:	4,700,696	4,777,734
term deposits of banks	*1,529,069*	*2,462,685*
Accrued interest	28,438	43,873
	6,515,932	**6,156,605**
Deposits from non-financial sector:		
Current accounts, including:	6,611,721	5,770,674
corporate customers	*3,540,189*	*3,509,698*
individual customers	*2,590,534*	*1,737,527*
Deposits, including:	11,931,323	13,089,778
corporate customers	*9,056,888*	*9,624,446*
individual customers	*1,919,576*	*2,494,529*
Accrued interest	16,963	19,725
	18,560,007	**18,880,177**
Total	**25,075,939**	**25,036,782**
Other liabilities:		
Loans and advances received	527,288	421,015
Liabilities in respect of securities subject to sale and repurchase agreements	214,877	223,329
Other liabilities, including:	256,217	306,202
cash collateral	*187,437*	*238,030*
Accrued interest	3,251	3,808
	1,001,633	**954,354**
Total	**26,077,572**	**25,991,136**

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

In thousands of PLN	**30.06.2007**	**31.12.2006**
Financial sector:		
up to 1 month	5,399,657	3,780,818
1 month - 3 months	205,950	1,160,183
3 months - 1 year	1,039,925	1,202,016
1 year - 5 years	527,294	402,308
over 5 years	29	3,949
Accrued interest	30,722	46,097
	7,203,577	**6,595,371**
Non-financial sector:		
up to 1 month	17,685,707	17,920,811
1 month - 3 months	690,308	887,357
1 month - 12 months	401,441	505,005
1 year - 5 years	77,744	60,826
over 5 years	865	457
Accrued interest	17,930	21,309
	18,873,995	**19,395,765**
	26 077 572	**25 991 136**

31. Provisions

In thousands of PLN	30.06.2007	31.12.2006
For disputes	27,644	20,120
For off-balance sheet commitments	20,648	24,258
	48,292	**44,378**

The movement in provisions is as follows:

In thousands of PLN	01.01. – 30.06. 2007	01.01. – 31.12. 2006
Balance as at 1 January	**44,378**	**56,251**
Provisions for:		
Disputes	20,120	19,673
Off-balance sheet commitments	24,258	36,578
Decreases:		
Releases of provisions in the period, including:	47,355	87,764
Disputes	11,771	7,556
Off-balance sheet commitments	35,584	80,208
Disposals:		
Use of provisions	-	(630)
Release of provisions:	(43,441)	(99,007)
for disputies	(4,247)	(6,479)
for off-balance sheet liabilities	(39,194)	(92,528)
Balance as at 30 June	**48,292**	**44,378**

32. Other liabilities

In thousands of PLN	30.06.2007	31.12.2006
Staff benefits	74,420	63,496
Interbank settlements	279,681	86,522
Interbranch settlements	2,854	598
Settlements related to brokerage activity	362,954	293,608
Settlements with Tax Office and National Insurance (ZUS)	28,280	8,963
Dyvidends to be paid	535,704	-
Sundry creditors	49,226	119,911
Accruals	302,168	287,129
Provision for employee payments	121,652	152,444
Provision for employees retirement and jubilee payments	50,795	57,620
Other	129,721	77,065
Deferred income	105,256	104,544
	1,740,543	**964, 771**

33. Capital and reserves

Share capital

Issued share capital

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

Par value of 1 share = PLN 4.00

As at 30 June 2007, the Bank's share capital amounted to PLN 522,638,400 divided into 130,659,600 common bearer shares nominal value of PLN 4 each, which has not changed since 31 December 2006.

The Bank has not issued preference shares.

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

Principal shareholders

The list of shareholders who held at least 5% of the total number of votes in the General Assembly or at least 5% of the Bank's share capital is as follows:

	Value of stocks	**Number of stocks**	**% stocks**	**Number of votes at GA**	**% votes at GA**
Citibank Overseas Investment Corporation, USA	391,979	97,994,700	75.0	97,994,700	75.0
Other shareholders	130,659	32,664,900	25.0	32,664,900	25.0
	522,638	**130,659,600**	**100.0**	**130,659,600**	**100.0**

In the first half of 2007 the structure of major shareholdings has not changed.

According to information held by the Bank, International Finance Associates (IFA), subordinated entity of Citibank Overseas Investment Corporation, does not already own any of the Bank's shares as at 30 June 2007. The process of exchange Citibank N.A. Senior Exchangeable Notes (Bonds), issued in 2004, for the

Bank's shares held by IFA, which started in February 2006, was completed. At the end of 2006 IFA held 1,903 Bank's shares, what represented 0.001% of the Bank's issued capital and 0.001% of the total number of votes on the General Meeting of the Bank.

Supplementary capital

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

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

Revaluation reserve

In thousands of PLN	**30.06.2007**	**31.12.2006**
Revaluation of financial assets available-for-sale	**(185,538)**	**(81,501)**

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

Other reserves

In thousands of PLN	**30.06.2007**	**31.12.2006**
Reserve capital	1,055,428	1,015,567
General risk reserve	390,000	390,000
Foreign currency translation adjustment	943	1,514
	1,446,371	**1,407,081**

Reserve capital

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

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

General risk fund

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

Dividends

In accordance with Resolution No. 18 of the Ordinary General Meeting of the Bank of 21 June 2007 the profit for 2006 was allocated, a resolution for the payment of dividends was adopted, the dividend date and the date of dividend payment were determined. The Bank proposed to pay out PLN 535,704,360.00 as dividend (in 2006 dividend was paid out from 2005 profit: PLN 470,374,560.00). This means that the dividend per one ordinary share amounts to PLN 4.10 (in 2006 appropriately: PLN 3.60).

The date of determination of the right to the dividend was designated as 5 July 2007 and the date of dividend payment as 31 August 2007.

34. Repurchase and reverse repurchase agreements

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

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

As at 30 June 2007 assets sold under repurchase agreements were as follows:

In thousands of PLN	**Fair value of underlying assets**	**Carrying amount of corresponding liabilities***	**Repurchase dates**	**Repurchase price**
Trading instruments				
Debt securities	214,869	214,976	To 1 month	215,091

*including interest

As at 31 December 2006 assets sold under repurchase agreements were as follows:

In thousands of PLN	**Fair value of underlying assets**	**Carrying amount of corresponding liabilities***	**Repurchase dates**	**Repurchase price**
Trading instruments				
Debt securities	223,574	223,420	To 1 month	223,472

*including interest

In repo transactions, all gains and losses on the assets held are on the Group's side.

As at 30 June 2007, of all assets sold through repo, an amount of PLN 129 842 thousand applies to assets that may have been traded further (31 December 2006: PLN 0 thousand).

In the first half of 2007 the total interest expenses on repurchase agreements was PLN 1,489 thousand (in the first half of 2006: PLN 1,067 thousand).

The Group also purchases financial instruments under agreements to resell them at future dates ("reverse repurchase agreements"). At the same time the seller commits to repurchase the same or similar instruments at an agreed future date. Reverse repurchase agreements are entered into as a facility to provide funds by customers.

As at 30 June 2007 assets purchased under resell agreements were as follows:

In thousands of PLN	Fair value of underlying assets	Carrying amount of corresponding liabilities*	Repurchase dates	Repurchase price
Loans and other receivables from financial sector:	400,200	399,952	To 1 week	400,326

including interest

As at 31 December 2006 assets purchased under resell agreements were as follows:

In thousands of PLN	Fair value of underlying assets	Carrying amount of corresponding liabilities*	Repurchase dates	Repurchase price
Loans and other receivables from financial sector:	302,405	302,180	To 1 week	302,503

including interest

As at 30 June 2007 and 31 December 2006, the Group held the option to pledge or sell the assets acquired through reverse repo.

In the first half of 2007 total interest incomes on repurchase agreement was PLN 44 thousand (in the first half of 2006: PLN 0).

35. Fair value information

Fair value of financial assets and liabilities

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

The summary below provides balance sheet (by categories) and fair value information for each asset and financial liability group.

