citi handlowy

The Annual Financial Statements of Bank Handlowy w Warszawie S.A. as at 31 December 2007

March 2008

Selected financial data

	In PLN '000		In EUR '000**	
	End of 2007	**End of 2006**	**End of 2007**	**End of 2006**
Interest income	1,936,192	1,609,874	512,654	412,883
Fee and commission income	794,956	651,227	210,484	167,020
Profit before tax	1,010,024	800,818	267,429	205,385
Net profit	808,168	620,392	213,982	159,112
Increase/decrease of net cash	2,436,826	299,358	680,298	78,137
Total assets	38 008 361	35 095 894	10 610 933	9 160 549
Due to central bank	-	250,113	-	65,283
Financial liabilities valued at amortized cost	27,443,267	25,529,437	7,661,437	6,663,562
Shareholders' equity	5,476,078	5,304,564	1,528,777	1,384,570
Share capital	522,638	522,638	145,907	136,416
Number of shares	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN / EUR)	41.91	40.60	11.70	10.60
Capital adequacy ratio (%)	12.06	13.40	12.06	13.40
Earnings per ordinary share (PLN / EUR)	6.19	4.75	1.64	1.22
Diluted net profit per ordinary share (in PLN)	6.19	4.75	1.64	1.22
Declared or distributed dividends per ordinary share (PLN / EUR)*	-	4.10	-	1.07

* *The presented ratios are related to dividends distributed in 2007 from the appropriation of the 2006 profit. As at the date of this report the Bank's Management Board has not made a decision concerning the amount of dividend for 2007 profit.*
***The following foreign exchange rates were applied to transfer PLN into EUR: for the balance sheet - NBP mid exchange rate as at 31 December 2007- 3.5820 of PLN (as at 31 December 2006: PLN 3.8312); for the income statement -the arithmetic average of month - end NBP exchange rates in 2007 – 3.7768 PLN (in 2006: PLN 3,8991).*

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Income statement

In thousands of PLN	*Note*	**2007**	**2006**
Interest and similar income	*4*	1,936,192	1,609,874
Interest expense and similar charges	*4*	(766,153)	(605,640)
Net interest income	*4*	**1,170,039**	**1,004,234**
Fee and commission income	*5*	794,956	651,227
Fee and commission expense	*5*	(100,707)	(79,129)
Net fee and commission income	*5*	**694,249**	**572,098**
Dividend income	*6*	27,222	34,202
Net trading income and revaluation	*7*	416,834	313,351
Net gain on investment debt securities	*8*	30,086	36,571
Net gain on investment equity instruments	*9*	10,454	44
Other operating income	*10*	97,115	122,837
Other operating expenses	*10*	(34,583)	(33,650)
Net other operating income	*10*	**62,532**	**89,187**
General administrative expenses	*11*	(1,377,561)	(1,333,863)
Depreciation expense	*12*	(107,542)	(129,167)
Profit / (loss) on sale of tangible fixed assets	*13*	598	116,064
Net impairment losses	*14*	83,113	98,097
Profit before tax		**1,010,024**	**800,818**
Income tax expense	*15*	(201,856)	(180,426)
Net profit		**808,168**	**620,392**
Weighted average number of ordinary shares	*16*	130,659,600	130,659,600
Net profit per ordinary share (in PLN)	*16*	6.19	4.75
Diluted net profit per ordinary share (in PLN)	*16*	6.19	4.75

Notes on pages 9-82 are integral parts of financial consolidated statement.

Balance sheet

In thousands of PLN	*Note*	**31.12.2007**	**31.12.2006**
ASSETS			
Cash and balances with central bank	***17***	3,321,503	535,623
Financial assets held for trading	***18***	5,132,265	4,551,094
Debt securities available-for-sale	***19***	6,467,638	8,247,313
Equity investments	***20***	302,321	300,534
Loans and advances	***21***	20,309,005	19,030,974
to financial sector		*8,910,556*	*9,562,908*
to non-financial sector		*11,398,449*	*9,468,066*
Property and equipment	***23***	601,088	626,481
land, buildings and equipment		*576,060*	*617,095*
investment property		*25,028*	*9,386*
Intangible assets	***24***	1,282,811	1,284,883
Deferred income tax assets	***26***	368,497	273,216
Other assets	***27***	210,588	233,237
Non-current assets held-for-sale	***28***	12,645	12,539
Total assets		**38,008,361**	**35,095,894**
LIABILITIES			
Due to central bank		-	250,113
Financial liabilities held for trading	***18***	4,373,146	3,316,847
Financial liabilities valued at amortized cost	***29***	27,443,267	25,529,437
deposits from		*27,001,251*	*24,843,591*
financial sector		*7,243,219*	*6,481,772*
non-financial sector		*19,758,032*	*18,361,819*
other liabilities		*442,016*	*685,846*
Provisions	***30***	35,331	47,023
Income tax liabilities	***26***	93,351	-
Other liabilities	***31***	587,188	647,910
Total liabilities		**32,532,283**	**29,791,330**
EQUITY			
Issued capital	***32***	522,638	522,638
Share premium	***32***	2,944,585	2,944,585
Revaluation reserve	***32***	(182,451)	(81,501)
Other reserves	***32***	1,382,238	1,297,175
Retained earnings		809,068	621,667
Total equity		**5,476,078**	**5,304,564**
Total liabilities and equity		**38,008,361**	**35,095,894**

Notes on pages 9-82 are integral parts of financial consolidated statement.

Statement of changes in equity

In thousands of PLN	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	**Total equity**
Balance as at 1 January 2006	**522,638**	**2,944,585**	**(64,554)**	**1,101,418**	**667,407**	**5,171,494**
Valuation of financial assets available-for-sale	-	-	15,649	-	-	15,649
Transfer of valuation of sold financial assets available-for-sale to profit and loss account	-	-	(36,571)	-	-	(36,571)
Deferred income tax on valuation of financial assets available-for-sale	-	-	3,975	-	-	3,975
Net profit	-	-	-	-	620,392	620,392
Dividends paid	-	-	-	-	(470,375)	(470,375)
Transfers to capital	-		-	195,757	(195,757)	-
Closing balance as at 31 December 2006	**522,638**	**2,944,585**	**(81,501)**	**1,297,175**	**621,667**	**5,304,564**

Statement of changes in equity

In thousands of PLN	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	**Total equity**
Balance as at 1 January 2007	**522,638**	**2,944,585**	**(81,501)**	**1,297,175**	**621,667**	**5,304,564**
Valuation of financial assets available-for-sale	-	-	(91,521)	-	-	(91,521)
Transfer of valuation of sold financial assets available-for-sale to profit and loss account	-	-	(33,109)	-	-	(33,109)
Deferred income tax on valuation of financial assets available-for-sale	-	-	23,680	-	-	23,680
Net profit	-	-	-	-	808,168	808,168
Dividends paid	-	-	-	-	(535,704)	(535,704)
Transfers to capital	-	-	-	85,063	(85,063)	-
Closing balance as at 31 December 2007	**522,638**	**2,944,585**	**(182,451)**	**1,382,238**	**809,068**	**5,476,078**

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Notes on pages 9-82 are integral parts of financial consolidated statement

Statement of cash flows

In thousands of PLN	2007	2006
A. Cash flows from operating activities		
I. Net profit (loss)	**808,168**	**620,392**
II. Adjustments to reconcile net profit or loss to net cash provided by operating activities:	**2,444,198**	**132,366**
Current and deferred tax income, recognised in income statement	201,856	180,426
Amortisation	107,542	129,167
Impairment	(69,003)	(86,842)
Net provisions (recoveries)	(14,110)	(11,255)
Income on sale of investments	(1,175)	(115,449)
Received interest	1,810,951	1,527,330
Retained interest	(776,771)	(587,088)
Other adjustments	(1,088,398)	(842,099)
Cash flows from operating profits before changes in operating assets and liabilities	**170,892**	**194,190**
Increase / decrease in operating assets (excl. cash and cash equivalents)	**(411,422)**	**(2,345,815)**
Increase / decrease in loans and receivables	(1,578,239)	(2,571,874)
Increase / decrease in securities available-for-sale	1,754,958	(1,005,578)
Increase / decrease in equity investments	(1,787)	(16,230)
Increase / decrease in assets held for trading	(592,856)	1,307,818
Increase / decrease in assets available-for-sale	(8,466)	(4,179)
Increase / decrease in other assets	14,968	(55,772)
Increase / decrease in operating liabilities (excl. cash and cash equivalents)	**2,684,728**	**2,283,991**
Increase / decrease in advances from central bank	(250,000)	250,000
Increase / decrease in financial liabilities valued at amortised cost	1,930,982	2,272,149
Increase / decrease in liabilities held for trading	1,056,299	(103,372)
Increase / decrease in other liabilities	(52,553)	(134,786)
Cash flows from operating activities	**3,252,366**	**752,758**
Income taxes (paid) refunded	**(204,274)**	**(141,171)**
III. Net cash flows from operating activities	**3,048,092**	**611,587**
B. Cash flows from investing activities		
Cash payments to acquire tangible assets	(74,924)	(54,774)
Cash receipts from the sale of tangible assets	4,893	6,923
Cash payments to acquire intangible assets	(18,689)	(8,641)
Cash receipts from the sale of intangible assets	-	139
Cash receipts from tangible assets/liabilities available for sale	7,253	174,395
Dividends received	23,215	34,202
Net cash flows from investing activities	**(58,252)**	**152,244**
C. Cash flows from financing activities		
Dividends paid	(535,704)	(470,375)
Inflows from long-term loans from financial sector	28,269	46,108
Repayment of long-term loans from financial sector	(36,466)	(36,610)
Net cash flows from financing activities	**(543,901)**	**(460,877)**
D. Effect of exchange rate changes on cash and cash equivalent	**(9,113)**	**(3,596)**
E. Increase in net cash	**2,436,826**	**299,358**
F. Cash at the beginning of reporting period	**1,304,621**	**1,005,263**
G. Cash at the end of reporting period	**3,741,447**	**1,304,261**

Notes on pages 9-82 are integral parts of financial consolidated statement

Explanatory notes to the financial statements

1. General information about the Issuer

Bank Handlowy w Warszawie S.A. ("the Bank") has its registered office in Warsaw at ul. Senatorska 16, 00-923 Warszawa. The Bank was founded on the strength of a Notarial Deed of 13 April 1870 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 was set up for unspecified period of time.

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

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

The Bank operates on the basis of applicable regulations and its Articles of Association.

The Bank offers a wide range of banking services in domestic and foreign markets for individuals and corporates.

2. Significant accounting policies

Statement of compliance

The annual financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') with respect to the preparation of a parent's separate financial statements 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, consolidated financial statements of Group have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and in respect to matters that are not regulated by the above standards, in accordance with the 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.

The consolidated financial statements were authorised for issue on 13 March 2008.

Basis of preparation

These annual financial statements have been prepared for the period from 1 January 2007 to 31 December 2007. The comparable financial data is presented for the period from 1 January 2006 to 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 annual periods beginning on or after 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 2006. IFRS have been approved by European Union on 21 November 2007 and is effective for reporting periods beginning on 1 January 2009 or after that day.

The Group has not used a possibility of earlier implementing of IFRS 8 and IFRIC 11.

Other standards, amendments to the standards and IFRIC interpretations recently endorsed or awaiting endorsement are either not relevant to the Bank's activity or would not have a material impact on the current year financial statements.

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

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

The estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are 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 presented financial statement the Bank has adopted IFRS 7 "Financial instruments: Information Disclosure" for the first time. IFRS 7 was not effective until 1 January 2007.

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 2006 have been presented, compared with the data previously published in the Financial Statements of Bank Handlowy w Warszawie S.A. for 2006. The changes concerned the manner of grouping and presentation of financial data in selected explanatory notes and have not impacted the balance sheet footing or the financial result of the Bank.

Foreign currency translations

Balance sheet and off balance sheet 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 dates of transactions.

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

For foreign exchanges, the NBP mid exchange rate prevailing at the balance sheet date is applied.

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

in PLN		31 December 2007	31 December 2006
1	USD	2.4350	2.9105
1	CHF	2.1614	2.3842
1	EUR	3.5820	3.8312

Financial assets and financial liabilities

Classification

The Bank classifies its financial instruments into the following categories:

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

In the reporting period, the Bank did not classify assets to investments held to maturity. The Bank classifies financial assets to particular categories on the date of their first recognition.

a) Financial assets or financial liabilities at fair value thought profit and loss

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

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank 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 Bank to this category at the beginning of the period or were not classified in any of the other categories. Selected debt and equity securities are classified to this category.

d) Other financial liabilities

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

Recognition and exclusions

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

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

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

Financial obligations are excluded from the balance sheet when and only when the obligation expired i.e.

the obligation described in the agreement had been fulfilled, written off or expired.

Measurement

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

After initial recognition, the Bank 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 are measured at cost.

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

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

The fair value of shares in companies other than subsidiaries and associates listed in an active market results from their current purchase price. If the market for specific financial assets is inactive (this also applies to not-listed securities), the Bank determines fair value using appropriate valuation techniques.

Derivative instruments

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

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

Hedge accounting

The Bank 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 Bank does not offset and present its financial assets and liabilities on a net basis.

Cash pooling

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

Repurchase and resale agreements Repo / reverse repo transactions

The Bank enters into purchase and sale transactions under agreements to resell and repurchase the same financial assets, so called sell-buy-back and buy-sell-back respectively as well as repo and reverse repo transactions on securities.
Securities sold under repurchase agreements continue to be shown as the Bank's assets and the Bank 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 Bank 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 Bank 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 Bank 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 Bank, the provision for incurred but not recognized credit risk is deducted from credit exposures.

Write-downs for impairment of individually significant assets

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

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

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

Impairment of financial assets valued at cost.

