citi handlowy

Interim Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. as at 30 June 2008

September 2008

Selected financial data

	In PLN '000		In EUR '000****	
	First Half of 2008	First Half of 2007	First Half of 2008	First Half of 2007
Interest income	1,095,247	942,858	314,943	244,987
Fee and commission income	383,419	430,237	110,254	111,791
Profit before tax	441,357	549,617	126,914	142,810
Net profit	350,171	439,570	100,693	114,216
Increase/decrease of net cash	(919,495)	898,743	(274,132)	238,659
Total assets*	38,235,610	38,907,984	11,399,323	10,862,084
Financial liabilities valued at amortized cost*	27,382,219	28,000,003	8,163,562	7,816,863
Shareholders' equity	5,231,116	5,216,797	1,559,572	1,385,309
Share capital	522,638	522,638	155,816	138,785
Number of shares	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN / EUR)	40.04	39.93	11.94	10.60
Capital adequacy ratio (%)*	11.63	12.86	11.63	12.86
Capital adequacy ratio including basic funds („tier 1 capital") (w %)**	11.81	13.06	11.81	13.06
Earnings per ordinary share (PLN / EUR)	2.68	3.36	0.77	0.87
Diluted net profit per ordinary share (in PLN)	2.68	3.36	0.77	0.87
Dividend declared or paid per share***	4.75	4.10	1.42	1.09

** The comparable financial data as at 31 December 2007.*

*** The presented data are related to balance as at 31 December 2007; the ratio calculations basis on own funds exclude supplementary funds*

**** The presented ratios are related to, respectively: dividends to be paid in 2008 from the appropriation of the 2007 profit and dividends distributed in 2007 from the appropriation of the 2006 profit.*

***** The following foreign exchange rates were applied to transfer PLN into EUR: for the balance sheet – NBP mid exchange rate as at 30 June 2008 of PLN 3.3542 (as at 31 December 2007: PLN 3.5820, as at 30 June 2007: 3.7658); for the income statement – the arithmetic average of month – end NBP exchange rates in first half of 2008 – PLN 3.4776 (in the first half of 2007: PLN 3.8486).*

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Consolidated income statement

in thousands of PLN	For a period *Note*	01.01. - 30.06. 2008	01.01. - 30.06. 2007
Interest and similar income	*4*	1,095,247	942,858
Interest expense and similar charges	*4*	(448,562)	(360,015)
Net interest income	*4*	**646,685**	**582,843**
Fee and commission income	5	383,419	430,237
Fee and commission expense	5	(54,024)	(66,577)
Net fee and commission income	**5**	**329,395**	**363,660**
Dividend income	*6*	4,716	801
Net income on financial instruments and revaluation	*7*	215,143	242,025
Net gain on investment debt securities	*8*	29,095	10,740
Net profit on investment equity instruments	*9*	(168)	43,993
Other operating income		61,121	53,400
Other operating expenses		(19,407)	(27,638)
Net other operating income	*10*	**41,714**	**25,762**
General administrative expenses	*11*	(742,514)	(701,281)
Depreciation expense	*12*	(49,831)	(55,485)
Profit / (loss) on sale of tangible fixed assets	*13*	1,447	(590)
Net impairment charges	*14*	(36,134)	45,663
Operating income		**439,548**	**558,131**
Share in profits / (losses) of undertakings accounted for under the equity method		1,809	(8,514)
Profit before tax		**441,357**	**549,617**
Income tax expenses	*15*	(91,186)	(110,047)
Net profit		**350,171**	**439,570**
Weighted average number of ordinary shares	*16*	130,659,600	130,659,600
Net profit per ordinary share (in PLN)	*16*	2.68	3.36
Diluted net profit per ordinary share (in PLN)	*16*	2.68	3.36
Including:			
Net profit for Bank's shareholders		350,171	439,570
Net profit for minority shareholders		-	-

Explanatory notes on pages: 9 – 83 are integral parts of financial consolidated statement