As at 30 June 2007

In thousands of PLN	*Note*	Held for trading	Credit, loans and other receivables	Available for sale	Other financial assets/ liabilities	Total balance value	Fair value
Assets							
Cash and balances with central bank	*17*	-	-	-	2,073,502	2,073,502	2,073,502
Financial assets held for trading	*18*	4,754,021	-	-	-	4,754,021	4,754,021
Debt securities available for sale	*19*	-	-	8,905,521	-	8,905,521	8,905,521
Capital investment valued at equity method	*20*	-	-	59,395	-	59,395	59,395
Other capital investment	*21*	-	-	28,611	-	28,611	28,611
Credit, loans and other receivables	*22*	-	18,167,774	-	-	18,167,774	18,130,307
		4,754,021	**18,167,774**	**8,993,527**	**2,073,502**	**33,988,824**	**33,951,357**

In thousands of PLN	***Note***	**Held for trading**	**Credit, loans and other receivables**	**Available for sale**	**Other financial liabilities**	**Total balance value**	**Fair value**
Liabilities							
Financial liabilities held for trading	*18*	3,692,286	-	-	-	3,692,286	3,692,286
Financial liabilities valued at amortized cost	*30*	-	-	-	26,077,572	26,077,572	26,094,834
		3,692,286	**-**	**-**	**26,077,572**	**29,769,858**	**29,787,120**

As at 31 December 2006

In thousands of PLN	*Note*	**Held for trading**	**Credit, loans and other receivables**	**Available for sale**	**Other financial liabilities**	**Total balance value**	**Fair value**
Assets							
Cash and balances with central bank	*17*	-	-	-	535,623	535,623	535,623
Financial assets held for trading	*18*	4,556,471	-	-	-	4,556,471	4,556,471
Debt securities available for sale	*19*	-	-	8,247,313	-	8,247,313	8,247,313
Capital investment valued at equity method	*20*	-	-	67,910	-	67,910	67,910
Other capital investment	*21*	-	-	54,618	-	54,618	54,618
Credit, loans and other receivables	*22*	-	19,516,218	-	-	19,516,218	19,510,135
		4,556,471	**19,516,218**	**8,369,841**	**535,623**	**32,978,153**	**32,972,070**

In thousands of PLN	***Note***	**Held for trading**	**Credit, loans and other receivables**	**Available for sale**	**Other financial liabilities**	**Total balance value**	**Fair value**
Liabilities							
Due to central bank		-	-	-	250,113	250,113	250,113
Financial liabilities held for trading	*18*	3,316,847	-	-	-	3,316,847	3,316,847
Financial liabilities valued at amortized cost	*30*	-	-	-	25,991,136	25,991,136	26,000,128
		3,316,847	**-**	**-**	**26,241,249**	**29,558,096**	**29,567,088**

Fair Value Definition

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

Equity Investments

Equity investments accounted for under the equity method: In the case of shares in subsidiaries and associated entities that are fixed assets available-for-sale the fair value is based on the binding sale offer. The fair value of shares in subsidiaries that are not consolidated is presented as the percentage of net assets of an entity that is attributable to the Group's shares in a given entity. Management believes that this is the best available approximation of fair value of such instruments.

Other equity investments: For listed minority shares market value is applied. For unlisted minority shares the Group is not able to estimate a reasonable fair value, therefore the fair value amount includes purchase price adjusted by revaluation write-offs connected with diminution in value.

Strategically, the Group has planned a phased-out reduction of the capital exposures presented in this report, save for the strategic exposures to certain selected infrastructure entities providing services to the financial sector. The individual equity stakes will be sold at the time of the best market opportunity.

In 1H 2007, the Group did not sell any equity investments whose fair value could not be credibly established beforehand. In 2006 from among equity investments that the fair value was not able to estimate, the Group has sold minority shares of Eastbridge B.V./S.a.r.l. ("EB"). The balance value of sold shares amounted PLN 32,812 thousand and profit on sale amounted PLN 57,938 thousand.

Loans and advances:

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

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

Financial liabilities valued at amortized cost:

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

In 1H 2007 and in 2006, the Group did not re-qualify its financial assets from or to the individual categories (whether carried at fair value, at cost or at depreciated cost).

36. Contingent liabilities

Information on pending proceedings

As at 30 June 2007, no proceedings relating to the liabilities or receivables of the Bank or its subsidiaries, the value of which would correspond to at least 10% of the Group's shareholders' equity, were pending before any court, administrative authority or an arbitration court.

The total value of all pending court proceedings involving the Bank or its subsidiaries and related to their receivables exceeded 10% of the Group's shareholders' equity and amounted to PLN 1,218,811 thousand.

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

Parties to Proceedings	Litigation Value (in thousands of PLN)	Proceedings Commencement Date	Description of Case
Creditor: Bank Handlowy w Warszawie SA	158,534	8 August 1996 – declaration of bankruptcy.	Case pending. The Bank submitted the receivable to obtain repayment from the bankrupt's assets for arrangement on 14 October 1996. The Bank realized all the collateral. The Bank will probably not receive its receivables. The official receiver expected to complete the bankruptcy proceeding by the end of 2006. The Bank expects to receive a resolution on completion of the bankruptcy proceeding.
Creditor: Bank Handlowy w Warszawie SA	65,947	In 2000, the court declared the borrower bankrupt.	Within the framework of the pending proceedings, the Bank submitted a receivable. The Bank's receivable may remain unpaid.
Creditor: Bank Handlowy w Warszawie SA	47,054	On 22 June 2001, the court declared the debtor bankrupt.	The Bank submitted its receivables to the proceedings. Case pending.
Creditor: Bank Handlowy w Warszawie SA	30,953	The court declared the debtor bankrupt in March 2004.	The Bank submitted the receivable to repay it from the bankrupt's assets for arrangement. Case pending.

The Group in accordance with law makes provisions for contingent liabilities. Impairment related to these provisions is also made.

As at 30 June 2007, no proceedings relating to the liabilities or receivables of the Group or its subsidiaries, the value of which would correspond to at least 10% of the Group's shareholders' equity, were pending before any court, administrative authority or an arbitration court.
The total value of all pending court proceedings involving the Group or its subsidiaries and related to their receivables exceeded 10% of the Group's shareholders' equity and amounted to PLN 688,633 thousand.

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

Parties to Proceedings	Litigation Value (in thousands of PLN)	Proceedings Commencement Date	Description of Case
Plaintiff: Borrower of the Bank **Defendant:** Bank Handlowy w Warszawie SA	149,202	5 October 2005	The plaintiff takes exception that the Bank abused the law by notice of the termination of the contract that resulted in the paralysis of the business activity of the plaintiff. The damage was an effect and resulted in significant loss of profits. On 19 December 2006 the court of first instance disallowed the complaint entirely. The plaintiff lodged an appeal. On 9 May 2007 the appeal court disallowed the appeal. The

Parties to Proceedings	Litigation Value (in thousands of PLN)	Proceedings Commencement Date	Description of Case
			plaintiff has the right to lodge a counter appeal. Case pending.
Plaintiff: Borrower of the Bank **Defendant:** Bank Handlowy w Warszawie SA	42,306 with interest from 1 March 2002	23 May 2003	The suit concerns the irregularities of the Bank's activity during the restructuring of its client's debt – the plaintiff who bears a loss. On 3 February 2005 the court suspended the proceedings owing to proceedings of bankruptcy. The court resumed the suspended proceeding and on 20 June 2007 disallowed the complaint. The court decision is not legally valid. Case pending.
Plaintiff: Administrative Receiver of the Bank's clients (borrowers) **Defendant:** Bank Handlowy w Warszawie SA	29,215	5 May 2005	The plaintiff claims for the compensation due to the unjustified cancellation of credit agreement and selling of goods being the subject of repossession at the glaring underrated price, interrupting plaintiff's basic activity and loosing of possibilities to conclude an agreement and as a consequence bringing to plaintiff's bankruptcy (including statutory interests since the day of delivery of claim to the compensation payment day). Case pending.
Plaintiff: Borrower of the Bank **Defendant:** Bank Handlowy w Warszawie SA	24,661	6 February 2006	The claimant requested the payment of PLN 233,000 plus statutory interest for a period from 3 November 1999 to the payment date and the amount of PLN 24,428,000 plus statutory interest from the date of filing a statement of claim (28 October 2005) to the payment date. The first amount refers to the claim for contractual damages and equals the difference between the amount of debts deducted by the claimant, arising from a letter of credit confirmed by the Bank and the loan granted to the claimant. The claim for PLN 24,428,000 is based on the Bank's liability in tort. Until now, the claimant did not present sufficient evidence, confirming that his claims are reasonable. On 8 December 2006 the court of first instance disallowed the complaint entirely. The plaintiff lodged an appeal. Case pending.

Parties to Proceedings	Litigation Value (in thousands of PLN)	Proceedings Commencement Date	Description of Case
Plaintiff: Entrepreneur **Defendant:** Bank Handlowy w Warszawie SA	387,400	11 April 2006	The claimant requests the payment of compensation. The petitioner claims that the Bank violated copyright law by applying a strategy in a marketing campaign, to which the claimant was entitled. The court has not set the date of the first trial yet.
Administrative proceedings			
Participants of Administrative Process Polska Organizacja Handlu Dystrybucji, Visa CEMEA International w Warszawie, Europa International SA W Warszawie and banks including Bank Handlowy w Warszawie SA	10,200	20 April 2001	Accusation of applying practices restraining market competition throughout pricing agreement and association with settling of the level of “interchange” charges, coordination of activity to restrict access to market for entrepreneurs who do not belong to issuer market. On 12 January 2007 the Bank received Decision by President of Office of Fair Trading. According to his decision the Bank has to pay 10,200,000 PLN. Bank has the decision to appeal again.

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

Off-balance sheet commitments

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

In thousands of PLN	**30.06.2007**	**31.12.2006**
Off-balance sheet commitments granted:		
Letters of credit	249,255	195,566
Guarantees granted	2,383,878	2,779,418
Credit lines granted	9,710,188	9,177,576
Deposits to be issued	30,000	24,860
Issue guarantees granted to other issuers	262,000	217,000
	12,635,321	**12,394,420**

In thousands of PLN	**30.06.2007**	**31.12.2006**
Letters of credit by categories:		
Import letters of credit issued	218,238	155,296
Export letters of credit confirmed	31,017	40,270
	249,255	**195,566**

As at 30 June 2007 and 31 December 2006 the Group did not have any contingent liabilities granted to subordinated entities.