The group of financial assets valued at cost in the financial statements of the Bank 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) and equity investments in subordinated entities valued at purchase price in accordance with IAS 27 (Consolidated and separate Financial Statements). In case of objective evidence of impairment of equity investments the amount of impairment is measured as the difference between the carrying amount of the financial asset and the current value of the estimated future cash flows discounted at the current market rate for similar financial assets. Losses related to impairment of shares and shares in entities other than subordinated entities classified as available-for-sale where the fair value cannot be reliable measured are not reversed though the profit and loss account. When there are impairment losses of equity investments in subordinated entities valued at cost method in accordance with IAS 27, IAS 36 "Impairment of Assets" is applied.

Impairment of assets other than financial assets

The carrying amounts of the Bank's assets, excluding deferred tax assets, are reviewed at each balance sheet date to determine whether there is any evidence of impairment. If so, the asset's recoverable amount is estimated. For goodwill, revaluation write-downs for impairment are recognized if the book value of an asset or of its cash-generating unit exceeds the recoverable amount. Revaluation write-downs for impairment are measured through profit or loss.
In the case of a cash-generating unit, revaluation write-downs for impairment are first deducted from goodwill allocated to such cash-generating units (group of units) and, then reduce proportionally the carrying value of other assets in the unit (group of units).

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 market towards the value of money and the specific risk of a given asset. For assets that do not generate independent cash flows the recoverable amount is determined for a cash-generating unit to which assets belong.

Reversal of impairment losses

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

Equity investments – shares in subordinated entities

Subordinated entities comprise subsidiaries and associates.

Subsidiaries

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

The Bank 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 Bank'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.

Associates

Associates are those entities in which the Bank 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 cost method.

Subsidiaries and associates - recognition and measurement

Investments in subsidiaries and associates in the Bank's separate financial statements are accounted for using the cost method in accordance with IAS 27. The cost method is a method of accounting for an investment whereby the investment is recognized at cost. The Bank recognizes income from the investment only to the extent that the Bank receives distributions from accumulated profits of the investment arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognized as a reduction of the cost of the investment.

Investments: shares in other entities

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

Goodwill

In the financial statements of the Bank, goodwill represents the difference between the cost of the acquisition and the fair value of the Bank's interest in identifiable assets, liabilities and contingent liabilities acquired. Goodwill is included in intangible assets. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortized, but is tested annually for impairment. In respect of associates, goodwill is included in the carrying amount of the investment in the associate.
Profits or losses on the disposal of a subsidiary or an associate include the carrying value of goodwill allocated to the entity sold.
Goodwill resulting from takeovers that occurred before 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 plant 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 plant includes any directly attributable costs of purchasing and bringing the asset into use.

Subsequent expenditure relating to an item of property and equipment is added to the carrying amount of the asset or recognized as a separate asset (where appropriate) only when it is probable that future economic benefits will flow to the Bank 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 2006.

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

Employee benefits

Short-term employee benefits

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

Long-term employee benefits

Under its compensation scheme, the Bank guarantees its employees retirement benefits, which depend on the length of service with the Bank 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 Bank enables its employees to join a pension plan, which is described in detail in Note 41. The Bank 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 related period.

Provisions

A provision is recognized in the balance sheet when the Bank 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 Bank has a detailed and formalized restructuring plan; (ii) the restructuring has already begun or has been publicly announced; (iii) the provision amount can be reliably estimated. The restructuring provision does not include future operating expenses.

Equity

Equity (Tier 1 + Tier 2 capital) is stated at nominal value, with the exception of the revaluation reserve of available-for-sale financial assets that is stated after the effect of deferred income tax.

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

Calculating net income

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

Accruals and prepayments

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

Interest income and interest expenses

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

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

Commission and fee income is generated when the Bank renders financial services to its customers. The Bank 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 integral parts of the effective interest rate are recognized in the income statement adjusted by the calculation of the effective interest rate and are shown in interest income.

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

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

Other operating income and expenses

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

Income tax

Income tax consists of current tax and deferred tax. Income tax is recognized in the income statement, except for taxes related to amounts that are allocated directly to equity.
A deferred tax provision is calculated using the carrying value method by computing temporary differences between the carrying value of assets and liabilities, in the balance sheet, and the tax base of assets and liabilities. In the balance sheet, the Bank 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 taxation liabilities in accordance with the Act.

Segment reporting

A segment is a separate area of the Bank's operations that either distributes goods or renders services in a specific sector environment (business segment) or distributes goods or renders services in a specific economic environment (geographical segment). A segment is exposed to certain risks and derives benefits that are specific only for that segment. The business segment has been adopted as the reporting segment in the Bank since both risks and rates of return result from differences between products. The Bank is managed at the level of two 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 particular segments are measured in accordance with the accounting policies and standards adopted by the Bank.

Non-current assets held-for-sale

Assets or groups of assets together with liabilities directly associated with those assets shall be classified as non-current assets held-for-sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the assets or group of assets must

be available for immediate sale in their present condition and the sale is highly probable, which means that there is a commitment to a plan to sell the assets and an active program to locate a buyer and complete the plan must have been initiated. Further, the assets or group of assets must be actively marketed for the sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.
Non-current assets held-for-sale are measured at the lower of their carrying amount and fair value less costs to sell and are not subject to depreciation.

Accounting estimates and judgments

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 of 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 Bank 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 Bank assesses whether there is objective evidence of impairment of loan exposures. If so, the Bank 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 Bank applies statistical analysis of financial assets in respect of which evidence of impairment has not been identified individually, or in spite of finding the evidence of impairment, the individual assessment of the given asset has not indicated the necessity of recording an impairment write-down.
The Bank uses estimates to determine whether there is objective evidence of impairment and calculate the present value of future cash flows. The methodology and assumptions used to determine the impairment level of loans are regularly reviewed and updated, as required.

Impairment of 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 that was 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 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 present value of future cash flows discounted at the present market rate for similar financial assets.

Impairment of goodwill

The Bank carried out impairment tests of goodwill as at 31 December 2006 and 31 December 2007. 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 Bank estimates the level of the provision related to bonuses granted to employees in the form of Citigroup stock option programs and stock award programs. The amount of the provision is determined on the basis of the methodology described in IFRS 2, using an option pricing model. Determination of the provision amount requires application of estimates relating to the expected level of employee turnover, the expected level of dividends paid by Citigroup and expected option exercise dates.

3. Segment reporting

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

Corporate Bank

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

Consumer Bank

– Within the Consumer Bank segment the Bank 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, the Bank offers cash loans, mortgage loans, 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 are based on the Bank's accounting policies as described in note 2 – significant accounting policies.

The Bank 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 Bank have not been presented by geographical area.

Income statement by business segment for 2007

For the period	2007			2006		
In thousands of PLN	**Corporate Bank**	**Consumer Bank**	**Total**	**Corporate Bank**	**Consumer Bank**	**Total**
Net interest income	499,376	670,663	1,170,039	424,887	579,347	1,004,234
Net fee and commission income	267,560	426,689	694,249	252,512	319,586	572,098
Dividend income	27,205	17	27,222	34,202	-	34,202
Net income on financial instruments and revaluation	383,813	33,021	416,834	277,631	35,720	313,351
Net gain on investment (deposit) securities	30,086	-	30,086	36,571	-	36,571
Net gain on investment (capital) instruments	6,665	3,789	10,454	44	-	44
Other operating income	70,254	(7,722)	62,532	71,914	17,273	89,187
General administrative expenses	(621,627)	(755,934)	(1,377,561)	(637,643)	(696,220)	(1,333,863)
Depreciation expense	(75,415)	(32,127)	(107,542)	(94,280)	(34,887)	(129,167)
Profit/ (loss) on sale of tangible fixed assets	599	(1)	598	102,984	13,080	116,064
Net impairment losses	130,947	(47,834)	83,113	136,628	(38,531)	98,097
Profit before tax	**719,463**	**290,561**	**1,010,024**	**605,450**	**195,368**	**800,818**
Income tax expenses			(201,856)			(180,426)
Net profit			**808,168**			**620,392**

For the period	31.12.2007			31.12.2006		
Assets, including	33,130,604	4,877,757	**38,008,361**	31,267,006	3,828,888	**35,095,894**
Non-current assets held-for-sale	*12,645*	-	*12,645*	*12,539*	-	*12,539*
Liabilities	30,564,575	7,443,786	**38,008,361**	28,930,089	6,165,805	**35,095,894**

4. Net interest income

In thousands of PLN	**2007**	**2006**
Interest and similar income from:		
Central Bank	40,251	14,220
Placements in banks	338,853	249,291
Loans and advances, of which:	1,094,843	908,244
financial sector	*36,326*	*35,707*
non-financial sector	*1,058,517*	*872,537*
Debt securities available-for-sale	386,655	353,455
Debt securities held for trading	75,590	84,644
	1,936,192	**1,609,874**
Interest expense and similar charges for:		
Central Bank	(100)	(9)
Deposits from banks	(127,233)	(108,798)
Deposits from financial sector (excl. banks)	(108,509)	(78,000)
Deposits from non-financial sector	(523,827)	(413,962)
Loans and advances received	(6,484)	(4,871)
	(766,153)	**(605,640)**
	1,170,039	**1,004,234**

Net interest income for 2007 includes interest received on impaired loans, of PLN 18,362 thousand (for the 2006: PLN 30,803 thousand).

5. Net fee and commission income

In thousands of PLN	**2007**	**2006**
Fee and commission income:		
Insurance and investment products (agency)	294,836	202,826
Payment and credit cards	189,491	151,244
Payment services	133,248	123,211
Custody services	97,621	88,972
Cash management	34,785	38,371
Off-balance sheet guarantee liabilities	18,309	18,058
Off-balance sheet financial liabilities	7,855	6,893
Other	18,811	21,652
	794,956	**651,227**
Fee and commission expense:		
Payment and credit cards	(76,565)	(59,817)
Brokers fees	(10,080)	(8,270)
Fees paid to the National Depository for Securities (KDPW)	(10,271)	(5,071)
Other	(3,791)	(5,971)
	(100,707)	**(79,129)**
	694,249	**572,098**

The net commission result for 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 200,239 thousand (for 2006: PLN 163,310 thousand) and commission expenses in amount of PLN 76,565 thousand (for 2006: PLN 59,817 thousand).

6. Dividend income

Dividend income amounted to PLN 27,222 thousand in 2007 (2006: PLN 34,202 thousand) and is related to Bank's equity investments. Total amount of dividends income include dividends received from Bank's subsidiaries: Dom Maklerski Banku Handlowego S.A. – PLN 22,282 thousand (in 2006: PLN 29,061 thousand) and Bank Rozwoju Cukrownictwa S.A. – PLN 933 thousand (in 2006: PLN 1,752 thousand). The remaining amount of dividend was received from entities with minority interest.

7. Net income on financial instruments valued at fair value through profit and loss account

In thousands of PLN	**2007**	**2006**
Net income on financial instruments valued at fair value through profit and loss account from:		
Debt instruments	42,506	29,578
Derivative instruments including:	46,388	(31,816)
Interest rate	*41,504*	*(37,352)*
Equity	*4,687*	*3,661*
Commodity	*197*	*1,875*
	88,894	**(2,238)**
Net profit on foreign exchange		
Net profit on foreign currency derivatives	406,829	546,776
Revaluation	(78,889)	(231,187)
	327,940	**315,589**
	416,834	**313,351**

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

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

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

8. Net gain on investment debt securities

In thousands of PLN	**2007**	**2006**
Profits realized on available-for-sale securities:	34,398	43,654
Losses realized on available-for-sale securities:	(4,312)	(7,083)
	30,086	**36,571**

9. Net gain on investment equity securities

In thousands of PLN	**2007**	**2006**
Profits realized on equity instruments available-for-sale:	**10,454**	**44**

10. Net other operating income

In thousands of PLN	**2007**	**2006**
Other operating income		
Data processing for related parties	61,616	63,062
Settlement of perpetual usufruct right to land	758	6,456
Investment property	156	6,206
Other income related to shares granted by MasterCard	-	6,120
Income from office rent	11,789	5,667
Other	22,796	35,326
	97,115	**122,837**
Other operating expenses		
Provisions for UOKiK dispute	(10,228)	-
Investment property	(3,317)	(7,537)
Vindication expenses	(5,214)	(5,446)
Other	(15,824)	(20,667)
	(34,583)	**(33,650)**
	62,532	**89,187**

11. General administrative expenses

In thousands of PLN	**2007**	**2006**
Staff expenses:		
Remuneration costs, including:	(542,467)	(507,463)
Provisions for retirement benefits	*(14,411)*	*(13,199)*
Perks and rewards including:	(140,980)	(172,496)
Payments related to own equity instruments	*10,261*	*(20,834)*
Rewards for long time employment	*(9,313)*	*(5,764)*
	(683,447)	**(679,959)**
Administrative expenses		
Telecommunication fees and hardware purchases	(179,858)	(174,197)
Building maintenance and rent	(108,313)	(110,192)
Advisory, audit, consulting and other services	(104,348)	(106,342)
Marketing	(72,496)	(54,862)
Transaction costs	(64,952)	(51,230)
Postal services	(28,821)	(27,946)
Training and education	(13,907)	(11,851)
Other expenses	(121,419)	(117,302)
	(694,114)	**(653,904)**
	(1,377,561)	**(1,333,863)**

Staff expenses in 2007 include PLN 13,512 thousand of remuneration and bonuses paid and payable to current and former members of the Management Board (in 2006: PLN 17,092 thousands).