The Group makes specific provisions for off-balance sheet commitments. As at 30 June 2007, the specific provisions created for off balance sheet commitments amounted to PLN 20,648 thousand (31 December 2006: PLN 24,258 thousand).

Guarantees issued include credit principal repayment guarantees, other repayment guarantees, advance repayment guarantees, performance guarantees, tender guarantees, and bills of exchange.

Contingent liabilities received

In thousands of PLN	**30.06.2007**	**31.12.2006**
Guarantees received	**2,152,449**	**2,019,070**

37. Assets pledged as collateral

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

In thousands of PLN	**30.06.2007**	**31.12.2006**
Liabilities		
Financial liabilities valued at amortized cost:		
Liabilities in respect of securities subject to sale and repurchase agreements	214,976	223,420

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

In thousands of PLN	**30.06.2007**	**31.12.2006**
Assets pledged:		
Debt securities held for trading	214,869	223,574
Debt securities available-for-sale	60,248	39,559
Loan and advantages		
From financial sector	24,741	53,392
Other assets		
Settlements related to operations on derivative instruments	22,000	21,847
	321,858	**338,372**

As at 30 June 2007 and 31 December 2006, the debt securities available for sale presented in the table constituted a reserve against the funds guaranteed to the Bank Guarantee Fund. The information on the assets securing repo liabilities of the Group has been discussed in Note 34. Other assets disclosed above secure settlement of their respective transactions, including derivatives transactions. The terms and rules of the transactions executed to date are standard and typical for such dealings.

38. Trust activities

The Group is the leader on the market of custodian banks in Poland. It offers both custody services connected with securities accounts for foreign institutional investors and depositary services for Polish financial institutions, including pension, investment and equity insurance funds. As at 30 June 2007 the Group maintained 11,021 securities accounts (31 December 2006: 10,312 accounts).

39. Operating leases

Leases where the Group is the lessee

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

In thousands of PLN	**30.06.2007**	**31.12.2006**
Less than 1 year	40,692	41,153
Between 1 and 5 years	49,786	85,071
More than 5 years	5,614	4,696
	96,092	**130,920**
Total operating leasing rentals for unprescribed time	**1,384**	**1,272**

The Group uses office space under operating lease contracts. The most significant lease contracts relate to office space situated in Warsaw at Wolska 171/175 and Chałubińskiego 8. Generally the contracts have been signed for 5 years and there is an ability to extend them over the next three years. Some contracts have been signed for an unspecified period of time. Lease payments are under one year indexation. In the first half 2007 the total amount of lease payments was PLN 20,580 thousand (in the first half 2006: PLN 18,262 thousand). These payments are presented in the income statement in "General expenses".

Leases where the Group is the lessor

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

In thousands of PLN	**30.06.2007**	**31.12.2006**
Less than 1 year	1,436	1,875
Between 1 and 5 years	3,591	4,897
More than 5 years	1,212	1,690
	6,239	**8,462**
Total operating leasing rentals for unprescribed time	**3,229**	**1,858**

Part of the Group's office space is leased. Most of the agreements are signed for an unspecified period of time. Other agreements are signed for a period of between 2 and 10 years. Lease payments are under one year indexation. In the first half 2007 the income related to these contracts amounted to PLN 2,945 thousand (in the first half 2006: PLN 2,063 thousand). These payments are presented in the income statement in "other operating income".

40. Cash flow statement

In thousands of PLN	**30.06.2007**	**31.12.2006**
Cash related items		
Cash at hand	329,777	366,211
Nostro current account in Central Bank	1,743,725	169,412
Current accounts in other banks	146,403	785,539
	2,219,905	**1,321,162**

41. Related parties

Transactions with related parties

Within its normal course of business activities the Group enters into transactions with related entities, in particular with entities of Citigroup Inc., subsidiaries and associates (see Note No. 20) and members of the Bank's supervisory board, management and employees.

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

Transactions with Citigroup Inc. entities

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

In thousands of PLN	**30.06.2007**	**31.12.2006**
Receivables, including:	2,495,228	1,192,309
Placements	2,389,494	1,155,110
Liabilities, including:	2,129,559	1,626,522
Deposits	1,762,783	1,602,682
Loans received	336,680	-
Balance valuation of derivative transactions		
Assets available-for-sale	2,401,114	2,118,399
Liabilities available-for-sale	2,743,476	2,457,095
Off-balance sheet guarantee liabilities granted	43,020	118,536
Off-balance sheet guarantee liabilities received	244,610	156,433
Interest and commission income in the first half of 2007/2006	43,262	48,056
Interest and commission expense in the first half of 2007/2006	29,860	4,258

Furthermore the Group incurs costs and receives income of an operational nature from agreements concluded between Citigroup Inc. entities and the Group for the provision of mutual services.
The costs arising and accrued in the first half of 2007 from concluded agreements amounted in total to PLN 76,775 thousand (in the first half of 2006: PLN 83,366 thousand) and related in particular to the costs arising from the provision of services related to the maintenance of the Group's information systems and advisory support for the Group; income of PLN 36,411 thousand (in the first half of 2006: 31,789 thousand) arose from the provision of data processing and other services by the Group.

Transactions with subordinated entities

In thousands of PLN	**30.06.2007**	**31.12.2006**
Loans, advances and other receivables:		
Current accounts (in respect of):	258,037	288,122
consolidated subordinated undertakings	*258,036*	*288,122*
subordinated undertakings accounted under for the equity method	*1*	-
Loans granted (in respect of):	51,885	47,866
consolidated subordinated undertakings	*51,885*	*47,866*
subordinated undertakings accounted under for the equity method	-	-

In thousands of PLN	**30.06.2007**	**31.12.2006**
Subordinated loans (in respect of):	-	16,168
consolidated subordinated undertakings	-	-
subordinated undertakings accounted under for the equity method	-	*16,168*
	309,922	**352,156**
Loans, advances and other receivables:		
Opening balance*	352,156	526,632
Closing balance	309,922	352,156
Deposits:		
Current accounts (in respect of):	371,746	342,916
consolidated subordinated undertakings	*369,071*	*323,891*
subordinated undertakings accounted under for the equity method	*2,675*	*19,025*
Term deposits (in respect of):	45,014	29,329
consolidated subordinated undertakings	*23,974*	*7,223*
subordinated undertakings accounted under for the equity method	*21,040*	*22,106*
	416,760	**372,245**
Deposits:		
Opening balance**	372,245	639,693
Closing balance	416,760	372,245
Contingent liabilities granted:		
Letters of credit (in respect of):	11,186	381
consolidated subordinated undertakings	*11,186*	*381*
subordinated undertakings accounted for under the equity method	-	-
Guarantees granted (in respect of):	2,367	2,367
consolidated subordinated undertakings	*2,367*	*2,367*
subordinated undertakings accounted for under the equity method	-	-
Credit lines granted (in respect of):	295,958	282,161
consolidated subordinated undertakings	*295,958*	*282,161*
subordinated undertakings accounted for under the equity method	-	-
	309,511	**284,909**

In thousands of PLN		
Interest and commission income in the first half of 2007/2006 (in respect of):	8,451	6,942
consolidated subordinated undertakings	*6,361*	*6,938*
subordinated undertakings accounted for under the equity method	*2,090*	*4*
Interest and commission expenses in the first half of 2007/2006 (in respect of):	6,807	5,185
consolidated subordinated undertakings	*6,480*	*4,852*
subordinated undertakings accounted for under the equity method	*327*	*333*

*Amount of credit, loans and other receivables includes PLN 103,385 thousand, which is related to receivables of related entities

** Amount of deposits at the beginning of 2006 includes PLN 349 thousand, which is related to deposits received form related entities.

As at 30 June 2007, the amount of impairment write-downs for receivables of subsidiaries amounted to PLN 3,876 thousand (31 December 2006: PLN 7,209 thousand), write-downs for off balance sheet commitments granted amounted to PLN 3,790 thousand (31 December 2006: PLN 3,426 thousand).

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

In thousands of PLN	30.06.2007			31.12.2006		
	Employees	**Members of the Management Board**	**Members of the Supervisory Board**	**Employees**	**Members of the Management Board**	**Members of the Supervisory Board**
Loans, advances and other receivables						
Loans granted	75,922	899	-	86,240	1,041	11
Staff benefits	30,680	-	-	33,094	-	-
Prepayments	279	6	-	52	3	-
	106,881	**905**	**-**	**119,386**	**1,044**	**11**
Deposits	47,129	2,521	1,065	26,613	611	184
Current accounts	33,712	1,467	551	44,874	1,943	862
Term deposits	**80,841**	**3,988**	**1,616**	**71,487**	**2,554**	**1,046**
Guarantees issued	49	-	-	84	-	-

42. Employee benefits

Employee benefits are divided into the following categories:

– short-term benefits, which include salaries, social insurance contributions, paid leave and benefits in kind (such as medical care, company apartments, company cars and other free or subsidized benefits). The costs of short-term benefits are expensed in the profit and loss account in the period to which they relate. At the end of a given reporting period, if there is a balance payable that equals the expected undiscounted value of short-term benefits for that period, the Group will record it as an accrued expense.

– benefits after termination of employment – including severance pay (see Note 2) and pension plans presented below offered by the Group to its staff.

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

Description of Employee Pension Plan

The objective of the Employee Pension Plan (the Plan) created by the Bank is to save and accumulate through investments funds from premiums paid within the Plan into an individual account of the participant in order to ensure benefit payments after the participant attains the age of 60 years or undergoes early retirement or if the participant obtains the rights to disability benefits due to incapacity for work.

The current Plan, which is a continuation of PPE Polskie Towarzystwo Emerytalne "Diament", was implemented on 19 March 2004 under an agreement with Legg Mason Senior Specjalistyczny Fundusz Inwestycyjny Otwarty ("LM Senior SFIO") and is registered in the District Court for Warsaw under number

RFJ-8. LM Senior SFIO is managed by Legg Mason Towarzystwo Funduszy Inwstycyjnych SA and its transfer agent is Obsługa Funduszy Inwestycyjnych Sp. z o.o.
The basic premium for Plan participants is paid out of the Group's own funds. Each employee who participates in the Plan can also make additional premium contributions to the Plan. The total of premiums paid to Plan is invested in units of LM Senior SFIO.

- other long-term employee benefits – jubilee and other long service awards. Information about jubilee awards is described in Note 2. These are paid under a pre-determined benefit scheme and an independent actuary in accordance with IAS 19 carries out their valuation.

- employee equity benefits – in the form of stock options granted on Citigroup common stock and also under stock award programs based on shares of Citigroup common stock in the form of deferred stock. Valuation and presentation principles of these programs are described in Note 2. Detailed information concerning the employee equity benefits are presented in the further part of this note.

Provisions for the above employee benefits are as follows:

In thousands of PLN	**30.06.2007**	**31.12.2006**
Provision for remuneration	69,415	116,693
Provision for employees' retirement and jubilee payments	60,197	54,543
Provision for employees' equity compensation	36,350	38,828
	165,962	**210,064**

In the first half of 2007, the Group's expenses in respect of premiums for the employee pension plan amounted to PLN 8,151 thousand (in the first half of 2006: PLN 7,694 thousand).

In the first half of 2007, the average number of employees in the Group was 5,644 (in 2006: 5,539).

Description and principles of employee stock benefits

The Group's employees are entitled to participate in Citigroup equity compensation plans. In accordance with these plans the Group's employees may receive Citigroup stocks (capital accumulation program or CAP) or options for Citigroup stocks (stock option program or SOP) as awards.

Within the framework of the SOP, eligible employees receive options to buy stock at the NYSE average closing price as at the 5 days directly preceding the award grant date. Employees acquire the right to a portion of their options on each anniversary of their SOP award grant date. Options granted during 2005 and 2006 will be transferred partially in 25% every year for the next four years, starting from the first anniversary of option acquire. Options may be exercised by purchases of stock in the period from the acquisition date of the right to an option to the expiry date of the option.

Deferred shares within the framework of the CAP are granted at the NYSE average closing price as at the 5 days prior to the grant date. Deferred shares give the right to equivalents of dividends, but without voting rights, and must not be sold prior to their conversion into stocks. Deferred shares are converted into stocks after the end of a period that is determined in the Program Rules, which commences on the CAP award allocation date, provided, however, that an eligible employee is still with Citigroup. Options granted during 2005 and 2006 will be transferred partially in 25% every year for the next four years, starting from the first anniversary of option acquire.

Assumptions of valuation of the employee equity benefit programs

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

	Grant date	Exercise price/ stock price at grant date	Number of eligible employees	Number of options / shares
SOP Program				
1	13.02.02	42.11 lub 41.90	296	111,205
2	12.02.03	32.05	270	86,827
3	20.01.04	49.50	109	64,118
4	18.01.05	47.50	5	2,907
5	20.09.05	45.36	1	1,500
6	17.01.06	48.92	1	1,538
7	16.01.07	54.38	1	436

Grant date		Exercise price/ stock price at grant date	Number of eligible employees	Number of options / shares
CAP Program				
1	18.01.05	35.96 lub 47.95	195	40,385
2	15.02.05	49.25	1	1,950
3	15.11.05	48.24	2	3,498
4	17.01.06	36.58 lub 48.77	180	73,790
5	21.11.06	50.73	1	2,957
6	16.01.07	40.84 lub 54.46	216	118,984
7	15.05.07	52.86	1	100

Program	**SOP**	**CAP**
Period to acquire the title (in years)	(1) 20% after the each of the following years (2)-(3) 33.33% after each of the following years (4)-(7) 25% after each of the following years	(1)-(6) 25% after each of the following years (7) instantenously
Expected variances	20.33%	20.33%
Life cycle of the instrument	(1)-(7) - year from the moment of rights acquisition	In the moment of rights acquisition
Risk free interest rate (for USD)	4.89%	4.89%
Expected dividends (in USD per one share)	2.16	2.16
Probability of premature termination of employment (annual staff turnover for awarded employees)	7 %	7 %
Fair value of one instrument* (in USD)	1.79 – 19.24	51.29

** Varies depending on the date of exercise*

Options – volumes and weighted-average strike prices:

	30.06.2007		31.12.2006	
	Number ('000)	**Weighted average strike price**	**Number ('000)**	**Weighted average strike price**
At the beginning of the period	328,107	39.94	351,282	40.86
Allocated in the period	436	54.38	2,426	48.92
Redeemed in the period	67,761	39.86	58,493	37.70
Expired in the period	45,977	-	32,892	-
At the end of the period	268,563	40.76	328,107	39.94
Exercisable at the end of the period	210,265	39.38	257,460	39.69

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

30.06.2007			31.12.2006		
Striking price range (in USD)	**Number ('000)**	**Weighted average period to the end of life cycle**	**Striking price range (in USD)**	**Number ('000)**	**Weighted average period to the end of life cycle**
41.90	0.81	0.54	32.05	102,624	0.53
42.11	110.39	0.54	49.50	79,076	1.01
32.05	86.83	0.04	41.90	855	1.03
49.5	64.12	0.55	42.11	132,053	1.03
47.5	2.91	1.56	47.19	129	1.05
45.36	1.5	1.56	49.00	150	1.05
48.92	1.54	2.06	49.49	3,000	1.05
54.38	0.44	2.06	50.07	307	1.05
-	-	-	50.82	77	1.05
-	-	-	51.32	72	1.05
-	-	-	45.36	2,000	1.56
-	-	-	47.50	5,339	1.56
-	-	-	48.92	2,426	2.56

Options – volumes and weighted-average strike prices (CAP program):

	30.06.2007		31.12.2006	
	Number ('000)	**Weighted average strike price**	**Number ('000)**	**Weighted average strike price**
At the beginning of the period	217,022	40.29	145,448	39.10
Allocated in the period	119,084	44.11	114,563	39.59
Redeemed/expired in the period	94,442	-	42,989	-
At the end of the period	241,664	42.35	217,022	40.29

43. Subsequent events

As at 30 June 2007 there were no major events after the balance sheet date not included in the financial statement that could have a significant influence on the net result of the Group or required to be disclosed in the financial statement.

44. Risk management

Derivative instruments

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

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

As at 30 June 2007, the Group placed deposits at other institutions as collateral against derivative transactions amounting in total to PLN 22,000 thousand (31 December 2006: PLN 21,847 thousand), and for derivative transactions, the Group received collateral totaling PLN 25,412 thousand.

Forward and swap FX contracts

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

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

Currency option contracts

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

Interest rate contracts

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

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

Interest rate option contracts

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

Securities term contracts

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

Share options

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

Futures contracts

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

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

Commodities derivatives

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

Market risk

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

Management of market risk comprises two core risk areas: liquidity risk and pricing risk.

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

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

Liquidity risk management

Measurement and mitigation of the liquidity risk

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

The measure of the assessment of the Bank's liquidity risk is the level of the modified gap in financial flows in respect of the potential sources of financing. Therefore, the gap level is compared with the possibility of obtaining additional finance from the wholesale market (other banks, investment funds, pension funds, insurance companies) and with the balance of liquid assets (mainly, liquid securities), which may be sold or pledged (as part of repo transactions or using a pawn loan from NBP) in the assumed time horizon. The levels of the modified gap in financial flows and the level of liquid assets as at 30 June 2006 and 31 December 2006 are shown in the tables below:

The liquidity gap as at 30 June 2007 in real terms:

In thousands of PLN	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**More than 1 year**	**More than 2 years**
Assets	5,336,373	306,330	2,452,533	269,134	28,426,100
Equity and liabilities	6,376,178	217,182	1,033,082	247,305	28,916,723
Balance sheet gap in the period	(1,039,805)	89,148	1,419,451	21,829	(490,623)
Off-balance sheet transactions – inflows	11,650,324	6,393,350	9,429,234	1,853,697	4,626,764
Off-balance sheet transactions – outflows	11,679,662	6,500,078	9,340,871	1,774,910	4,681,976
Off-balance sheet gap in the period	(29,338)	(106,728)	88,363	78,787	(55,212)
Cumulative gap	(1,069,143)	(1,086,723)	421,091	521,707	(24,128)

The liquidity gap as at 31December 2006 in real terms:

In thousands of PLN	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**More than 1 year**	**More than 2 years**
Assets	5,458,934	363,842	970,564	94,533	29,382,023
Equity and liabilities	4,241,140	944,312	1,370,351	31,317	29,682,776
Balance sheet gap in the period	1,217,794	(580,470)	(399,787)	63,216	(300,753)
Off-balance sheet transactions – inflows	20,006,340	4,970,988	5,669,392	1,490,991	3,928,360
Off-balance sheet transactions - outflows	19,665,812	4,940,719	5,644,507	1,494,484	4,237,106
Off-balance sheet gap in the period	340,528	30,269	24,885	(3,493)	(308,746)
Cumulative gap	1,558,322	1,008,121	633,219	692,942	83,443

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

In thousands of PLN	**30.06.2007**	**31.12.2006**	**Change**
Liquid assets, including:	11,673,989	10,077,752	1,596,237
- obligatory reserve in NBP and cash surplus	1,547,569	489,459	1,058,110
- debt securities held-for-trade	1,393,852	1,619,402	(225,550)
- debt securities available-for-sale	8,732,568	7,968,891	763,677
Cumulative liquidity gap up to 1 year	421,091	633,219	(212,128)
Coverage of the gap with liquid assets (in %)	Positive gap	Positive gap	Doesn’t apply

The liquidity analyzes relate to the Bank and its leasing subsidiaries. The level of liquidity risk of other entities in the Group is immaterial for the Group as whole. Finance liabilities of the group, by maturity date, are presented below:

As at 30 June 2007:

	Note	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 year	More than 5 year	Interests
Financial liabilities held for trading								
Short positions in financial assets	*18*	296,340	296,340	-	-	-	-	-
Financial liabilities valued at amortized cost								
Deposits from financial sector:	*30*	6,516,186	5,241,886	205,654	1,039,919	6	29	28,692
Including banks	*30*	*2,971,380*	*1,719,448*	*192,154*	*1,032,252*	-	-	*27,526*
Deposits from non-financial sector:	*30*	18,560,015	17,445,942	661,579	358,912	76,500	111	16,971
Other liabilities	*30*	1,001,638	397,536	29,025	42,535	528,532	754	3,256
		26,077,839	**23,085,364**	**896,258**	**1,441,366**	**605,038**	**894**	**48,919**
Financial liabilities held for trading								
Derivative financial instruments	*18*	2,901,009	98,271	100,554	447,946	1,618,927	635,311	-
Unused credit lines liabilities		9,710,188	8,428,348	4,184	217,532	915,256	144,868	-
		38,985,376	**31,908,323**	**1,000,996**	**2,106,844**	**3,139,221**	**781,073**	**48,919**
Gross derivatives		31,379,101	12,245,859	5,660,068	8,712,301	2,154,775	2,606,098	
Inflows		31,399,294	12,247,858	5,662,768	8,733,386	2,135,356	2,619,926	
Outflows		**(20,193)**	**(1,999)**	**(2,700)**	**(21,085)**	**19,419**	**(13,828)**	

As at 31 December 2006:

	Note	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 year	More than 5 year	Interests
Financial liabilities held for trading								
Short positions in financial assets	*18*	278,109	278,109	-	-	-	-	-
Financial liabilities valued at amortized cost								
Deposits from financial sector:	*30*	6,156,952	3,765,404	1,145,260	1,202,028	13	27	44,220
Including banks	*30*	*3,703,487*	*1,399,110*	*1,069,472*	*1,191,820*	-	-	*43,085*
Deposits from non-financial sector:	*30*	18,880,182	17,504,182	833,622	468,332	53,868	448	19,730
Other liabilities	*30*	954,357	432,043	68,658	36,661	409,253	3,931	3,811
		25,991,491	21,701,629	2,047,540	1,707,021	463,134	4,406	67,761
Financial liabilities held for trading								
Derivative financial instruments	***18***	2,635,045	66,065	185,596	374,065	1,401,639	607,680	-
Unused credit lines liabilities		9,177,576	8,196,094	7,085	163,034	651,339	160,024	-
		38,082,221	**30,241,897**	**2,240,221**	**2,244,120**	**2,516,112**	**772,110**	**67,761**
Gross derivatives		35,086,368	19,927,664	5,233,505	4,787,271	2,761,189	2,376,739	
Inflows		34,980,459	19,941,286	5,204,772	4,790,195	2,664,527	2,379,679	
Outflows		**105,909**	**(13,622)**	**28,733**	**(2,924)**	**96,662**	**(2,940)**	

Pricing risk management

Scope of risk

The pricing risk management applies to all portfolios, generating income prone to the negative impact of the market factors, in that interest rates, exchange rates, commodity prices and the parameters of their fluctuations. Two types of portfolios have been defined for the purpose of the pricing risk management, i.e. the trading portfolios and the bank portfolios. The trading portfolios include transactions with financial instruments (namely the balance sheet and off-balance sheet instruments), expected to generate income owing to the change in market parameters over a short time period. The trading portfolios include balance sheet items, in that debt securities provided for trading, i.e. acquired to be further traded and meeting the pre-set liquidity criteria. The trading portfolios further include all derivative instruments positions, broken down into the portfolios acquired purely for trading and the transactions executed in order to provide the economic hedge of the bank portfolio positions. The trading portfolios are evaluated directly at market prices, using the market pricing-based valuation models. Operations with the trading portfolios are done by the Bank's Treasury Division (interest rate risk portfolios and the FX risk portfolios). The bank portfolios include all other balance sheet and off-balance sheet positions not assigned to any of the portfolios. The transactions are executed to realise profit over the entire, contracted transaction period. The Bank's Treasury Division takes over the interest rate risk positions held in the bank portfolios of all other organisational units of the Bank and the leasing company. The mechanism of transfer of the interest rate risk positions is based on the funds transfer price system. The result on the bank portfolios is calculated using the depreciated cost method, discussed in Note 2.

The balance sheet of the Group includes the following assets and liabilities:

- Subject to the fair value risk (interest-rate linked):
    - Fixed rate debt securities and discounting securities, and
    - Fixed rate loans and deposits

- Subject to the cash flow risk (cash flows linked to the interest rate):
    - Floating rate debt securities, and
    - Floating rate loans and deposits

- Not subject to a direct interest rate risk:
    - Fixed assets
    - Capital investments, and
    - Intangible assets

In addition the Group is subjected to the interest rate risk of derivative agreements such as Interest Rate Swaps (IRS), Currency Interest Rate Swaps (CIRS), Forward Rate Agreement (FRA), future contracts, forward and swap FX contracts.

Measurement of the pricing risk of the bank portfolios

The Group typically uses two methods for measuring the pricing risk of the bank portfolios, namely:

- The Interest Rate Exposure (IRE) method, applicable to the entire bank portfolio, and
- The Dollar Value of a Basis Point (DV01) method, applicable to the portfolio of the debt securities available for sale and its economic hedges.

Moreover, we run the stress tests and employ the materialised risk measures, namely the warning thresholds for the value of the unrealised loss on the portfolio of the debt securities available for sale, and the overall result on the bank portfolio that reflect both the posted net income and the estimation of the change in fair value of the bank portfolio using the Value at Close method, applied to the open interest positions.

- The IRE determines the potential change in the interest result of the Group, assuming a parallel upward shift of the currency interest rates by 100 basis points. The positive IRE indicates a potential increase, while the negative IRE evidences the drop of the interest margin if the currency interest rates spiral.

The IRE is calculated separately for each currency position for the ten year span. One year and five years IRE measures are used for the current monitoring and limiting the positions of the interest rate risk of the bank portfolios. The IRE measures are calculated for the Group as a whole and separately for the Treasury Division. The IRE for the whole Group reflects the actual exposure to the interest rates risk, while maintaining the revaluation timescales set out in the contracts with customers (for the transitions, where the revaluation/due dates have been laid down in the underlying contracts), or estimated by the Bank against its proprietary analyses (for the positions with no preset revaluation/due dates). The IRE for the Treasury Division reflects the risk positions transferred by the other members of the Group to that Department, through the agency of the transfer price of funds mechanisms, along with the department's own positions. The changes in IRE re monitored on the daily basis, as is the case with the user of the limits in force. Yet another set of values monitored on the daily basis for the Treasury Division's risk positions are the level of the total return on the bank portfolios, against the changes in the costs of closing of the open interest positions. Warning thresholds have been set for the value of the measure of the total return. The crossing of these thresholds causes the forwarding of the relevant information up the management structure and the managers are required to specify how they intend to go further.

Follow are the IRE measures for the Group valid on 31 December 2006 and 30 June 2007. The list has been broken down into the main currencies, i.e. PLN, USD and EUR, which jointly account for over 90% of the Group's balance sheet.

PLN thousand	**30.06.2007**		**31.12.2006**	
	IRE 12M	IRE 5L	IRE 12M	IRE 5L
PLN	17,557	121,184	21,835	84,119
USD	(4,708)	(13,341)	(6,313)	(6,978)
EUR	(21,658)	(56,551)	(14,294)	(38,204)

The DV01, i.e. the dollar value of a basis point of the portfolio of securities available for sale supplements the IRE control measure applied to the interest rates risk on the Bank's books. This measure shows, how the value of the financial instruments portfolio will change (in this case the instruments will be the securities available for sale) with the change of the interest rate for the particular currency along the certain section of the interest rates curve. The IRE has shown the potential change of the interest rate margin in the future, so the consequence of changes of the interest rates for the Group's financial result will surface in the future periods, as happens with respect to the positions valuated using the depreciated cost method. Yet the impact of the interest rates changes on the value of the portfolio of the securities available for sale shows immediately, however not in the financial result, but in the value of the Group's capital funds, since the unrealised result from the valuation of these securities revises their value.