12. Depreciation expense

In thousands of PLN	**2007**	**2006**
Property and equipment	(86,843)	(95,248)
Intangible assets	(20,699)	(33,919)
	(107,542)	**(129,167)**

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

In thousands of PLN	2007	2006
Profits on:		
Fixed assets held-for-sale*	-	114,129
Investments in subordinated entities	177	1,017
Other fixed assets	1,836	1,489
	2,013	**116,635**
Losses on:		
Fixed assets held-for-sale*	(1,137)	(317)
Other fixed assets	(278)	(254)
	(1,415)	**(571)**
	598	**116,064**

*Refers to fixed assets classified as at 31 December 2005 as held-for-sale and sold in presented periods (see Note 28)

14. Net impairment losses

Net impairment write-downs of financial assets

In thousands of PLN	2007	2006
Impairment write-downs:		
Equity investments	(15,008)	(2,338)
Loans and receivables valued at amortized cost	(350,054)	(570,301)
Other	(19,609)	(47,547)
	(384,671)	**(620,186)**
Reversals of impairment write-downs:		
Equity investments	33,082	4,529
Loans and receivables valued at amortized cost	419,232	698,466
Other	1,360	4,033
	453,674	**707,028**
	69,003	**86,842**

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

In thousands of PLN	2007	2006
Charges to provisions for off-balance sheet commitments	(60,353)	(85,173)
Releases of provisions for off-balance sheet commitments	74,463	96,428
	14,110	**11,255**
Net impairment losses	**83,113**	**98,097**

15. Income tax expense

Recognized in the income statement

In thousands of PLN	2007	2006
Current tax		
Current year	(298,313)	(131,376)
Adjustments for prior years	8,857	(350)
	(289 456)	**(131,726)**

In thousands of PLN	**2007**	**2006**
Deferred tax		
Origination and reversal of temporary differences	87,952	(47,272)
Movement in receivables arising from tax deductions	(352)	(1,428)
	87,600	**(48,700)**
Total income tax expense in income statement	**(201,856)**	**(180,426)**

Reconciliation of effective tax rate

In thousands of PLN	**2007**	**2006**
Profit before tax	1,010,024	800,818
Income tax at the domestic corporation tax rate at 19%	(191,905)	(152,155)
Non-deductible expenses	(16,765)	(31,870)
Deductible income not in income statement	(307)	(1,063)
Non taxable income	5,172	6,498
Other	1,949	(1,836)
Total tax expenses	**(201,856)**	**(180,426)**
Effective tax rate	**20%**	**23%**

Deferred tax recognised directly in equity as at 31 December 2007 is related to debt and capital instruments available-for-sale and amounted to PLN 42,797thousands (31 December 2006: PLN 19,118 thousands).

16. Earnings per share

As at 31 December 2007 earnings per share amounted to 6.19 PLN (31 December 2006: PLN 4.75).
The calculation of earnings per share at 31 December 2007 was based on profit attributable to ordinary shareholders of PLN 808,168 thousand (31 December 2006: PLN 620,392 thousand) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2007 of 130,659,600 (31 December 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	**31.12.2007**	**31.12.2006**
Cash at hand	395,549	366,211
Current balances with central bank	2,925,954	169,412
	3,321,503	**535,623**

On the current account in the National Bank of Poland (NBP), the Bank maintains an obligatory reserve with the declared balance as at 31 December 2007 of PLN 869,304 thousand (31 December 2006: PLN 756,858 thousand). The Bank may use the obligatory reserve provided that the sum of the average monthly balance on the current account in NBP is not lower than the declared balance.

18. Financial assets and liabilities held for trading

In thousands of PLN	**31.12.2007**	**31.12.2006**
Financial assets held for trading		
Debt securities		
Bonds and notes issued by:		
Banks	-	84,368
Financial sector	50,771	43,834
Non-financial sector	70,847	54,476
Government	916,555	1,353,377
Other debt securities issued by:		
Banks	85,883	41,311
	1,124,056	**1,577,366**
Including:		
Listed	*915,891*	*1,353,177*
Unlisted	*208,165*	*224,189*
Derivative financial instruments	**4,008,209**	**2,973,728**
	5,132,265	**4,551,094**

Debt securities held for trading (maturity)	**31.12.2007**	**31.12.2006**
In thousands of PLN		
up to 1 month	4,598	32,234
1 month- 3 months	108,804	156,559
3 months- 1 year	88,516	185,929
1 year- 5 years	250,381	602,736
over 5 years	671,757	599,908
	1,124,056	**1,577,366**

Financial liabilities held for trading		
Short positions in financial assets	34,932	278,109
Derivative financial instruments	4,338,214	3,038,738
	4,373,146	**3,316,847**

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

Derivative financial instruments as at 31 December 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	**12,975,579**	**190,584,210**	**208,960,554**	**52,547,416**	**465,067,759**	**2,841,706**	**3,152,736**
FRA-purchase	-	67,438,340	23,621,000	-	91,059,340	160,812	24,143
FRA-sale	-	66,632,380	27,250,000	-	93,882,380	14,063	188,464
Interest rate swaps (IRS)	12,110,230	52,631,300	156,068,847	48,747,574	269,557,951	2,336,848	2,535,774
Currency- interest rate swaps (CIRS)	183,183	1,462,465	1,803,170	2,299,842	5,748,660	319,326	396,239
Interest rate options purchased	-	100,000	50,000	750,000	900,000	6,412	-
Interest rate options sold	-	100,000	50,000	750,000	900,000	-	6,417
Future contracts-purchase*	95,537	1,876,835	-	-	1,972,372	4,225	1,518
Future contracts-sale*	586,629	342,890	117,537	-	1,047,056	20	181
Currency instruments	**33,244,381**	**22,548,321**	**5,174,028**	**613,228**	**61,579,958**	**1,152,436**	**1,172,230**
FX forward	6,127,526	5,576,040	542,844	302,814	12,549,224	195,399	420,746
FX swap	15,478,832	5,751,616	197,539	-	21,427,987	626,750	423,692
Foreign exchange options purchased	5,739,636	5,548,032	2,183,571	146,884	13,618,123	312,749	17,537
Foreign exchange options sold	5,898,387	5,672,633	2,250,074	163,530	13,984,624	17,538	310,255
Securities transactions	**140,306**	**1,404**	**102,806**	**-**	**244,516**	**8,025**	**7,206**
Share options (purchase)	-	702	51,403	-	52,105	3,720	3,311
Share options (sale)	-	702	51,403	-	52,105	3,311	3,720
Securities purchased pending delivery	93,589	-	-	-	93,589	504	75
Securities sold pending delivery	46,717	-	-	-	46,717	490	100
Commodity transactions	**-**	**43,260**	**32,164**	**-**	**75,424**	**6,042**	**6,042**
Swaps	-	12,882	13,208	-	26,090	2,873	2,873
Purchase options	-	15,189	9,478	-	24,667	3,169	-
Sold options	-	15,189	9,478	-	24,667	-	3,169
Derivative instruments total	**46,360,266**	**213,177,195**	**214,269,552**	**53,160,644**	**526,967,657**	**4,008,209**	**4,338,214**

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

	Weighted average contracted exchange rates		**Notional amount**	
In thousands of PLN	**31.12.2007**	**31.12.2006**	**31.12.2007**	**31.12.2006**
Buy Euro				
Less than three months	3.7729	3.9438	9,510,016	3,510,777
Between three months and one year	3.7351	3.9961	8,756,471	2,789,323
More than one year	3.7478	3.9239	2,172,671	633,090
Sell Euro				
Less than three months	3.7110	3.9028	12,190,066	4,541,265
Between three months and one year	3.6762	3.9694	7,780,681	3,120,562
More than one year	3.7279	3.9195	1,853,468	487,578
Buy US Dollars				
Less than three months	2.5844	2.9581	6,272,420	8,925,606
Between three months and one year	2.7148	3.0706	3,132,427	2,547,342
More than one year	2.7516	2.8704	1,144,284	410,142
Sell US Dollars				
Less than three months	2.5587	2.9483	8,065,961	12,868,304
Between three months and one year	2.7710	3.0562	3,359,748	2,813,338
More than one year	2.7376	2.8685	922,329	402,183
Buy Switzerland Franc				
Less than three months	2.1985	2.3869	6,484	103,475
Sell Switzerland Franc				
Less than three months	2.1564	2.3857	18,178	219,585
Buy Pound Sterling				
Less than three months	5.4832	5.7153	64,519	91,303
Between three months and one year	5.5551	5.8512	86,060	4,394
More than one year	5.7650	-	26,292	
Sell Pound Sterling				
Less than three months	5.2544	5.7129	45,498	1,256
Between three months and one year	5.7292	-	43,385	-
More than one year	5.7650	-	26,292	-

19. Debt securities available-for-sale

In thousands of PLN	**31.12.2007**	**31.12.2006**
Bonds and notes issued by:		
Central bank	377,428	378,413
Non-financial sector	88,135	-
Government	6,002,075	7,868,900
	6,467,638	**8,247,313**
Including:		
Listed instruments	*5,933,705*	*7,795,947*
Unlisted instruments	*533,933*	*451,366*

Debt securities available-for-sale (maturity)

In thousands of PLN		
up to 1 month	4,994	16,996
1 month- 3 months	-	12,887
3 months- 1 year	602,493	399,147
1 year- 5 years	2,761,921	5,030,034
over 5 years	3,098,230	2,788,249
	6,467,638	**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 bearing interest calculated according to the interest rate established on the basis of the profitability of 52-week T-bills.

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

In thousands of PLN	**2007**	**2006**
As at 1 January	**8,247,313**	**7,171,157**
Increases (in respect of)		
Purchases	113,732,927	91,359,979
Amortisation of discount, premium and interest	95,641	142,082
Decreases (in respect of)		
Purchases	(115,121,563)	(90,209,113)
Revaluation	(116,619)	(28,885)
FX differences	(306,985)	(149,215)
Amortisation of discount, premium and interest	(63,076)	(38,692)
As at 31 December	**6,467,638**	**8,247,313**

20. Equity investments

In thousands of PLN	**31.12.2007**	**31.12.2006**
Stocks and shares in subordinated entities	340,392	342,748
Stocks and shares in other entities	55,718	67,669
Impairment	(93,789)	(109,883)
	302,321	**300,534**
Including:		
Listed instruments	*-*	*14,046*
Unlisted instruments	*302,321*	*286,488*

The movement in equity investments is as follows:

In thousands of PLN	**Subordinated entities**	**Other entities**	**Total**
As at 1 January 2006	**263,699**	**20,605**	**284,304**
Increases (in respect of)			
Purchases	-	3,160	3,160
Revaluation	4,529	8,011	12,540
Conversion of debt in shares	-	3,689	3,689
Decreases (in respect of)			
Purchases	-	(6)	(6)
Revaluation	(2,338)	(814)	(3,152)
FX differences	(1)	-	(1)
As at 31 December 2006	**265,889**	**34,645**	**300,534**

In thousands of PLN	**Subordinated entities**	**Other entities**	**Total**
As at 1 January 2007	**265,889**	**34,645**	**300,534**
Increases (in respect of)			
Purchases	-	2,909	2,909
Revaluation	33,082	-	33,082
Decreases (in respect of)			
Sales	-	(14,046)	(14,046)
Revaluation	(15,008)	(2,909)	(17,917)
FX differences	(2,241)	-	(2,241)
As at 31 December 2007	**281,722**	**20,599**	**302,321**

Financial information on subordinated entities
31.12.2007

In thousands of PLN

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	97.47	120,000	1,132,166	920,799	211,367	77,068	13,172
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary undertaking	100.00	70,950	438,055	338,130	99,925	108,017	18,993
PPH SPOMASZ Sp. z o.o. under liquidation	Warsaw	-	Subsidiary undertaking	100.00	9,442	Entity under liquidation				
BANK ROZWOJU CUKROWNICTWA S.A.	Poznań	Banking	Subsidiary undertaking	100.00	40,255	40,084	450	39,634	1,563	466
HANDLOWY- INVESTMENTS S.A. 1/	Luxembourg	Investment activity	Subsidiary undertaking	100.00	25,570	28,735	86	28,649	39,813	33,592
HANDLOWY - INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	80.97	7,434	7,513	238	7,275	106	(249)
HANDLOWY INWESTYCJE Sp. z o.o. 2/	Warsaw	Investment activity	Subsidiary undertaking	100.00	8,070	19,103	7,892	11,211	824	376
Total					**281,721**	**1,665,656**	**1,267,595**	**398,061**	**227,391**	**66,350**

The financial data of individual entities available at the time of preparation of these statements and originating from non-audited financial statements of the respective entities were presented

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	1,428	7,513	238	7,275	106	(249)

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	1,132,166	920,799	211,367	77,068	13,172

The financial data of individual entities available at the time of preparation of these statements and originating from non-audited financial statements of the respective entities were presented

Financial information on subordinated entities
31.12.2006

In thousands of PLN

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	97.47	120,000	785,080	586,883	198,197	60,557	24,279
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary undertaking	100.00	70,950	929,457	826,244	103,213	85,275	24,219
PPH SPOMASZ Sp. z o.o. w likwidacji	Warsaw	-	Subsidiary undertaking	100.00	9,442	Entity under liquidation				
BANK ROZWOJU CUKROWNICTWA S.A.	Poznań	Banking	Subsidiary undertaking	100.00	40,255	40,590	489	40,101	2,239	1,037
HANDLOWY- INVESTMENTS S.A. [1/]	Luxembourg	Investment activity	Subsidiary undertaking	100.00	-	44,878	47,553	(2,675)	96,169	49,443
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	18,971	4,897	14,074	8,558	8,431
Total					**265,889**	**1,852,519**	**1,487,916**	**361,114**	**255,399**	**108,984**

The above presented financial data which was available at the time of preparation of the Bank's financial statement come from the audited financial statements except for HANDLOWY- INVESTMENTS S.A., HANDLOWY - INVESTMENTS II S.a.r.l. and PPH Spomasz Sp. z o.o. (Entity under liquidation)

The explanation of indirect relationships:

1/ Indirect relationship via Handlowy Investment 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 above presented financial data which was available at the time of preparation of the Bank's financial statement come from the audited financial statements except for HANDLOWY- INVESTMENTS S.A., HANDLOWY - INVESTMENTS II S.a.r.l. and PPH Spomasz Sp. z o.o. (Entity under liquidation)

21. Loans and advances

Loans and advances (by category)

In thousands of PLN	**31.12.2007**	**31.12.2006**
Loans and advances to financial sector:		
Current accounts of banks	419,944	768,998
Loans, placements and advances, including:	8,480,239	8,540,214
placements in banks	*7,394,904*	*7,769,726*
Purchased receivables	24,311	45,918
Realised guarantees	205	245
Receivables subject to securities sale and repurchase agreements	57,097	302,405
Other receivables	5,248	3,589
	8,987,044	9,661,369
Impairment write-offs	(76,488)	(98,461)
	8,910,556	**9,562,908**
Loans and advances to non-financial sector:		
Loans and advances	12,392,630	10,667,940
Purchased receivables	282,773	234,666
Realised guarantees	45,472	50,720
Other receivables	4,663	1,491
	12,725,538	10,954,817
Impairment write-offs	(1,327,089)	(1,486,751)
	11,398,449	**9,468,066**
Loans and other receivables	**20,309,005**	**19,030,974**