The operations relating to the securities available for sale within the Group are run by the Asset and Liability Management Office, within the Treasury Division. Three basic goals have been identified of the operations with the portfolio. These are:

- Management of the Group's liquidity;
- Hedging against the risk transferred to the Treasury Division from the other organisational units of the Bank; and
- Opening of own positions of the interest rates risk on the Bank's books by the Treasury Division.

In order to avoid the excessive fluctuations of the value of the Bank's capital funds due to the revaluation of the assets available for sale, the Group has been setting the maximum DV01 position limits for these portfolios. Also, the limits cover positions in the interest rate swap transactions, executed in order to secure the fair value of the portfolio. The Bank transacts within the portfolio of the securities available for sale using three denominations, i.e. PLN, USD and EUR. In principle, the securities denominated in these currencies are issued by the governments of Poland, the United States of America and Germany.
The table below depicts the risk measured with the DV01 for the portfolio of securities available for sale net of the economic hedges, broken down into currency portfolios:

PLN thousand	30.06.2007			31.12.2006			Overall between 01.01.2007 and 30.06.2007		
	Total	Securities	IRS	Total	Securities	IRS	Average	Minimum	Maximum
PLN	(939)	(1,437)	498	(1,621)	(1,784)	163	(1,286)	(1,622)	(915)
USD	(232)	(261)	29	(125)	(157)	33	(188)	(408)	(40)
EUR	(747)	(937)	190	(672)	(846)	174	(880)	(1,041)	(574)

The Group's investments in the debt securities available for sale way the primary factor causing the change in the risk of mismatching the revaluation dates in terms of IRE.

Pricing risk of the trading portfolios

There are certain basic operational measures of the trading portfolios' exposure to the pricing risk, at the level of the individual organisation units and for the Group as a whole. These include the ratio of sensitivity to the change in value of the portfolio of its constituent instruments to the changes in market interest rates, applicable to the interest rates-based instruments (e.g. debt securities, FRA transactions, IRS transactions and CIRS transactions, forward transactions and futures transactions), hence the so-called DV01, and the net value of FX positions and the equities positions as for the instruments subject to the exchange rates risk and the share prices risk. Whichever the case, the value of the exposure to the pertinent risk is calculated in having regard to the change of value in time, i.e. presented as the net current value. The foregoing measures are used to determine the risk position limits, broken down into currencies and the Bank's organisational units. As for the interest rates risk, we use also the warning thresholds for the risk position at different sections of the interest rates curves. The position risk limits are set at the end of the day and monitored on the daily basis.
The Value at Risk (VaR) is the integrated measure of the pricing risk of the trading portfolios, accounting for the effect of the correlation between the fluctuations of the different factors.

At the Bank level we measure the Value at Risk for the preset time of position closing, namely 1 day, and 99% confidence ratio. The warning thresholds of the value at risk are set separately for the exchange rates (FX) risk and the interest rates risk, and combined for the total of these risks.

Each day we run stress tests, with the assumption that the risk factors change by more than expected in the Value at Risk scenario, and neglecting the historic correlations of these factors.

The Bank runs the stress tests for the three basic scenarios, as follows:
- The most likely scenario, based on the historic fluctuations of the risk factors;
- Local financial crisis; and
- Global financial crisis.

On top of the foregoing tools for the limiting and monitoring the pricing risk of the trading portfolios, the Bank uses the following:
- Warning threshold of the monthly cumulated loss on the trading portfolios;
- Aggregate Contracts Triggers;
- Maximum Tenor Trigger; and
- The limits, or warning thresholds of concentration for the types of security, issuer, and issue of debt securities and equities.

Both the DV01 measure and the Value at Risk for the bank portfolio alike are calculated net of the economic hedges of the portfolio of securities available for sale, i.e. net of the interest rate swap executed with a view to hedge the fair value of that portfolio. As discussed earlier in this document, the exposures to the risk of such transactions are catered for in relevant measures and curbed by the bank portfolio risk limits.

The Group run records of exposures of the bank portfolios to the pricing risk in twenty currencies for currency positions, and in eighteen currencies for the exposure to the interest rates risk. These exposures are significant only for a handful of currencies. For a large group of currencies, the exposures are the consequence of the mismatch of the transactions executed upon the customer's request and the closing transactions with other volume transactions counterparties. The significant exposures to the pricing risk are opened for PLN, developed market currencies (predominantly USD and EUR; with a lesser focus on GBP, CHF and JPY) and the Central Europe currencies.

The values of significant exposures of the bank portfolios to the interest rates risk in terms of DV01 net of the exposures derived from the economic hedging of the portfolios of the securities available for sale in 1H 2007 have been listed in the table below:

PLN thousand			**Between 01.01.2007 and 30.06.2007**		
	30.06.2007	**31.12.2006**	**Average**	**Minimum**	**Maximum**
PLN	(32)	10	57	551	(256)
EUR	(104	(17)	(98)	12	(258)
USD	(210)	25	(32)	31	(227)
HUF	(60)	(20)	(26)	37	(108)
CZK	(1)	(1)	14	85	(4)

The marked increase of exposure to the interest rates risk, at the end of June 2007, compared with the 2006 year, and derives primarily from the low exposure level at the end of 2006, itself the consequence of the standard reduction of exposure at the end of each calendar year. Over the period, the Treasury Division which trades financial instruments within the Group was very active in managing exposures to the pricing risk, i.e. by adjusting the volume and direction of these exposures depending on the fluctuating market, which is depicted by the range of these exposures (the minimum and maximum column of the table below).

The table below shows the levels of risk measured using the VaR (net of the economic hedges of the portfolio of securities available for sale) broken down into the FX risk and the interest rate risk positions in 1H 2007:

	30.06.2007	**31.12.2006**	**Between 1.01.2007 and 30.06.2007**		
			Average	**Minimum**	**Maximum**
FX risk	884	347	2,017	8,465	91
Interest rates risk	3,594	2,799	3,142	5,698	1,906
Overall risk	3,733	2,742	4,022	8,948	2,265

In 1H 2007, the overall, average level of the pricing risk of the trading portfolios was slightly higher than in 2006, with a significantly higher maximum risk levels, i.e. PLN 8.9 million, compared with PLN 6.8 million.

The exposure to the FX risk, the interest rates risk and the risk of the issuer of debt securities in DMBH may be assumed only in exceptional circumstances, merited by the considerations of the core business of the Bank.

Capital instruments risk

The Dom Maklerski Banku Handlowego S.A. (DM BH) is the Group's key partner transacting the capital instruments. In order to run its core business, DMBH has been authorised to take up the pricing risk of the trading portfolio of shares, or share rights, traded, or likely to be traded on Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange or WSE), or Centralna Tabela Ofert (Central Bids Table or CTO), WIG20 futures and the Indexed Participation Units, as well as shares on the international stock exchanges of the companies listed on the WSE. The pricing risk of DMBH's instruments portfolios is curbed by the volume limits applicable to specific types of financial instruments and the warning thresholds applicable to the volume of instruments introduced to the market by specific issuers. Moreover, warning thresholds are used for DMBH, alerting on the potential loss for the stress scenarios and the cumulated, realised loss on the trading portfolio. The total volume for capital instruments portfolio increased in the first half of 2007 from PLN 12.7 million to PLN 14.7 million and its average use amounted about 20%.

Currency structure

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

In thousands of PLN	**30.06.2007**	**31.12.2006**
Assets:		
PLN	28,438,372	23,795,070
EUR	4,463,222	4,534,823
USD	3,671,462	7,042,912
GBP	9,959	82,287
CHF	183,548	202,470
Other currencies	23,584	333,173
	36,790,147	**35,990,735**
Liabilities:		
PLN	29,908,772	29,281,940
EUR	3,495,114	3,751,299
USD	2,915,284	2,568,478
GBP	150,495	160,302
CHF	221,172	81,969
Other currencies	99,310	146,747
	36,790,147	**35,990,735**

Credit risk

Credit risk management

The main aim of the Group's credit risk management is to provide a high quality of credit portfolio and security of credit activity by minimizing the risk of incurred losses.