Loans and advances - gross (by time to maturity)

In thousands of PLN	**31.12.2007**	**31.12.2006**
Loans and advances to financial sector:		
up to 1 month	3,583,093	7,194,704
1 month- 3 months	2,304,351	456,079
3 months- 1 year	2,232,741	1,100,478
1 year- 5 years	808,983	793,509
over 5 years	57,876	116,599
	8,987,044	**9,661,369**
Loans and advances to non-financial sector:		
up to 1 month	7,506,954	6,596,319
1 month- 3 months	679,764	694,672
3 months- 1 year	1,208,487	1,116,905
1 year- 5 years	2,992,803	2,413,086
over 5 years	337,530	133,835
	12,725,538	**10,954,817**
Loans and advances - gross	**21,712,582**	**20,616,186**

The Bank does not act as a lessor under finance leases

22. Impairment of loans and advances

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

In thousands of PLN	2007	2006
As at 1 January	**1,585,212**	**1,840,298**
Related to:		
Receivables from banks	9,572	11,332
Receivables from other customers of financial and non-financial sector	1,575,640	1,828,966
Change of impairment write downs	(181,635)	(255,086)
Charges	350,054	570,301
Write-offs	(173,569)	(175,114)
Amounts released	(419,232)	(698,466)
Other	61,112	48,193
As at 31 December	**1,403,577**	**1,585,212**
Related to:		
Receivables from banks	1,886	9,572
Receivables from other customers of financial, non-financial	1,401,691	1,575,640

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

In thousands of PLN	31.12.2007	31.12.2006
Portfolio impairment loss	361,517	383,236
Individual impairment loss	993,062	1,143,410
Incurred but not reported losses	48,998	58,566

23. Property and equipment

Land, buildings and equipment

In thousands of PLN	Land, and buildings	Vehicles	Other	Under construction	Total
Gross amount					
Balance as at 1 January 2006	**729,933**	**60,841**	**666,714**	**4,801**	**1,462,289**
Additions:					
Purchases	636	514	18,936	34,688	54,774
Transfer from investment property	-	-	-	18,000	18,000
Other increases	-	-	2,179	-	2,179
Disposals:					
Disposals	-	(11,044)	(6,489)	-	(17,533)
Classified as “Non-current assets held-for-sale” (see Note 28)	(4,932)	-	-	-	(4,932)
Reclassification	15,968	10,233	7,402	(36,002)	(2,399)
Other decreases	(4,986)	(127)	(24,983)	-	(30,096)
Balance as at 31 December 2006	**736,619**	**60,417**	**663,759**	**21,487**	**1,482,282**

In thousands of PLN	Land, and buildings	Vehicles	Other	Under construction	Total
Balance as at 1 January 2007	**736,619**	**60,417**	**663,759**	**21,487**	**1,482,282**
Additions:					
Purchases	1,556	-	26,937	46,431	74,924
Other increases	-	-	7,135	-	7,135
Disposals:	-	-		-	
Disposals	(179)	(14,084)	(3,851)	-	(18 114)
Classified as "Non-current assets held-for-sale" (see Note 28)	(12,404)	-	(60)	(18,144)	(30,608)
Other decreases	(5,995)	(56)	(106,942)	-	(112,993)
Reclassification	13 643	19 344	7 952	(43 374)	(2,435)
Balance as at 31 December 2007	**733,240**	**65,621**	**594,930**	**6,400**	**1,400,191**
Depreciation and amortization					
Balance as at 1 January 2006	**218,640**	**24,906**	**570,106**	**-**	**813,652**
Increases:					
Depreciation charge for the period	37,829	11,572	45,847	-	95,248
Other increases	-	-	1,346	-	1,346
Decreases:					
Disposals	-	(9,971)	(6,590)	-	(16,561)
Classified as "Non-current assets held-for-sale" (see Note 28)	(752)	-	-	-	(752)
Other decreases	(3,462)	(39)	(24,245)	-	(27,746)
Balance as at 31 December 2006	**252,255**	**26,468**	**586,464**	**-**	**865,187**
Balance as at 1 January 2007	**252,255**	**26,468**	**586,464**	**-**	**865,187**
Increases:					
Depreciation charge for the year	31,901	12,386	42,555	-	86,842
Other increases	-	-	3,553	-	3,553
Decreases:					
Disposals	(179)	(11,493)	(3,832)	-	(15,504)
Classified as Investment properties	(4,005)	-	(11)	-	(4,016)
Other decreases	(5,404)	(20)	(106,507)	-	(111,931)
Balance at 31 December 2007	**274,568**	**27,341**	**522,222**	**-**	**824,131**
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	509,840	35,935	96,370	4,801	646,946
As at 31 December 2006	484,364	33,949	77,295	21,487	617,095
As at 1 January 2007	484,364	33,949	77,295	21,487	617,095
As at 31 December 2007	458,672	38,280	72,708	6,400	576,060

Investment properties

In thousands of PLN	2007	2006
As at 1 January	**9,386**	**40,948**
Increases:		
Reclassified form Bank's properties	26,592	-
Revaluation	-	711
Decreases:		
Disposals	(920)	(14,273)
Classified as Bank's properties	-	(18,000)
Classify as tangible assets held for sale	(8,466)	-
Revaluation	(1,564)	-
Balance as at 31 December	**25 028**	**9,386**

24. Intangible assets

In thousands of PLN	Goodwill	Patents and trademarks	Software	Other intangible assets	Prepayments	Total
Gross amount						
Balance as at 1 January 2006	**1,245,976**	**740**	**217,875**	**18,242**	**2,100**	**1,484,933**
Additions:						
Purchases	-	-	6,666	-	1,976	8,642
Disposals:						
Reclassification	-	-	459	-	(3,722)	(3,263)
Balance as at 31 December 2006	**1,245,976**	**740**	**225,000**	**18,242**	**354**	**1,490,312**
Balance as at 1 January 2007	**1,245,976**	**740**	**225,000**	**18,242**	**354**	**1,490,312**
Additions:						
Purchases	-	-	8,144	-	10,545	18,689
Disposals:						
Reclassification	-	-	5,468	-	(5,530)	(62)
Balance as at 31 December 2007	**1,245,976**	**740**	**238,612**	**18,242**	**5,369**	**1,508,939**
Depreciation and amortization						
Balance as at 1 January 2006	**-**	**650**	**165,852**	**5,013**	**-**	**171,515**
Increases:						
Depreciation charge for the period	-	90	27,145	6,684	-	33,919
Decreases:						
Disposals	-	-	(5)	-	-	(5)
Balance as at 31 December 2006	**-**	**740**	**192,992**	**11,697**	**-**	**205,429**
Balance as at 1 January 2007	**-**	**740**	**192,992**	**11,697**	**-**	**205,429**
Increases:						
Depreciation charge for the period	-	-	17,940	2,759	-	20,699
Balance as at 31 December 2007	**-**	**740**	**210,932**	**14,456**	**-**	**226,128**
Carrying amounts						
As at 1 January 2006	1,245,976	90	52,023	13,229	2,100	1,313,418
As at 31 December 2006	1,245,976	-	32,008	6,545	354	1,284,883
As at 1 January 2007	1,245,976	-	32,008	6,545	354	1,284,883
As at 31 December 2007	1,245,976	-	27,680	3,786	5,369	1,282,811

As at 31 December 2007, goodwill includes the amount of PLN 1,243,645 thousand arising from the merger of Bank Handlowy w Warszawie S.A. and Citibank (Poland) S.A. as at 28 February 2001 and the amount of PLN 2,331 thousand as a result of the purchase of an organized part of enterprise from ABN AMRO Bank (Poland) S.A. as at 1 March 2005.

25. Impairment test for goodwill

For the purpose of carrying out impairment tests, goodwill has been allocated to two cash generating units: Corporate Bank and Consumer Bank. For both units the allocated goodwill is significant in comparison to the total book value of goodwill.
The allocation of goodwill to cash generating units is presented in the table below.

Book value of goodwill allocated to unit:

In thousands of PLN

Corporate Bank	851,944
Consumer Bank	394,032
	1,245,976

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

The discount rate, which is equivalent to the required rate of return, has been used in the valuation. The required rate of return is assessed on the basis of the capital assets pricing model using a beta coefficient for the banking sector, return on WIG index and Treasury bond yield curves. In 2007 the discount rate amounted to 14.0% (in 2006: 11.6%)

Extrapolation of cash flows, which exceed the five-year period covered by the financial plan, has been based on growth rates reflecting the long-term NBP inflation target that amounted to 2.5 pp as at 31 December 2007.

The applied growth rates do not exceed the long-term average growth rates appropriate to the corporate and retail banking sector in Poland.

The Bank's Management Board believes that reasonable and possible changes in the key assumptions adopted in the valuation of the recoverable amounts of cash - generating units, would not cause their book value to exceed their recoverable amount.

26. Income tax assets and liabilities

In thousands of PLN	**31.12.2007**	**31.12.2006**
Income tax assets*		
Current tax	-	16,351
Deferred tax	368,497	256,865
	368,497	**273,216**
Income tax liabilities*		
Current tax	**93,351**	**-**

* Deferred income tax assets and liabilities are shown in total in the balance sheet.

Positive and negative taxable and deductible temporary differences are presented below

Deferred tax assets are attributable to the following:

In thousands of PLN	**31.12.2007**	**31.12.2006**
Interest accrued and other expense	13,294	15,368
Loan loss provisions	91,538	106,118
Subordinated loans provisions	-	547
Unrealised premium	12,389	7,346
Unrealised financial instruments valuation expenses	532,562	637,696
Negative valuation of securities	4,215	683
Income collected in advance	17,299	26,339
Valuation of shares	7,444	6,891
Commissions	5,333	5,666
Debt securities available-for-sale	42,797	19,118
Unrealized cost related to asymmetric transaction	156,767	74,258
Staff expenses and other cost due to pay	61,838	53,707
Other	19,980	21,900
Deferred tax assets	**965,456**	**975,637**

Deferred tax liability is attributable to the following:

In thousands of PLN	**31.12.2007**	**31.12.2006**
Interest accrued (income)	71,180	63,509
Unrealised premium from options	475	133
Unrealised financial instruments valuation income	482,766	618,827
Unrealised securities discount	319	910
Incomes to receive	8,406	6,124
Positive valuation of securities	3,719	428
Investment relief	21,706	22,377
Other	8,388	6,464
Deferred tax liability	**596,959**	**718,772**

Movement in temporary differences during the year

In thousands of PLN	**Balance 31 December 2005**	**Adjustments recognised in income**	**Recognised in equity**	**Balance 31 December 2006**
Interest accrued and other expense	11,755	3,613	-	15,368
Loan loss provisions	158,101	(51,983)	-	106,118
Subordinated loans provisions	17,267	(16,720)	-	547
Unrealised premium	5,007	2,339	-	7,346
Unrealised financial instruments valuation	652,524	(14,828)	-	637,696
Negative valuation of securities	351	332		683
Income collected in advance	21,467	4,872	-	26,339
Valuation of shares	7,846	(955)	-	6 891
Commission	6,955	(1,289)	-	5,666
Debt securities available-for-sale	15,142	-	3,976	19,118
Unrealized cost related to asymmetric	114,418	(40,160)	-	74,258
Staff expenses and other cost due to pay	46,971	6,736	-	53,707
Other	20,564	1,336	-	21,900
	1,078,368	**(106,707)**	**3,976**	**975,637**

In thousands of PLN	Balance 31 December 2005	Adjustments recognised in income	Balance 31 December 2006
Interest accrued (income)	67,922	(4,413)	63,509
Unrealised premium from options	381	(248)	133
Unrealised financial instruments valuation income	672,976	(54,149)	618,827
Unrealised securities discount	380	530	910
Incomes to receive	3,541	2,583	6,124
Positive valuation of securities	465	(37)	428
Investment relief	23,054	(677)	22,377
Other	8,532	(2,068)	6,464
	777,251	**(58,479)**	**718,772**

In thousands of PLN	Balance 31 December 2006	Adjustments recognised in income	Recognised in equity	Balance 31 December 2007
Interest accrued and other expense	15,368	(2,074)	-	13,294
Loan loss provisions	106,118	(14,580)	-	91,538
Subordinated loans provisions	547	(547)	-	-
Unrealised premium	7,346	5,043	-	12,389
Unrealised instruments valuation expenses	637,696	(105,134)	-	532,562
Negative valuation of securities	683	3,532	-	4,215
Income collected in advance	26,339	(9,040)	-	17,299
Valuation of shares	6,891	553	-	7,444
Commission	5,666	(333)	-	5,333
Debt securities available-for-sale	19,118	-	23,679	42,797
Unrealized cost related to asymmetric transactions	74,258	82,509	-	156,767
Staff expenses and other cost due to pay	53,707	8,131	-	61,838
Other	21,900	(1,920)	-	19,980
	975,637	**(33,860)**	**23,679**	**965,456**

In thousands of PLN	Balance 31 December 2006	Adjustments recognised in income	Balance 31 December 2007
Interest accrued (income)	63,509	7,671	71,180
Unrealised premium from options	133	342	475
Unrealised instruments valuation income	618,827	(136,061)	482,766
Unrealised securities discount	910	(591)	319
Incomes to receive	6,124	2,282	8,406
Positive valuation of securities	428	3,291	3,719
Investment relief	22,377	(671)	21,706
Other	6,464	1,924	8,388
	718,772	**(121,813)**	**596,959**

27. Other assets

In thousands of PLN	31.12.2007	31.12.2006
Interbank settlements	23,321	20,259
Accounts receivable	60,417	58,932
Staff loans out of the Social Fund	29,405	32,723
Sundry debtors	81,310	74,634
Prepayments	16,107	46,519
Other assets	28	170
	210,588	**233,237**

28. Non-current assets held-for-sale

In thousands of PLN	31.12.2007	31.12.2006
Holiday resorts	-	8,360
Own property	12,645	4,179
Non-current assets held-for-sale	**12,645**	**12,539**

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

In thousands of PLN	2007	2006
Balance as at 1 January	**12,539**	**30,385**
Decreases:		
Retrain from banking properties	-	4,179
Retrain from investment properties	8 466	-
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 31 December	**12,645**	**12,539**

As at 31 December 2007 non-current assets held-for-sale include two Bank's own property, that fulfils the requirements of IFRS 5 and therefore was reclassified to this group from fixed tangible assets.