The credit risk is minimized through the Group's regulations, particularly relating to:

- organizational structure, methods of calculation and control of credit risk
- risk policy and credit risk assessment systems
- authorization of credit risk decisions
- setting up collateral
- vindication and restructuring activities
- procedures and credit programs determining credit policy

Corporate & Investment Banking risk management include the following elements:

- Independent position of risk managers, while business managers are also responsible for the quality of loan portfolio

- Each credit decision has to be taken by at least two authorized persons. Larger loans, carrying higher risk, require approval from more senior persons of authority,

- Independent Audit Department regularly inspects all activities related to risk management,

- Each borrower is assigned a rating, based both on financial and quality criteria. Risk ratings help the Group to ensure that the credit portfolio as a whole is at an acceptable risk level,

- Each customer of the Group is assigned to a control unit that manages the relationship with the customer. Where customers are part of a capital group, the risk is managed on a group basis to avoid exceeding concentration limits,

- The Group manages risk concentration within its portfolio with approved limits as well as capital requirements for the portfolio. Credit risk limits are set for individual obligors,

- The Group defined principles for periodic monitoring of customers' results from their activities and identification of negative changes in their standing which require immediate communication to upper level management. This also includes opinions of specialized restructuring units,

The Group defines credit risk guidelines related to products offered to Consumer Banking customers for each of the products, offered separately. Key risk management concepts are presented below:

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

The entire Group follows a uniform, intrinsic system for classification of accounts receivable against preset criteria, crucial when defining the level of charge offs due to the permanent loss of value. To that end, the Group uses its internal ratings based both on the financial and quality criteria alike, referred to the prevailing financial situation and the development perspectives of the industry. Higher value of rating means higher level of receivables risk

The portfolio net of the loss of value has been presented using the internal risk ratings, whereas the accounts payable to customers, with established value loss, have been grouped for presentation purposes into risk categories using internal ratings.

The tables below present exposition of the Group on credit risk.

In tusand PLN	**30.06.2007**		**31.12.2006**	
	Receivables from customers	**Receivables from banks**	**Receivables from customers**	**Receivables from banks**
Receivables valued individually				
Risk category II	44,423	-	28,479	-
Risk category III	188,326	-	560,568	9,491
Risk category IV	998,648	6,327	792,820	-
Gross value	**1,231,397**	**6,327**	**1,381,867**	**9,491**
Impairment	1,030,096	6,327	1,153,549	9,491
Net value	**201,301**	**-**	**228,318**	**-**
Portfolio receivables				
Risk category II	10,099	-	15,991	-
Risk category III	15,806	-	29,537	-
Risk category IV	446,759	-	463,503	-
Gross value	**472,664**	**-**	**509,031**	**-**
Impairment	384,228	-	413,670	-
Net value	**88,436**	**-**	**95,361**	**-**

Receivables without impairment				
Risk rating 1-4	8,724,424	5,887,072	7,556,451	8,831,191
Risk rating 5-6	3,079,277	63,055	2,686,799	50,612
Risk rating 7-8	182,749	-	123,483	-
Gross value	**11,986,450**	**5,950,127**	**10,366,733**	**8,881,803**
Impairment	58,059	481	55,916	81
Net value	**11,928,391**	**5,949,646**	**10,310,817**	**8,881,722**
Total net value	**12,218,128**	**5,949,646**	**10,634,496**	**8,881,722**

In order to define the maximum exposure of the Group to the credit risk, it is necessary to account also for the off-balance sheet exposure (discussed in Note 36), the debt securities available for sale (discussed in Note 19), the financial assets provided for trading (discussed in Note 18) and other assets (discussed in Note 28).

w tys. zł	**30.06.2007**	**31.12.2006**
Incurred but not reported write-off receivables		
Unexpired receivables		
0-30 days	17,918,429	19,226,570
Out of date receivables		
31-90 days	18,088	21,887
91-180 days	60	79
Gross value	**17,936,577**	**19,248,536**

w tys. zł	**30.06.2007**		**31.12.2006**	
	Receivables from customers	**Receivables from banks**	**Receivables from customers**	**Receivables from banks**
Loss impairment valued individually				
Risk category II	3,990	-	8,350	-
Risk category III	142,586	-	433,736	9,491
Risk category IV	883,520	6,327	711,463	-
	1,030,096	**6,327**	**1,153,549**	**9,491**
Portfolio loss impairment			4,147	
Risk category II	2,718	-	13,276	-
Risk category III	7,214	-	396,247	-
Risk category IV	374,296	-		-
	384,228	**-**	**413,670**	**-**
Incurred but not reported write-off loss impairment				
Risk rating 1-4	29,758	14	31,083	77
Risk rating 5-6	20,173	467	18,206	4
Risk rating 7-8	8,128	-	6,627	-
	58,059	**481**	**55,916**	**81**
Total net value	**1,472,383**	**6,808**	**1,623,135**	**9,572**

In line with its lending policy and in order to limit the risk, the Group adopted the following types of hedges for corporate client exposures:

- Security deposit, assignment of rights or blocking the term deposit account;
- Mortgage;
- Transfer of ownership, or registered pledge of tangible assets, treasury securities and other securities admitted, and not-admitted to trading in the regulated market;
- Assignment of accounts receivable; and
- Guaranties and sureties.

The Group accept the following types of security from our retail customers:

- Security deposit;
- Mortgage; and
- Insurance.

The type of security and its value is set in having regard to the borrower's risk rating. The Group monitor the condition of the legal security given by the borrower, assessing the value and quality of the security.

Concentration of exposure - Exposure limits

The Banking Act of 29 August 1997 (Journal of Laws of 2002 No. 72, item 665, as later amended) and its executive regulations issued by the Commission for Banking Supervision define maximum exposure limits for a Group. Under article 71 paragraph 1 of the Act, which came into force as of 1 January 2002, total balance sheet and off-balance sheet exposure from one or more capital and organizationally related entities cannot exceed 20% of the Group's equity when one of the entities is a parent entity or subsidiary undertaking of the Group or is a subsidiary undertaking to a parent entity of the Bank or cannot exceed 25% of the Bank's equity when there is no such relationship between the Bank and the borrower. Pursuant to provisions of the Resolution No. 1/2007 of the Commission for Banking Supervision dated 13 March 2007 regarding specific rules for calculating capital requirements for banking risk categories (…) (NBP Official Journal No. 2, item 3) the Group is allowed to maintain exposure exceeding concentration limits, as defined in article 71 paragraph 1 of the Banking Act, on condition that the excess exposure relates only to transactions classified to trading portfolio. Equity for the purpose of setting concentration limits specified in the Banking Act, has been established in accordance with resolution No. 2/2007 of the Commission for Banking Supervision dated 13 March 2007 regarding specific rules for other reductions for calculating Bank's primary funds (…) (NBP Official Journal No. 3, item 4).

As at 30 June 2007, the Group had an exposure to a related party from the banking sector exceeding the statutory debt concentration limits. The excess exposure arose by virtue of derivative transactions. As a consequence, an additional capital requirement for excess exposure was factored into the calculation of the Group's capital adequacy ratio as at 30 June 2007.

The Group sets out to limit its exposure to a group of customers. As at 30 June 2007, the Group's exposure in banking portfolio transactions with customers, which all-in exceeded 10 % of the Group's equity, amounted to PLN 2,135,485 thousand i.e. 62.2% of these funds (31 December 2006: PLN 2,596,676 thousand i.e. 76.6 %).

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

In M PLN	30.06.2007			31.12.2006		
	Balance Outstanding*	**Off-Balance Outstanding**	**Total Outstanding**	**Balance Outstanding***	**Off-Balance Outstanding**	**Total Outstanding**
Group 1	369,588	140,580	510,168	327,613	144,832	472,445
Group 2	275,369	180,863	456,232	180,299	360,088	540,387
Group 3	11	418,966	418,977	255,437	130,836	386,273
Group 4	120,699	279,409	400,108	241,001	159,164	400,165
Group 5	186,517	163,483	350,000	127,231	302,773	430,004
Group 6	107,850	211,602	319,452	106,960	260,442	367,402
Group 7	66,378	246,922	313,300	71,468	194,543	266,011
Group 8	98,566	212,009	310,575	1,982	105,839	107,821
Group 9	95,561	206,282	301,843	5	309,856	309,861
Group 10	33,043	253,664	286,707	36,440	50,468	86,908
Total	**1,353,582**	**2,313,780**	**3,667,362**	**1,348,436**	**2,018,841**	**3,367,277**

*Excluding outstanding on commercial papers and subsidiaries.

Concentration of exposure in individual industries

To avoid excessive concentration of credit risk, the Group monitors its exposure in individual industry sectors, defining the areas where the Group's exposure should grow and the areas where opportunities for development are poor, and where the exposure should be reduced. In the case of large corporate customers and financial institutions, the divisions of the Bank responsible for its policy concerning exposures to particular sectors are those of the Corporate Bank while the Commercial Bank exercises a similar function with respect to small and medium-sized enterprises and Consumer Bank with respect to micro-companies in CitiBusiness.

The Bank's policy regarding exposures to large corporate customers active in particular sectors is developed through an identification of target markets. A key component in this identification of markets is an assessment of industry risk. To this end, specialists in particular industries carry out industry analyses. Within the framework of the target markets specified, lending programmes are drawn up with documented requirements for approving the risk involved in specific kinds of business. The higher the industry risk, the tighter the criteria for risk approval. The assessment made of the financial condition of a given industry and its development prospects is a major element in the internal rating assigned to a customer.

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

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

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

The target market is then defined as all other industries that have not received an adverse assessment. A selective approach is admissible in relation to specific industries excluded due to sensitivity and volatility factors or to downward performance trends, whereby those customers with the highest internal ratings in those industries are retained.

Given there is a large diversity of customers representing the individual industries, the table below shows aggregated data for the Bank's exposure to the 20 largest industries in particular reporting periods.