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

- Shares in the subordinated entities Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A. ("TFI") and Handlowy Zarządzania Aktywami S.A. ("HANZA"), which were sold on 1 February 2006, and in the associated entity Handlowy Heller S.A. that was sold on 2 February 2006.
- Organized part of 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 in favour of Cardpoint S.A with headquarter in Poznań on 31 January 2006.
- Organized part of the Bank's enterprise that consists of holiday resorts located in Dźwirzyna, Rowy, Skubianka, Łeba and Wisła. In the 2006 resorts in Dźwirzyna, Skubianka and Łeba were sold. Resorts in Rowy and Wisła were sold in the first half of 2007.

29. Financial liabilities valued at amortized cost

Financial liabilities valued at amortized cost (by category)

In thousands of PLN	**31.12.2007**	**31.12.2006**
Deposits from financial sector		
Current accounts, including:	2,369,149	1,365,733
current accounts of banks	*2,188,118*	*1,196,869*
Term deposits, including:	4,833,193	5,072,080
term deposits of banks	*1,705,436*	*2,462,685*
Accrued interest	40,877	43,959
	7,243,219	**6,481,772**
Deposits from non-financial sector		
Current accounts, including:	8,010,795	5,595,423
corporate customers	*3,933,764*	*3,353,436*
individual customers	*3,466,163*	*1,718,548*
Term deposits, including:	11,734,461	12,746,671
corporate customers	*9,200,222*	*9,281,629*
individual customers	*1,695,458*	*2,494,239*
Accrued interest	12,776	19,725
	19,758,032	**18,361,819**
Deposits	**27,001,251**	**24,843,591**
Other liabilities		
Loans and advances received	135,044	152,831
Liabilities in respect of securities subject to sale and repurchase agreements	69,155	223,329
Other liabilities, including:	234,808	306,202
cash collateral	140,592	238,030
Accrued interest	3,009	3,484
Other liabilities	**442,016**	**685,846**
	27,443,267	**25,529,437**

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

In thousands of PLN	**31.12.2007**	**31.12.2006**
Financial liabilities valued at amortized cost, of which		
Financial sector		
up to 1 month	6,318,563	4,105,926
1 month - 3 months	844,938	1,160,183
3 months - 1 year	55,050	1,202,016
1 year - 5 years	136,899	134,124
over 5 years	-	3,922
Accrued interest	42,941	45,859
	7,398,391	**6,652,030**

In thousands of PLN	**31.12.2007**	**31.12.2006**
Non-financial sector		
up to 1 month	19,066,932	17,402,480
1 month - 3 months	591,858	887,357
3 months - 1 year	294,842	505,005
1 year - 5 years	77,378	60,826
over 5 years	145	430
Accrued interest	13,721	21,309
	20,044,876	**18,877,407**
	27,443,267	**25,529,437**

30. Provisions

In thousands of PLN	**31.12.2007**	**31.12.2006**
For disputes	21,757	19,339
For off-balance sheet commitments	13,574	27,684
	35,331	**47,023**

The movement in provisions is as follows:

In thousands of PLN	**2007**	**2006**
Balance as at 1 January	**47,023**	**57,245**
Provisions for:		
Disputes	19,339	18,306
Off-balance sheet commitments	27,684	38,939
Increases		
Charges to provisions:	73,417	92,545
for litigations	13,064	7,372
for off-balance sheet liabilities	60,353	85,173
Decreases		
Use of provisions	-	(630)
Release of provisions:	(85,109)	(102,137)
for litigations	(10,646)	(5,709)
for off-balance sheet liabilities	(74,463)	(96,428)
Balance as at 31 December	**35,331**	**47,023**

31. Other liabilities

In thousands of PLN	**31.12.2007**	**31.12.2006**
Staff benefits	65,387	63,482
Interbank settlements	60,531	86,522
Interbranch settlements	4,344	598
Settlements with Tax Office and National Insurance (ZUS)	7,082	7,684
Sundry creditors	74,440	106,762
Accruals	332,181	278,727
Provision for employee payments	*129,315*	*150,174*
Provision for employees retirement and jubilee payments	*62,364*	*53,051*
Other	*140,502*	*75,502*
Deferred income	43,223	104,135
	587,188	**647,910**

32. 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	-	65,000,000	260,000	paid in	27.03.97	01.01.97
B	bearer	none	-	1,120,000	4,480	paid in	27.10.98	01.01.97
B	bearer	none	-	1,557,500	6,230	paid in	25.06.99	01.01.97
B	bearer	none	-	2,240,000	8,960	paid in	16.11.99	01.01.97
B	bearer	none	-	17,648,500	70,594	paid in	24.05.02	01.01.97
B	bearer	none	-	5,434,000	21,736	paid in	16.06.03	01.01.97
C	bearer	none	-	37,659,600	150,638	transfer	28.02.01	01.01.00
Total				**130,659,600**	**522,638**			

Par value of 1 share = PLN 4.00

As at 31 December 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 that has not changed since 31 December 2006.

The Bank has not issued preference shares.

Principal shareholders

The following table presents the shareholders who, as at 31 December 2007, held at least 5% of the total number of votes in the General Assembly or at least 5% of Bank's share capital:

	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 stockholders	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 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 31 December 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	**31.12.2007**	**31.12.2006**
Revaluation of financial assets available-for-sale	**(182,451)**	**(81,501)**

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

Other reserves

In thousands of PLN	**31.12.2007**	**31.12.2006**
Reserve capital	992,238	907,175
General risk reserve	390,000	390,000
	1,382,238	**1,297,175**

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

General risk reserve

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

Dividends

Dividends paid in 2007

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 net profit). 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.

As at 31 December 2007 the Bank did not have any liabilities in respect of approved dividends.

Declared dividends

As at the date of this report there has been no decision concerning the distribution of 2007 profit and the amount of dividend.

33. Repurchase and reverse repurchase agreements

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

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

As at 31 December 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	69,304	69,173	To 1 week	69,275

** 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 Bank's side.

As at 31 December 2007 and 31 December 2006 assets sold through repo can't be traded further.

In 2007 the total interest expense on repurchase agreements was PLN 3,444 thousand (In 2006: PLN 2,621 thousand).

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

As at 31 December 2007 assets purchased subject to agreements to resell were as follows:

In thousands of PLN	**Carrying amount of receivable***	**Fair value of assets held as collateral**	**Resale dates**	**Resale price**
Loans and other receivables:				
from financial sector	57,097	57,067	To one week	57,141

** including interest*

As at 31 December 2006 assets purchased subject to agreements to resell were as fallows:

In thousands of PLN	Carrying amount of receivable*	Fair value of assets held as collateral	Resale dates	Resale price
Loans and other receivables:				
from financial sector	302,405	302,180	To one week	302,503

** including interest*

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

In 2007 the total interest income on reverse repurchase agreements was PLN 48 thousand (In 2006: PLN 94 thousand).

34. 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 in a direct transaction other than a force sale or liquidation – the market price (if available) is its best equivalent.

The summary below provides balance sheet (by category) and fair value information for each asset and liabilities.

As at 31 December 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*	-	-	-	3,321,503	3,321,503	3,321,503
Financial assets held for trading	*18*	5,132,265	-	-	-	5,132,265	5,132,265
Debt securities available for sale	*19*	-	-	6,467,638	-	6,467,638	6,467,638
Capital investment	*21*	-	-	302,321	-	302,321	432,000
Credit, loans and other receivables	*22*	-	20,309,005	-	-	20,309,005	20,271,195
		5,132,265	**20,309,005**	**6,769,959**	**3,321,503**	**35,532,732**	**35,624,601**

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*	4,373,146	-	-	-	4,373,146	4,373,146
Financial liabilities valued at amortized cost	*29*	-	-	-	27,443,267	27,443,267	27,453,022
		4,373,146	**-**	**-**	**27,443,267**	**31,816,413**	**31,826,168**

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*	4,551,094	-	-	-	4,551,094	4,551,094
Debt securities available for sale	*19*	-	-	8,247,313	-	8,247,313	8,247,313
Capital investment	*20*	-	-	300,534	-	300,534	400,451
Credit, loans and other receivables	*21*	-	19,030,974	-	-	19,030,974	19,023,503
		4,551,094	**19,030,974**	**8,547,847**	**535,623**	**32,665,538**	**32,757,984**

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	*29*	-	-	-	25,529,437	25,529,437	25,538,429
		3,316,847	**-**	**-**	**25,779,550**	**29,096,397**	**29,105,389**

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 investment

In the case of financial assets in subsidiaries the fair value was presented as the percentage of net assets of an entity that is attributable to the Bank's interests in a given entity. The Bank's Management believes that this is the best available approximation of fair value of such instruments.
For listed minority shares market value is applied. For unlisted minority shares the Bank was not able to estimate a reasonable fair value, therefore the fair value amount includes purchase price adjusted by revaluation write-offs connected with diminution in value.

According to Bank's strategy, presented commitment will be gradually reduced, except of selected strategic commitments in infrastructural companies that provide an activity for financial sector. Particular entities will be sold in the most suitable moment that will be a result of market conditions.

In 2007 and 2006, the Bank did not sell any equity investments whose fair value could not be credibly established beforehand.

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

35. Contingent liabilities

Information on pending proceedings

As at 31 December 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 Bank'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 Bank's shareholders' equity and amounted to PLN 1,054,214 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 S.A.	158,534	8 August 1996 – declaration of bankruptcy.	Case pending. The Bank submitted the receivable to repay it from the bankrupt's assets for arrangement on 14 October 1996. The Bank realized all the collateral. The Bank will probably not receive its receivables. The official receiver expects to complete the bankruptcy proceeding by the end of 2006.
Creditor: Bank Handlowy w Warszawie S.A.	65,947	In 2000, the court declared the borrower bankrupt.	Within the framework of the pending proceedings, the Bank submitted a receivable. The Bank's receivable is classified as category VI and may remain unpaid.
Creditor: Bank Handlowy w Warszawie S.A.	44,732	On 22,June 2001, the court declared the debtor bankrupt.	Case pending. The Bank submitted its receivables to the proceedings.

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

As at 31 December 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 Bank's shareholders' equity, were pending before any court, administrative authority or an arbitration court.

In 2007 the total value of all court proceedings with the participation of the Bank has decreased significantly below 10% of the Bank's equity and equaled PLN 138,687 million. In this time a few court proceedings has finished, including one court proceeding on substantial amount, which legislation value amounted PLN 387,400 thousands. The plaintiff claims for the compensation. The petitioner claimed that the Bank had violated copyright law by applying a strategy in a marketing campaign, to which the claimant was entitled. The court disallowed the compliant.

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

Off-balance sheet commitments

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

In thousands of PLN	**31.12.2007**	**31.12.2006**
Off-balance sheet commitments granted		
Letters of credit	164,317	195,947
including to related parties	*4,513*	*381*
Guarantees granted	2,160,288	2,781,785
including to related parties	*1,340*	*2,367*
Credit lines granted	11,204,214	9,459,737
including to related parties	*330,172*	*282,161*
Deposits to be issued	-	24,860
Issue guarantees	172,000	217,000
	13,700,819	**12,679,329**
Letters of credit by categories		
Import letters of credit issued	151,186	155,677
including to related parties	*4,513*	*381*
Export letters of credit confirmed	13,131	40,270
	164,317	**195,947**

The Bank makes specific provisions for off-balance sheet commitments. As at 31 December 2007, the specific provisions created for off balance sheet commitments amounted to PLN 13,574 thousand, including contingent liabilities granted to subordinated entities – PLN 0 (31 December 2006: PLN 27,684 thousand, including PLN 3,426 thousand for contingent liabilities granted to subordinated entities).

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

In thousands of PLN	**31.12.2007**	**31.12.2006**
Contingent liabilities received		
Finance	50,000	-
Guarantees	2,573,703	2,019,070
	2,623,703	**2,019,070**

36. Assets pledged as collateral

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

In thousands of PLN	**31.12.2007**	**31.12.2006**
Liabilities		
Financial liabilities valued at amortized cost		
liabilities in respect of securities subject to sale and repurchase agreements	69,173	223,420

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

In thousands of PLN	**31.12.2007**	**31.12.2006**
Assets pledged		
Debt securities held for trading	69,304	223,574
Debt securities available-for-sale	66,252	39,559
Other assets		
settlements related to operations on derivative instruments	-	3,347
	135,556	**266,480**

As at 31 December 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 Bank has been discussed in Note 33. 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.

37. Trust activities

The Bank is the leader on the market of custodian banks in Poland. It offers both custody services connected with securities accounts for foreign institutional investors and depositary services for Polish financial institutions, including pension, investment and equity insurance funds. As at 31 December 2007 the Bank maintained 11,690 securities accounts (31 December 2006: 10,312,accounts).

38. Operating leases

Leases where the Bank is the lessee

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

In thousands of PLN	**31.12.2007**	**31.12.2006**
Less than 1 year	44,892	41,697
Between 1 and 5 years	102,747	86,226
More than 5 years	35,815	4,696
	183,454	**132,619**
Total operating leasing rentals for unprescribed time	**1,516**	**1,272**

The Bank uses cars and office space under operating lease contracts. The most significant lease contracts relate to office space situated in Warsaw at Wolska 171/175 and Chałubińskiego 8. Generally the contracts have been signed for 5 years and there is an ability to extend them over the next three years. Some contracts have been signed for an unspecified period of time. Lease payments are under one year indexation. The total amount of lease payments in 2007 amounted to PLN 40,933 thousand (in 2006: PLN 37,378 thousand).

The Bank uses cars under operating lease contracts, which were signed with its subsidiary in 2005. The contracts have been signed for 3 years. Lease payments are determined at a fixed interest rate for the entire lease period. In 2007 the Bank incurred payments amounting to PLN 653 thousand (in 2006: PLN 567 thousand). These payments are presented in the income statement in "General expenses".

Leases where the Bank is the lessor

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

In thousands of PLN	**31.12.2007**	**31.12.2006**
Less than 1 year	4,024	1,894
Between 1 and 5 years	7,348	4,973
More than 5 years	1,419	1,690
	12,791	**8,557**
Total operating leasing rentals for unprescribed time	**3,462**	**3,151**

Part of the Bank's office space and cars is leased operating lease contracts. Most of the office space leases agreements are signed for an unspecified period of time. Other agreements are signed for a period of between 2 and 10 year. Lease payments are under one year indexation. The income related to these contracts amounted in 2007 to PLN 11,677 thousands (in 2006: PLN 3,604 thousands). These payments are presented in the income statement in the item "Other operating income".
The Bank leases cars under contracts with subordinate entities. Agreements are signed for two years or for an unspecified period of time. Lease payments are determined at a fixed interest rate for the entire lease period. The total amount of lease payments in 2007 amounted to PLN 550 thousand (in 2006: PLN 597 thousand).
These payment are presented inn income statement in the item "Other operating income"

39. Cash flow statement

Additional information:

In thousands of PLN	**31.12.2007**	**31.12.2006**
Cash related items		
Cash at hand	395,549	366,211
Nostro current account in central bank	2,925,954	169,412
Current accounts in other banks (nostro, overdrafts on loro accounts)	419,944	768,998
	3,741,447	**1,304,621**

40. Related parties

Transactions with related parties

Within its normal course of business activities the Bank 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 entities of Citigroup Inc.

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

In thousands of PLN	**31.12.2007**	**31.12.2006**
Receivables, including:	3,391,324	1,185,672
Placements	3,367,120	1,155,110
Liabilities, including:	1,776,006	1,602,682
Deposits	1,776,006	1,602,682
Balance valuation of derivative transactions		
Trading assets	2,418,523	2,118,399
Trading liabilities	3,052,520	2,457,095
Off-balance sheet guarantee liabilities granted	67,318	118,536
Off-balance sheet guarantee liabilities received	227,389	156,433
Interest and commission income in 2007/2006	91,012	85,355
Interest and commission expense in 2007/2006	57,881	14,529

Furthermore the Bank incurs costs and receives income of an operational nature from agreements concluded between Citigroup Inc. entities and the Bank for the provision of mutual services.

The costs arising and accrued in 2007 from concluded agreements amounted in total to PLN 139,866 thousand (in 2006: PLN 138,209 thousand) and related in particular to the costs arising from the provision of services related to the maintenance of the Bank's information systems and advisory support for the Bank; income in the amount of PLN 69,052,thousand (in 2006: 75,515 thousand) arose from the provision of data processing and other services by the Bank.
In 2007 the Bank has concluded with Citigroup Inc. entities new agreements related to mutual services and agreements that constitute continuation of previously concluded agreements.

From among new concluded agreements, the most important is concluded on 19 April 2007 contract between the Bank and Citibank N.A., the only shareholder of Citibank Overseas Investment Corporation, the parent of the Bank and related to conditions of mutual services, which are as fallows:

- Citibank N.A. provides, in favour of Bank, services related to use by Bank or its customers an IT for service of Bank activity
- Net payment for services for 2005, including provisions for licenses, amounted USD 607,387.69
- Contract has been signed for an unspecified period of time, with the possibility to terminate it at any time in mutual consent or by any participant with a 6-month period of notice.

Transactions with subordinated entities

In thousands of PLN	**31.12.2007**	**31.12.2006**
Loans, advances and other receivables		
Current accounts	228,214	288,122
Loans granted	-	47,866
Subordinated loans	-	16,168
	228,214	**352,156**

In thousands of PLN	**31.12.2007**	**31.12.2006**
Loans, advances and other receivables		
Opening balance*	352,156	526,632
Closing balance	228,214	352,156
Deposits		
Current accounts	240,030	342,916
Term deposits	26,931	29,329
	266,961	**372,245**
Deposits		
Opening balance**	372,245	639,694
Closing balance	266,961	372,245
Off-balance sheet commitments granted		
Letters of credit	4,513	381
Guarantees granted	1,340	2,367
Credit lines granted	330,172	282,161
	336,025	**284,909**
Interest and commission income in 2007/2006	23,405	22,645
Interest and commission expenses in 2007/2006	13,146	9,516

**Amount of credit, loans and other receivables at the beginning of 2006 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 31 December 2007, the amount of impairment write-downs for receivables of subsidiaries have not subjected to write-offs.
As at 31 December 2006 the amount of impairment write-downs for receivables of subsidiaries amounted to PLN 7,209 thousand, write-downs for off balance sheet commitments granted amounted to PLN 3,426 thousand.

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

In thousands of PLN	**31.12.2007**			**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	71,194	288	4	84,800	1,041	11
Staff benefits	29,405	-	-	32,723	-	-
Prepayments	52	-	-	52	3	-
	100,651	**288**	**4**	**117,575**	**1,044**	**11**
Deposits						
Current accounts	62,051	2,171	636	26,530	611	184
Term deposits	19,340	100	116	43,545	1,943	862
	81,391	**2,271**	**752**	**70,075**	**2,554**	**1,046**
Guarantees issued	49	-	-	84	-	-

41. Employee benefits

Employee benefits are divided into the following categories:

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

The Bank's pension plan is a pre-determined-premium program in accordance with IAS 19. The Bank 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 Bank'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 their valuation is carried out by an independent actuary in accordance with IAS 19.
- employee equity benefits – in the form of stock options granted on Citigroup common stock and also under stock award programs based on shares of Citigroup common stock in the form of deferred stock. Valuation and presentation principles of these programs 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	**31.12.2007**	**31.12.2006**
Provision for remuneration	114,063	111,346
Provision for employees' retirement and jubilee payments	62,364	53,051
Provision for employees' equity compensation	15,252	38,828
	191,679	**203,225**

In 2007, the Bank's expenses in respect of premiums for the employee pension plan amounted to PLN 14,377 thousand (in 2006: PLN 13,217 thousand).

Employment At the Bank:

	2007	2006
Mid employment during a year	5,603	5,426
At the end of the year	5,795	5,535

Description and principles of employee stock benefits

Under the employee stock benefit program, awards in the form of Citigroup stock (so-called Capital Accumulation Program, or CAP) or Citigroup stock options (so-called Stock Ownership Program, or SOP) are offered to selected employees of Citigroup.

Within the framework of the SOP, eligible employees receive options to buy stock at the NYSE closing price as at 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 2007 will be transferred partially in 25% every year for the next four years, starting from the first anniversary of option acquisition. Options may be exercised by purchase of stocks in the period from the acquisition date of the right to an option to the expiry date of the option.
Within the framework of the CAP, eligible employees receive so-called “deferred shares” of Citigroup. Deferred shares within the framework of the CAP are granted at the NYSE 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. Deferred shares granted during 2005 and 2007 will be transferred partially in 25% every year for the next four years, starting from the first anniversary of option acquisition.

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) 13-02-2002	42.11 or 41.90	268	103,531
(2) 12-02-2003	32.05	247	81,256
(3) 20-01-2004	49.50	100	61,047
(4) 18-01-2005	47.50	4	1,308
(5) 20-09-2005	45.36	1	1,500
(6) 17-01-2006	48.92	1	1,538
(7) 16-01-2007	54,38	1	436

Grant date	Exercise price/ stock price at grant date	Number of eligible employees	Number of options / shares
CAP Program			
(1) 18-01-2005	35.96 or 47.95	179	37,734
(2) 15-02-2005	49.25	1	1,950
(3) 15-11-2005	48.24	2	2,332
(4) 17-01-2006	36.58 or 48.77	163	67,485
(5) 21-11-2006	50.73	1	2,218
(6) 16-01-2007	40.84 or 54.46	196	108,293
(7) 17-07-2007	52.19	1	1,917
(8) 20.11-2007	32.00	1	4,687

	Program SOP	**Program CAP**
Period to acquire the title (in years)	(1) 20% after the each of the following years (2)-(3) 33.33% after the each of the following years (4)-(7) 25% after the each of the following years	(1)-(6) and (8) 25% after the each of the following years (7) 33.33%after the each of the following year
Expected variances	42.19 %	42.19 %
Life cycle of the instrument	(1)-(7) -1 year from the moment of rights acquisition	In the moment of rights acquisition
Risk free interest rate (for USD)	2.97 %	2.97 %
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)	0.00 – 2.60	51.29

** Varies depending on the date of exercise*

Options – volumes and weighted-average strike prices:

	31.12.2007		**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	59,543	39.48	58,493	37.70
Expired in the period	18,383	-	32,892	-
At the end of the period	250,616	40.75	328,107	39.94
Exercisable at the end of the period	247,335	40,66	257,460	39.69

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

31.12.2007			**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	0.53	32.05	102,624	0.53
42.11	102.72	0.53	49.50	79,076	1.01
32.05	81.26	0.00	41.90	855	1.03
49.5	61.05	0.55	42.11	132,053	1.03
47.5	1.31	1.06	47.19	129	1.05
45.36	1.5	1.06	49.00	150	1.05
48.92	1.54	1.56	49.49	3,000	1.05
54.38	0.44	2.56	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

Number and weighted-average price of shares are presented below:

	31.12.2007		**31.12.2006**	
	Number ('000)	**Weighted average price of share**	**Number ('000)**	**Weighted average price of share**
At the beginning of the period	217,022	40.29	145,448	39.10
Allocated in the period	114,898	43.68	114,563	39.59
Redeemed in the period	105,304	-	42,989	-
At the end of the period	226,616	42.23	217,022	40.29

42. Subsequent events

As at 31 December 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 Bank up or required to be disclosed in the financial statement.

43. Risk management

Derivative instruments

The Bank 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 at the balance sheet date is included in Note no 18.

As at 31 December 2007, the Bank has not placed deposits at other institutions as collateral against derivative transactions. (31 December 2006: PLN 3,347 thousand), and for derivative transactions, the Bank received collateral totalling PLN 30,104 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 Bank's liquidity and position on nostro accounts.

Currency option contracts

The objective of FX option contracts is the sale or purchase by the Bank 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 Bank'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 Bank 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 Bank and its counterparts 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 Bank 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 Bank concludes purchase and sale contracts in debt securities at a fixed price where the settlement occurs later than two days following the spot date (outright contracts).

Share options

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

Futures contracts

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

Financial futures contracts may be based on financial instruments of defined types, prices of which depend on interest rates. Financial futures contracts may also be based on changes in FX rates of certain basic foreign currencies. The Bank 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 Bank 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 Bank are zero-cost option structures, for example collar.

Market risk

The Bank manages market risk in line with principles and procedures approved by the Assets and Liabilities Committee and the Management Board of the Bank, which rules reflect the requirements of the Polish supervisory bodies and correspond to the best practices followed in Citibank N.A., the Bank's parent.

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

Liquidity risk is defined as the risk of the Bank 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 Bank's results and value of the funds it holds 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

Liquidity management has the aim of ensuring the Bank access to liquid assets for the purpose of fulfilling its obligations on time, also under extreme yet probable crisis conditions. The Bank is a participant of the general liquidity assurance and financing process, and of the liquidity monitoring structure within Citigroup. The Bank is compliant with all of the regulatory banking supervision requirements in Poland, and in particular with Resolution No. 9/2007 of the Commission for Banking Supervision of 13 March 2007 on Setting Liquidity Norms Binding to Banks (O.J. of NBP of 2007 No. 3, item 11), with due consideration of the liquidity policy of Citigroup.

Liquidity risk management in the Bank includes planning short-, medium- and long-term liquidity, preparation of reports on levels of short- and long-term supervisory liquidity, and of the Market Access Report (MAR), and monitoring of the use of limits, warning thresholds for balance sheet structure relations and preparation of stress tests.

Measurement and mitigation of the liquidity risk, rules and processes

The primary liquidity risk assessment reports include: the short-term liquidity gap report – demonstrating the relationship between liquid assets and unstable sources of funds – and reports on levels of the supervisory long-term liquidity measures, i.e. the ratio of coverage of non-liquid assets in own capital funds and the ratio of coverage of non-liquid assets and limited liquidity assets in own capital funds and stable external funds.

The Commission for Banking Supervision had set the minimum limits for all of the ratios at 1, meaning that on each business day liquid assets of the Bank ought to exceed unstable sources of funds and that own capital funds together with stable external funds ought to exceed non-liquid and limited liquidity assets. In its calculations the Bank prepares regular analyses of stability for the respective classes of liabilities, of accessibility and trading levels of markets used for liquidating assets and projects increases in assets of its depositors.

Additionally, for purposes of limiting its payment related liquidity risk, the Bank prepares the MAR report. The report demonstrates the gaps in the Bank's financial flows in individual time spans and reflects potential exposure to the necessity of finding additional funding sources on the monetary market. MAR comprises all the financial flows relating to balance sheet and off-balance sheet transactions. The liquidity gap reports are prepared on daily basis and encompass the Bank's balance sheet in aggregate and by individual currency balances.

The gap limits established by the Bank's 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 funding 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 at use of 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 31 December 2007 and 31 December 2006 are shown in the tables below.