Sector of the economy according to Polish Classification of Economic Activity (PKD)	30.06.2007 %	31.12.2006 %
Wholesale and sale on commission basis, except for trade with vehicles and motorcycles	17.4	16.1
Provision of power, gas, steam and hot water	10.2	9.6
Production of food and beverages	7.1	5.8
Production of chemicals	6.1	5.4
Financial intermediation, except for insurance and retirement fund business	5.7	9.9
Postal services and telecommunications	4.4	5.2
Retail trade, except for trade with vehicles and motorcycles; servicing and repair of	3.9	3.7
Production of rubber and plastic goods	3.1	3.2
Construction	3.1	3.7
Production of equipment, otherwise unclassified	2.7	2.7
Top 10 business sectors	***63.7***	***65.3***
Other business services	2.6	2.5
Sale, servicing and repair of vehicles and motorcycles, retail sale of car fuel	2.5	2.1
Non-life Insurance and pension funding	2.4	2.4
Production of metallic goods, except for machines and equipment	2.3	1.6
Production of vehicles, trailers and semi-trailers	2.3	1.9
Production of coke, oil refinery and atomic fuel	2.3	4.0
Land and pipeline transport	2.2	0.9
Production of other transportation equipment	1.6	1.7
Production of tobacco goods	1.6	1.3
Production of goods out of other non-metallic resources	1.5	1.3
Top 20 business sectors	***21.3***	***19.7***
Other sectors	***15.0***	***15.0***
	100.0	***100.0***

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

Gross receivables from customers and banks (by type of activity)

w tys. zł	**30.06.2007**	**31.12.2006**
Gross receivables from economic entity and banks		
Financial	6,126,010	9,106,664
Production	3,669,846	2,781,197
Services	2,860,591	2,414,947
Other	2,872,039	3,194,352
	15,528,486	**17,497,160**
Gross receivables from individuals	**4,118,479**	**3,651,765**
	19,646,965	**21,148,925**

Operational risk

The Group defines the operating risk as the risk inherent to the flawed, or ill-performing internal processes, people, or systems, or the external developments. For a few years, the Group has managed the operating risk using a variety of tools and techniques (including chiefly the self-assessment process, check lists, limits and contingency planning).

All important parts of the operating risk management process, including the organisation structure of management of the operating risk at different levels of the Bank's hierarchy, including the break-down of responsibilities, the system for the operating risk assessment and the reporting and audit system have all been defined in the Policy for the Operating Risk Management.

The quality of the operating risk management is supervised by the Supervisory Board and the Management Board of the Bank.

In monitoring the operating risk, the Management Board is supported by the Risk and the Control and Compliance System Committee. One of the Management Board members has been appointed as responsible for the operating risk management, and a separate organisation unit has been set up, to on-line manage the self-assessment system and ensure correctness of the process of recording the operating loses data. The Group have implemented effective measures that guarantee security of the Bank and the internal processes, the business operations and the data processed. Moreover, the measures concern the actions of the Bank's management team with a view to identify, estimate, measure, monitor and control the risk, and indeed to limit the impact of risks on the Bank's operations and its business. All detected oversights, remedial actions, operational events and operating risk indicators are the subject of regular reports submitted with the relevant Committees. At the same time, the operating risk management process quality (including the self-assessment process) in the respective organisational units of the Group entities are the subject of inspections and assessment carried out by the internal audit.

In adjusting the Bank to meet relevant recommendations of the Basel Committee and the applicable supervisory regulations, the Group has introduced more intense measuring of the operating risk volume. The following categories of risk related losses are the subject of loss assessment:

- Losses caused by human error on the part of the staff;
- Losses resulting from external fraud and theft;
- Losses resulting from failure of systems and/or technologies; and
- Losses resulting from failure of processes or products.

The considerable exposure of the Group to the operating risk is the consequence of the large scale and scope of operations, the number of the Bank products and services, sizeable volume of transactions and the broad variety of the banking services provided through electronic access channels, for the retail customers and corporate clients. In order to limit the risk level, the products and services, prior to their introduction and through their life cycle are analysed in terms of the Bank's exposure to the risks of different categories.

45. Explanation of expanded consolidation scope

Impact of expanded consolidation scope

As at 1 January 2006 the Group has changed the scope of fully consolidated entities by adding Handlowy Investments S.A. – (HISA). 2006 financial results of HISA are material from the point of view of consolidated financial statements of the Group. Until now HISA was accounted for under equity method, due to insignificant impact of the company's financial data on the Group's results. Comparable data for the first half of 2006 were revised as a result of implemented changes.

Consolidated income statement

in thousands of PLN	**Before consolidation**	**Impact of expanded consolidation**	**After consolidation**
Interest and similar income	783,601	-	783,601
Interest expense and similar charges	(275,530)	61	(275,469)
Net interest income	**508,071**	**61**	**508,132**

	Before consolidation	Impact of expanded consolidation	After consolidation
Fee and commission income	376,864	(3)	376,861
Fee and commission expense	(74,433)	-	(74,433)
Net fee and commission income	**302,431**	**(3)**	**302,428**
Dividend income	100	-	100
Net income on financial instruments and revaluation	179,810	(945)	178,865
Net gain on investment (deposit) securities	33,166	-	33,166
Other operating income	59,246	-	59,246
Other operating expenses	(20,439)	-	(20,439)
Net other operating income	**38,807**		**38,807**
General administrative expenses	(681,687)	(109)	(681,796)
Depreciation expense	(66,407)	-	(66,407)
Profit / (loss) on sale of tangible fixed assets	117,289	-	117,289
Net impairment charges	9,634	1,628	11,262
Operating income	**441,214**	**632**	**441,846**
Share in profits / (losses) of undertakings accounted for under the equity method	2,654	-	2,654
Profit before tax	**443,868**	**632**	**444,500**
Income tax expenses	(100,774)	20	(100,754)
Net profit	**343,094**	**652**	**343,746**

Consolidated equity as at 30 June 2006

EQUITY	**Before consolidation**	**Impact of expanded consolidation**	**After consolidation**
in thousands of PLN			
Share capital	522,638	-	522,638
Share premium	3,027,470	-	3,027,470
Revaluation reserve	(204,764)	-	(204,764)
Other reserves	1,336,878	74,092	1,410,970
Retained earnings	315,099	(90,981)	224,118
Total equity	**4,997,321**	**(16,889)**	**4,980,432**

46. Capital adequacy

The capital adequacy ratio of the Group was calculated according to the rules regulating activities of banks in Poland in the relevant reporting period.

Financial data for calculating capital adequacy ratio on the basis of the consolidated financial report of the Group are presented in the table below.

The capital adequacy ratio as at 30 June 2007 was calculated according to the rules stated in the Resolution No. 1/2007 of the Commission for Banking Supervision of 13 March 2007 on the scope and detailed rules of stating capital requirements with respect to particular types of risk (...) (NBP Official Gazette No. 2, item 3 as amended) which was not effective until 1 April 2007. According to the rules stated in the above-mentioned resolution the Group took advantage of transitional period ending 31 December 2007 for calculating credit risk capital requirements for expositions, which are not regulated by the internal ratings-based approach. In this period applying currently existing rules for calculation is allowed. The capital adequacy ration as at 31 December 2006 was calculated according to the rules stated in the Resolution No. 4/2004 of the Commission for Banking Supervision of 8 September 2004 on the scope and detailed rules of stating capital requirements with respect to particular types of risk (...) (NBP Official Gazette No. 15, item 25 as amended).

	30.06.2007	**31.12.2006**
Total capital requirement	2,085,81	1,923,574
Funds held by the entity, including:	3,433,553	3,390,917
Primary funds (including deductions)	3,489,297	3,556,495
Counterpart funds	3,652	(81,501)
Reductions of the total primary and counterpart funds	59,396	84,077
Capital adequacy ratio (%)	13.17%	14.10

47. Statement of the Bank’s Management Board

Accuracy and fairness of the statements presented

To the best knowledge of the Bank’s Management Board, the financial data for the first half of 2007 and the comparative data presented in the “Semi-Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the period from 1 January 2007 to 30 June 2007” were prepared consistently with the accounting standards in force and reflect the accurate, true and fair view of assets and financial position as well as the financial profit or loss of the Bank. The Semi-Annual Report on Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in the first half 2007 contained in this document is a true representation of the development, achievements and situation (together with a description of the main types of risks) of the Group in the first half 2007.

Selection of the entity authorized to examine financial statements

The entity authorized to examine financial statements, reviewing the “Semi-Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the period from 1 January to 30 June 2007” was selected consistently with the legal regulations. This entity along with the registered auditor met the conditions necessary for issuing an impartial and independent opinion on the review, consistently with the respective regulations of the Polish law.

Signatures of all Management Board Members

Date	Name	Position / function	Signature
20.09.2007	Sławomir Sikora	President of the Management Board	
20.09.2007	Michał H. Mrożek	Vice-President of the Management Board	
20.09.2007	Edward Wess	Vice-President of the Management Board	
20.09.2007	Sonia Wędrychowicz-Horbatowska	Vice-President of the Management Board	
20.09.2007	Witold Zieliński	Vice- President of the Management Board	
20.09.2007	Lidia Jabłonowska-Luba	Member of the Management Board	