The liquidity gap as at 31 December 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 to 2 years**	**More than 2 years**
Assets	4,686,511	2,284,393	2,127,856	431,052	28,495,974
Liabilities	4,803,476	860,220	69,813	27,606	32,264,671
Balance sheet gap in the period	(116,965)	1,424,173	2,058,043	403,446	(3,768,697)
Off-balance sheet transactions – inflows	16,145,663	6,012,349	12,864,610	873,563	4,227,465
Off-balance sheet transactions – outflows	16,073,819	6,109,832	12,783,929	902,277	4,277,570
Off-balance sheet gap in the period	71,844	(97,483)	80,681	(28,714)	(50,105)
Cumulative gap	(45,121)	1,281,569	3,420,293	3,795,025	(23,777)

The liquidity gap as at 31 December 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 to 2 years**	**More than 2 years**
Assets	5,458,934	363,842	970,564	94,533	28,501,376
Liabilities	4,241,140	944,312	1,370,351	31,317	28,802,129
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	**31.12.2007**	**31.12.2006**	**Change**
Liquid assets, including:	10,424,552	10,077,752	346,801
obligatory reserve in NBP and cash surplus	3,059,474	489,459	2,570,015
debt securities held for trade	1,177,367	1,619,402	(442,035)
debt securities available for sale	6,187,712	7,968,891	(1,781,179)
Cumulative liquidity gap up to 1 year	3,420,291	633,219	2,787,072
Coverage of the gap with liquid assets (in %)	Positive gap	Positive gap	Not applicable

Finance liabilities of the group, by maturity date, are presented below:

As at 31 December 2007:

	Note	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Interests
Financial liabilities held for trading								
Short positions in financial assets	*18*	34,932	34,932	-	-	-	-	-
Financial liabilities valued at amortized cost								
Deposits from financial sector	*30*	7,243,343	6,302,828	842,659	55,000	1,855	-	41,001
Including banks	*30*	*3,787,688*	*2,862,056*	*835,859*	*50,000*	-	-	*39,773*
Deposits from non-financial sector	*30*	19,758,036	18,845,658	573,487	249,598	76,367	145	12,781
Other liabilities	*30*	442,110	237,009	20,650	45,294	136,055	-	3,102
		27,443,489	25,385,495	1,436,796	349,892	214,277	145	56,884
Financial liabilities held for trading								
Derivative financial instruments	*18*	3,097,536	157,773	218,318	675,047	1,335,325	711,073	-
Unused credit lines liabilities		11,204,214	10,072,625	1,492	274,002	778,667	77,428	-
		41,780,171	**35,650,825**	**1,656,606**	**1,298,941**	**2,328,269**	**788,646**	**56,884**
Gross derivatives								
Inflows		38,763,702	15,848,325	6,024,356	12,513,327	2,027,563	2,350,131	
Outflows		38,827,275	15,775,189	6,071,284	12,522,393	2,081,318	2,377,091	
		(63,573)	**73,136**	**(46,928)**	**(9,066)**	**(53,755)**	**(26,960)**	

As at 31 December 2006:

	Note	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	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*	6,481,796	4,090,513	1,145,260	1,202,028	13	-	43,982
Including banks	*30*	*3,702,775*	*1,398,398*	*1,069,472*	*1,191,820*	-	-	*43,085*
Deposits from non-financial sector	*30*	18,361,823	16,985,850	833,622	468,332	53,868	421	19,730
Other liabilities	*30*	686,173	432,043	68,658	36,661	141,069	3 931	3,811
		25,529,792	21,508,406	2,047,540	1,707,021	194,950	4,352	67,523
Financial liabilities held for trading								
Derivative financial instruments	***18***	3,038,738	117,834	246,323	458,379	1,530,372	685,830	-
Unused credit lines liabilities		9,459,737	8,478,255	7,085	163,034	651,339	160,024	-
		38,306,376	**30,382,604**	**2,300,948**	**2,328,434**	**2,376,661**	**850,206**	**67,523**
Gross derivatives								
Inflows		35,086,368	19,927,664	5,233,505	4,787,271	2,761,189	2,376,739	
Outflows		34,980,459	19,941,286	5,204,772	4,790,195	2,664,527	2,379,679	
		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 preset liquidity criteria. The trading portfolios further include all derivative instrument 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. The trading portfolio operations are performed by the Bank's Treasury Division in respect of the 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 trading 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. 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 Bank 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 Bank 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 Bank typically uses the following methods for measuring the pricing risk of the bank portfolios:

- Interest rate gap analysis,
- Value-at-Close and Total Return methods,
- Interest Rate Exposure (IRE), and
- Stress testing.

Interest rate gap analysis uses the maturity schedule or revaluations of balance sheet positions and of derivative instruments in hedge accounting or qualified as economic hedge for the purpose of establishing the differences between positions whose maturity or interest revaluation fall on a given time range. The general rule in the interest rate gap analysis is that of qualifying transactions to respective bank portfolio position revaluation bands by the contracted or assumed transaction interest rate change dates.

It is assumed that:

- Transactions with fixed interest (such as term deposits, interbank deposits, portfolio of debt securities available for sale, granted loans both repaid in full at maturity and repaid in instalments) are classified into appropriate revaluation bands in accordance with their maturity dates.
- Transactions with floating interest, updated with regular frequency (primarily loans granted with interest set based on a specific rate of interest, such as e.g. WIBOR 1M) are classified into appropriate revaluation bands in accordance with the nearest interest updating date.
- Transactions with administrated floating interest (i.e. any change in interest and its date are reserved to sole decision of the Bank), or undefined maturity or interest updating date are classified into appropriate revaluation bands in accordance with historically observed or expert adopted shifts in the moment and scale of change in the interest of given positions in relationship to change in the market interest rates (model of minimising product margin variability). This group of transactions / balance sheet positions includes, inter alia: current accounts, card loans, current account overdraft loans, cash, tangible fixed assets, equity capital, other assets/liabilities. Another element is that of taking into account early loan repayments based on analysis of actual repayments made by customers before the due date, on which basis product updating profiles are set. This pertains particularly to instalment loans.
- Transactions executed directly by the Bank's Treasury Division for purposes of management of interest rate risk and liquidity risk (Treasury Division's own portfolio) are always classified into appropriate revaluation bands in accordance with the contract dates.

The Value-at-Close method is an estimation of the economic or "fair" value of positions, equivalent to the market valuation the trading portfolio. Total return on a portfolio is the sum total of the changes in the value of closing the interest rate gap, accrued interest and gains/losses on sale of assets or cancelling of obligations.

The IRE method is an estimation of the impact of potential pre-tax profits in a given period on bank portfolio positions from the standpoint of specific parallel shift in yield curves of respective currencies. This is a prospective indicator, equivalent to sensitivity factors in the case of trading portfolios. An assumption is made that under standard conditions interest rate shifts are identical for every currency and stand at 100 basis points upwards. IRE measures are calculated separately for positions in each currency in the time span of 10 years, however, for purposes of current monitoring and limiting interest rate risk positions in bank portfolios the Bank normally applies IRE measures with one- and five-year time span.

The IRE are calculated for the Bank and the Treasury Division separately. The IRE for the Bank reflects the actual exposure to the interest rates risk, while maintaining the revaluation timescales set out in the contracts with customers (in keeping with the above-mentioned structuring and revaluation rules), 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 units of the Bank to that Department, through the agency of the transfer price of funds mechanisms along with the Department's own positions.

Follow the IRE measures for the Bank valid on 31 December 2006 and 31 December 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 Bank's balance sheet.

In thousands of PLN	**31.12.2007**		**31.12.2006**	
	IRE 12M	IRE 5Y	IRE 12M	IRE 5Y
PLN	8,130	90,683	21,835	84,119
USD	(3,649)	(4,469)	(6,313)	(6,978)
EUR	(18,431)	(48,043)	(14,294)	(38,204)

Stress tests measure potential impact of material changes in the level or directionality of interest rate curves on the open interest positions in the bank portfolio.

Bank runs stress tests of predefined interest rate movement scenarios, which represent combinations of market factor movements defined as large moves and stress moves occurring both in Poland and abroad. Values of the assumed market factor movements are revised at least once a year and duly adjusted to the changes in the market conditions of the Bank's operation.

Supplementary to the stress tests of the Bank's entire bank book we run tests of the portfolio of securities available for sale (AFS), which assesses the potential impact of any change in valuation of the portfolio of these securities on the Bank's equity capital.

Calculations of the interest rates gap closing and IRE values, with employment of the interest rate gap analyses, are carried out on daily basis. Stress tests are conducted with monthly frequency.

IRE and AFS DV01 limits are set for all material exposures in all currencies. Currencies in respect of which only minor exposures exist can be aggregated in a separate portfolio.

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 AFS securities) with the change of the interest rate for a particular currency along a certain section of the interest rates curve. The IRE shows the potential change of the interest rate margin in the future, thus the consequence of changes of the interest rates for the Bank's financial result will surface in the future periods, as happens in the case of the positions valued through the depreciated cost method. Nonetheless the impact of any change in interest rates on the value of the portfolio of securities available for sale is immediate, though not in the financial result, but in the value of the Bank's capital funds, since the unrealised result from revaluation of these securities revises their value.

The operations relating to the securities available for sale within the Bank are run by the Asset and Liability Management Office, within the Treasury Division. Three basic goals of the operations with this portfolio have been defined. These are:
- Management of the Bank's liquidity,
- Hedging against the risk transferred to the Treasury Division from the other organisational units of the Bank, and
- Opening of own interest rate risk positions 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 Bank has been setting the maximum DV01 position limits for these portfolios. Also, the limits cover open positions in derivative instruments (e.g. interest rate swap transactions) executed for the purpose of securing the fair value of the portfolio.

Whenever border value of any of the above-mentioned risk measures is exceeded this information is escalated to higher management levels and triggers the requirement for definition of further action plan by the managers.

The table below depicts the risk measured with DV01 for the portfolio of securities available for sale, net of the economic hedges, broken down into currency portfolios:

In thousands of PLN	31.12.2007			31.12.2006			Overall between 01.01.2007 and 31.12.2007		
	Total	Securities	IRS	Total	Securities	IRS	Average	Minimum	Maximum
PLN	(1,338)	(1,338)	-	(1,621)	(1,784)	163	(1,162)	(1,622)	(778)
USD	(123)	(203)	80	(125)	(157)	33	(216)	(463)	(40)
EUR	(650)	(827)	177	(672)	(846)	174	(897)	(1,099)	(574)

The Bank's operations involving investment into debt securities available for sale constituted one of the main factors influencing changes in the level of risk of mismatch in revaluations as expressed through the IRE measure.

Systems of reporting and measurement of the interest rate risk of the bank book

CALM (Citi Asset Liability Model) is the primary system the Bank uses for purposes of reporting on the interest rate risk of the bank book. The application operates with a standardised dataset of individual transactions sourced with the Bank's accounting system. CALM has been developed for and deployed by majority of the entities for which Citibank N.A. is a parent. Supplementary to the CALM system reports, the Bank generates additional information and risk measures on the basis of the data held by the internal systems of the Finance Division.

Pricing risk of the trading portfolios

The following methods are applicable in measurement of risk of trading portfolios:
- Factor Sensitivity,
- Value at Risk (VaR), and
- Stress testing.

Factor Sensitivity measures the change in the value of positions in an underlying instrument in the case of a defined change in a market risk factor (e.g. change of 1 basis point in the interest at a given point on the interest rate curve, change of 1% in the currency exchange rate or equity price).

In the case of interest rates, the applicable sensitivity measure is DV01 (Dollar Value of 1 basis point), which determines the potential change in value of the risk positions on a given interest rate curve at a specific nodal point (which brings together all the cash flows in a given timeframe), which is caused by a shift in the market rate of interest by 1 basis point up. Total DV01 value for a given currency is the difference between the valuation of all the instruments forming part of the trading portfolio in a given currency by structure of the yield curve at the time of valuation and the valuation of the same instruments based on the same curves assuming a parallel shift of 1 basis point up. DV01 is calculated for each defined risk factor (curve nodal point) separately, and subsequently aggregated for the respective currencies.

In the case of the exchange rate (FX) risk, the factor sensitivity value is equal to the value of FX position in a given currency.

In the case of positions held in equities, the factor sensitivity value is equal to the net value of the positions held in the respective instruments (shares, indices, unit of participation).

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, the Bank we also uses certain 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 daily basis.

Value at Risk (VaR) is the integrated measure of the pricing risk of trading portfolios, which links the impact of the positions in the respective risk factors and accounts for the effect of the correlation between the fluctuations of the different factors. VaR is applied for the purpose of measuring the potential decline in the value of a position or the portfolio under normal market conditions, at a specified level of confidence and at a specified time. In the case of the positions opened in the Bank's trading portfolio, VaR is calculated with application of 99% confidence level and a one-day holding period.

The Bank measures VaR and monitors this measure as part of its operational risk management. VaR is however not used at present for purposes of calculating the regulatory capital requirement, and Bank has thus not applied to the Commission for Banking Supervision for issuance of a permit for the use of the Value at Risk method.

DV01 as well as VaR for the trading portfolio are calculated net of the fair value hedge on the portfolio of securities available for sale, i.e. net of derivative instruments intended to protect the fair value of the portfolio. The exposures to the risk of such transactions are mitigated through application of relevant risk measurement methods and curbed by the bank portfolio risk limits.

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, being the warning thresholds in respect of the total volume of unsettled transactions in a specific financial instrument,
- Maximum Tenor Trigger, being the warning thresholds in respect of the maximum time to maturity of a specific financial instrument, and
- The limits, or warning thresholds of concentration for the types of security, issuer, and issue of debt securities and equities.

The Bank run records of exposures of the bank portfolios to the pricing risk in twenty one 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 transaction counterparties. 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 the year 2007 have been listed in the table below:

in thousands of PLN			**Overall between 01.01.2007 and 31.12.2007**		
	31.12.2007	**31.12.2006**	**Average**	**Maximum**	**Minimum**
PLN	(43)	10	(45)	551	(690)
EUR	(73)	(17)	(104)	87	(379)
USD	(14)	25	(32)	122	(228)
HUF	(31)	(20)	(25)	37	(108)
CZK	(2)	(1)	6	87	(4)

The marked increase of exposure to the interest rates risk, at the end of the year 2007, compared with end of the year 2006, derives primarily from the low exposure level at the end of 2006 and from adoption of a relatively high exposure to EUR. Over the period, the Treasury Division, which trades financial instruments within the Bank, 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 the maximum column of the table above).

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 the year 2007:

	31.12.2007	**31.12.2006**	**Overall between 1.01.2007 and 31.12.2007**		
			Average	**Maximum**	**Minimum**
FX risk	151	347	1,819	8,465	48
Interest rate risk	4,254	2,799	3,532	8,657	1,539
Overall risk	4,225	2,742	4,205	8,948	1,521

In the year 2007, the overall, average level of the pricing risk of the trading portfolios was nearly equivalent to that of the year 2006, with a significantly higher maximum risk levels, i.e. PLN 8.9 million, compared with PLN 7.3 million.

Systems of reporting and measurement of the interest rate risk of the trading book

The proprietary Finance and Risk reporting base (TPRC) is the primary system the Bank uses for purposes of reporting and monitoring the pricing risk of the trading portfolio. It draws source data on daily basis from the following systems:

- Kondor+ transaction support system, for information on the value of factors of sensitivity to change in interest rates, broken down into individual instruments, tenor ranges and sizes of currency positions. These data are sent to the TPRC database in the daily "day end" cycle, and
- Global Market Risk (GMR) calculation and reporting system, proprietary to Citibank N.A., the Bank's parent, for information on VaR for all of the risk factors combined, and broken down by the individual factors (exchange rates and interest rates).

Equity instruments risk

The Bank does not take a risk of equity instruments' prices increase (decrease) related to trading activity. The equity investments portfolio owned by the Bank is not classified as a trading portfolio.

Currency structure

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

In thousands of PLN	**31.12.2007**	**31.12.2006**
Assets:		
PLN	29,242,314	23,140,091
EUR	4,575,515	4,294,961
USD	4,074,053	7,042,912
GBP	11,818	82,287
CHF	88,301	202,470
Other currencies	16,360	333,173
	38,008,361	**35,095,894**
Liabilities:		
PLN	31,847,742	28,616,299
EUR	3,360,332	3,511,454
USD	2,514,173	2,579,123
GBP	153,499	160,302
CHF	68,382	81,969
Other currencies	64,233	146,747
	38,008,361	**35,095,894**

Credit risk

The main aim of the Bank'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 Bank'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 Bank to ensure that the credit portfolio as a whole is at an acceptable risk level,
- Each customer of the Bank 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,
- Bank 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,
- Bank 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,

Bank 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.

Bank 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 Bank 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 external ratings.

The tables below present exposition of the Bank up on credit risk.

In thousands PLN	31.12.2007 Receivables from customers	31.12.2007 Receivables from banks	31.12.2006 Receivables from customers	31.12.2006 Receivables from banks
Receivables valued individually				
Risk category II	31,119	-	76,542	-
Risk category III	669,266	-	557,926	9,491
Risk category IV	455,998	1,852	767,919	-
Gross value	**1,156,383**	**1,852**	**1,402,387**	**9,491**
Impairment	991,210	1,852	1,133,919	9,491
Net value	**165,173**	**-**	**268,468**	**-**
Portfolio receivables				
Risk category II	2,095	-	6,672	-
Risk category III	27,821	-	24,889	-
Risk category IV	420,950	-	429,810	-
Gross value	**450,866**	**-**	**461,371**	**-**
Impairment	361,517	-	383,237	-
Net value	**89,349**	**-**	**78,134**	**-**
Receivables without impairment				
Risk rating 1-4	9,662,553	8,264,859	7,397,375	8,831,191
Risk rating 5-6	2,019,883	1,403	2,346,526	50,612
Risk rating 7-8	154,783	-	117,233	-
Gross value	**11,837,219**	**8,266,262**	**9,861,134**	**8,881,803**
Impairment	48,964	34	58,484	81
Net value	**11,788,255**	**8,266,228**	**9,802,650**	**8,881,722**
Total net value	**12,042,777**	**8,266,228**	**10,149,252**	**8,881,722**

In order to define the maximum exposure of Bank to the credit risk, it is necessary to account also for the off-balance sheet exposure (discussed in Note 35), 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 27).

w tys. zł	31.12.2007	31.12.2006
Incurred but not reported write-off receivables		
Unexpired receivables		
0-30 days	20,102,495	18,741,174
Out of date receivables		
31-90 days	938	1,757
91-180 days	48	6
Gross value	**20,103,481**	**18,742,937**

w tys. zł	31.12.2007 Receivables from customers	31.12.2007 Receivables from banks	31.12.2006 Receivables from customers	31.12.2006 Receivables from banks
Loss impairment valued individually				
Risk category II	2,964	-	11,237	-
Risk category III	540,887	-	433,736	9,491
Risk category IV	447,359	1,852	688,946	-
	991,210	**1,852**	**1,133,919**	**9,491**

w tys. zł	31.12.2007		31.12.2006	
	Receivables from customers	**Receivables from banks**	**Receivables from customers**	**Receivables from banks**
Portfolio loss impairment				
Risk category II	626	-	1,962	-
Risk category III	11,821	-	11,936	-
Risk category IV	349,070	-	369,339	-
	361,517	**-**	**383,237**	**-**
Incurred but not reported write-off loss impairment				
Risk rating 1-4	32,883	25	31,091	77
Risk rating 5-6	12,070	9	20,850	4
Risk rating 7-8	4,011	-	6,543	-
	48,964	**34**	**58,484**	**81**
Total net value	**1,401,691**	**1,886**	**1,575,640**	**9,572**

In line with its lending policy and in order to limit the risk, Bank 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 Bank accepts 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. Bank monitors 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 Bank. 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 Bank's equity when one of the entities is a parent entity or subsidiary undertaking of the Bank 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 Bank 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 31 December 2007, Bank 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 Bank's capital adequacy ratio as at 31 December 2007.

Bank sets out to limit its exposure to a group of customers. As at 31 December 2007, the Bank's exposure in banking portfolio transactions with customers, which all-in exceeded 10 % of the Bank's equity, amounted to PLN 3,299,440 thousand i.e. 106% of these funds (31 December 2006: PLN 3,419,685 thousand i.e. 109.4 %).

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

In M PLN	**31.12.2007**			**31.12.2006**		
	Balance Outstanding*	**Off-Balance Outstanding**	**Total Outstanding**	**Balance Outstanding***	**Off-Balance Outstanding**	**Total Outstanding**
Group 1	132,638	473,595	606,233	124,929	474,429	599,358
Group 2	443,585	159,694	603,279	327,613	144,832	472,445
Group 3	228,211	266,025	494,236	292,447	195,460	487,907
Group 4	186,218	298,882	485,100	180,299	360,088	540,387
Group 5	49	400,000	400,049	57,607	-	57,607
Group 6	21	360,522	360,543	255,437	130,836	386,273
Group 7	199,913	150,087	350,000	127,231	302,773	430,004
Group 8	167,690	141,592	309,282	1,982	105,839	107,821
Group 9	36,406	255,205	291,611	5	309,856	309,861
Group 10	16,273	270,564	286,837	36,440	50,468	86,908
Total	**1,411,004**	**2,776,166**	**4,187,170**	**1,403,990**	**2,074,581**	**3,478,571**

*Excluding outstanding on commercial papers and subsidiaries.

Concentration of exposure in individual industries

To avoid excessive concentration of credit risk, the Bank monitors its exposure in individual industry sectors, defining the areas where the Bank'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)	**31.12.2007 %**	**31.12.2006 %**
Wholesale and sale on commission basis, except for trade with vehicles and motorcycles	17.0	15.6
Financial intermediation, except for insurance and retirement fund business	11.4	12.2
Provision of power, gas, steam and hot water	8.0	9.3
Production of food and beverages	7.2	5.7
Production of chemicals	5.2	5.3
Retail trade, except for trade with vehicles and motorcycles; servicing and repair of personal commodities	4.2	3.6
Postal services and telecommunications	3.6	5.0
Other business services	2.9	2.4
Sale, servicing and repair of vehicles and motorcycles, retail sale of car fuel	2.9	2.1
Production of rubber and plastic goods	2.5	3.1
Top 10 business sectors	**64.9**	**64.3**
Construction	2.4	3.6
Production of coke, oil refinery and atomic fuel	2.2	3.9
Production of equipment, otherwise unclassified	2.1	2.6
Land and pipeline transport	2.1	1.0
Production of machines and equipments	1.9	1.1
Production of metallic goods, except for machines and equipment	1.8	1.5
Production of goods out of other non-metallic resources	1.8	1.2
Production of other transportation equipment	1.5	1.7
Production of vehicles, trailers and semi-trailers	1.5	1.9
Production of tobacco goods	1.5	1.2
Top 20 business sectors	**83.7**	**84.0**
Other sectors	**16.3**	**16.0**
	100.0	**100.0**

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

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

w tys. zł	**31.12.2007**	**31.12.2006**
Gross receivables from economic entity and banks		
Financial	9,202,622	9,354,396
Production	3,248,892	2,636,108
Services	803,948	1,783,665
Other	3,689,529	3,190,252
	16,944,991	**16,964,421**
Gross receivables from individuals	**4,767,591**	**3,651,765**
	21,712,582	**20,616,186**

Operational risk

The Bank defines the operating risk as the risk inherent to the flawed, or ill-performing internal processes, people, or systems, or the external developments. The operating risk also includes the risk relating to business practices as well as the legal risk, or the risk of failure to comply with the effective legal regulations and the Bank's internal regulations.

All of the principles of the operating risk management, including the roles and responsibilities at different levels of the Bank's hierarchy have been defined in the Policy for the Operating Risk Management. The responsibility for monitoring the operating risk in the Bank is vested with the relevant Risk and the Control and Compliance System Committees. 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 Bank are the subject of inspections and assessment carried out by the internal audit.

For a number of years the Bank has managed the operating risk using a variety of tools and techniques (including chiefly the self-assessment process, check lists, limits and contingency planning). The operating risk management process is supported through qualitative and quantitative measurement of the operating risk. The monitoring processes the Bank uses serve to minimise the causes of development of any negative consequences of operational events (including operational losses), to reduce the probability of their occurrence and to minimise the severity of the potential consequences.

The operating risk management relies on the following key elements:
- Identification of risk,
- Limiting risk,
- Self-assessment of risk and audit,
- Risk monitoring,
- Measurement of risk,
- Reporting on any areas vulnerable to the operating risk.

The self-assessment process implemented in the Bank enables ongoing identification, audit, assessment, monitoring, measurement and reporting of the assessment of the quality of the control processes and the potential risk hazards. For a number of years the Bank has regularly collected data on the impact of operating risk related events (losses). The operating risk management process centralisation and automation introduced in the recent years has contributed to the substantial reduction of the incidence and the value of the operating losses.

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.

In the Management's opinion, the general level of the Bank's operating risk can be assessed as moderate, typical to the scope and scale of the Bank's operations. The Bank will concentrate its future actions in this area on the processes included in the Bank's risk profile .

The Bank follows the standard method of calculation of the operating risk related capital requirement.

The equity management

According to the Banking Law banks in Poland are obliged to maintain their equity at the level adequate for their specific business risks.

The Bank's equity amounted to PLN 5.5 bn as at 31 December 2007. Regulatory capital, which included increases and decreases set by Commission for Banking Supervision (KNB), amounted to PLN 3.1 bn. Such capital level is regarded as sufficient for conducting business activity and therefore the Bank plans to preserve current capital structure. The capital level is regularly monitored using capital adequacy ratio.

The Bank's Management Board decided to apply the standardized approach (implemented by KNB resolution) for calculating capital requirements due to credit and operational risk. The long-term Bank's goal is the implementation of the advanced approach for estimation of the above-mentioned risks.

Beginning from 2008 the Bank has launched the process of estimating internal capital. The Bank identifies significant risks and assesses the capital required for coverage of these risks.
The Bank determines policy of future dividend's payment in the process of capital management.

The dividend policy depends on the number of factors like the Bank's profits, the Bank's expectations concerning future financial results, the level of capital requirements, as well as tax, regulatory and legal issues.

44. Capital adequacy

The capital adequacy ratio was calculated according to the rules obtaining for the banks in Poland during reporting period.
As at 31 December 2007 the capital adequacy ratio 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) and became effectiveness on 1 April 2007. According to the rules stated in the mentioned resolution, Bank has took advantage of transitional period terminated to 31 December 2007 regarding to calculate of credit risks' capital adequacy ratio in the range of excluded internal rating method exposition. During this period it is allowed to use currently obtaining rules to calculate capital adequacy ratio.
As at 31 December 2006 the capital adequacy ratio was calculated according to the rules stated in the Resolution No. 4/2004 of the Commission for Banking Supervision of 8 September 2004 on the scope and detailed rules of stating capital requirements with respect to particular types of risk (...) (NBP Official Gazette No. 15, item 25 as amended).

	31.12.2007	**31.12.2006**
Total capital requirement	2,063,406	1,866,531
Funds held by the entity, including:	3,111,326	3,126,675
Primary funds (including reductions)	3,379,338	3,480,790
Counterpart funds	4,267	(81,501)
Reductions of the total primary and counterpart funds	272,279	272,614
Capital adequacy ratio	**12,06**	**13.40**

45. Statement of the Bank's Management Board

Accuracy and fairness of the statements presented

To the best knowledge of the Bank's Management Board, the annual financial data and the comparative data presented in the "The Annual Financial Statements of Bank Handlowy w Warszawie S.A. as at 31 December 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 Annual Report on Activities of the Management Board contained in this document is a true representation of the development, achievements and situation (together with a description of the main kind risks) of the Bank in 2007.

Selection of the entity authorized to examine financial statements

The entity authorized to examine financial statements KPMG Audyt Sp. z o.o., reviewing "The Annual Financial Statements of Bank Handlowy w Warszawie S.A. as at 31 December 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
13.03.2008	Sławomir Sikora	President of Management Board	
13.03.2008	Michał H. Mrożek	Vice- President of Management Board	
13.03.2008	Edward Wess	Vice- President of Management Board	
13.03.2008	Sonia Wędrychowicz-Horbatowska	Vice- President of Management Board	
13.03.2008	Witold Zielniński	Vice- President of Management Board	
13.03.2008	Lidia Jabłonowska - Luba	Member of Management Board	