Consolidated balance sheet

In thousands of PLN	*Note*	**30.06.2008**	**31.12.2007**
ASSETS			
Cash and balances with central bank	*17*	2,443,861	3,321,503
Financial assets held-for-trading	*18*	4,312,394	5,135,708
Debt securities available-for-sale	*19*	6,753,584	6,467,638
Equity investments accounted for under the equity method	*20*	56,536	58,388
Other equity investments	*21*	20,609	21,909
Loans and advances	*22*	21,842,497	21,205,373
to financial sector		*7,767,905*	*8,718,832*
to non-financial sector		*14,074,592*	*12,486,541*
Property and equipment	*24*	597,661	612,797
land, buildings and equipment		*572,469*	*587,769*
investment property		*25,192*	*25,028*
Intangible assets	*25*	1,282,934	1,284,078
Income tax assets	*27*	361,300	374,468
Other assets	*28*	551,589	413,477
Non-current assets held-for-sale	*29*	12,645	12,645
Total assets		**38,235,610**	**38,907,984**
LIABILITIES			
Financial liabilities held-for-trading	*18*	3,825,553	4,373,146
Financial liabilities valued at amortized cost	*30*	27,382,219	28,000,003
deposits from		*26,086,453*	*26,896,411*
financial sector		*5,547,239*	*7,085,042*
non-financial sector		*20,539,214*	*19,811,369*
other liabilities		*1,295,766*	*1,103,592*
Provisions	*31*	50,016	37,548
Income tax liabilities	*27*	241	101,889
Other liabilities	*32*	1,746,465	792,314
Total liabilities		**33,004,494**	**33,304,900**
EQUITY			
Share capital	*33*	522,638	522,638
Share premium	*33*	3,029,703	3,028,809
Revaluation reserve	*33*	(280,422)	(182,450)
Other reserves	*33*	1,619,574	1,454,355
Retained earnings		339,623	779,732
Total equity		**5,231,116**	**5,603,084**
Total liabilities and equity		**38,235,610**	**38,907,984**

Explanatory notes on pages: 9 – 83 are integral parts of financial consolidated statement

Consolidated statement of changes in equity

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

Consolidated statement of changes in equity

In thousands of PLN	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	Minority equities	**Total equity**
Balance as at 1 January 2008	**522,638**	**3,028,809**	**(182,450)**	**1,454,355**	**779,732**	-	**5,603,084**
Valuation of financial assets available-for-sale	-	-	(91,859)	-	-	-	(91,859)
Transfer of valuation of sold financial assets available-for-sale to profit and loss account	-	-	(29,095)	-	-	-	(29,095)
Deferred income tax on valuation of financial assets available-for-sale	-	-	22,982	-	-	-	22,982
Foreign exchange gains and losses	-	-	-	(2,570)	-	-	(2,570)
Net profit	-	-	-	-	350,171		350,171
Dividends paid/to be paid	-	(615)	-	-	(620,982)	-	(621,597)
Transfers to capital	-	1,509	-	167,789	(169,298)	-	-
Closing balance as at 30 June 2008	**522,638**	**3,029,703**	**(280,422)**	**1,619,574**	**339,623**	**-**	**5,231,116**

Explanatory notes on pages: 9 – 83 are integral parts of financial consolidated statement

Consolidated statement of cash flows

In thousands of PLN — For a period	01.01. - 30.06. 2008	01.01. - 30.06. 2007
A. Cash flows from operating activities		
I. Net profit (loss)	**350,171**	**439,570**
II. Adjustments to reconcile net profit or loss to net cash provided by operating activities:	**(1,407,453)**	**468,816**
Current and deferred tax income, recognized in income statement	91,186	110,047
Share in net profits / (losses) of undertakings accounted for under the equity method	(1,809)	8,514
Amortization	49,831	55,485
Impairment	40,896	(42,053)
Net provisions (recoveries)	(4,762)	(3,610)
Income on sale of investments	(3,420)	32
Received interest	1,041,439	852,040
Retained interest	(496,429)	(379,123)
Other adjustments	(1,335,290)	(1,057,437)
Cash flows from operating profits before changes in operating assets and liabilities	**(618,358)**	**(456,105)**
Increase / decrease in operating assets (excl. cash and cash equivalents)	**(386,989)**	**40,657**
Increase / decrease in credit, loans and receivables	(708,942)	687,998
Increase / decrease in debt securities available for sale	(252,226)	(653,310)
Increase / decrease in equity investments	(446)	10,665
Increase / decrease in assets held-for-trading	808,843	(192,589)
Increase / decrease in other assets	(234,218)	187,893
Increase / decrease in operating liabilities (excl. cash and cash equivalents)	**(402,106)**	**884,264**
Increase / decrease in advances from central bank	-	(250,000)
Increase / decrease in financial liabilities valued at amortized cost	(769,489)	262,634
Increase / decrease in liabilities held-for-trading	(546,813)	375,439
Increase / decrease in other liabilities	914,196	496,191
Cash flows from operating activities	**(1,057,282)**	**908,386**
Income taxes (paid) refunded	**(60,849)**	**(90,039)**
III. Net cash flows from operating activities	**(1,118,131)**	**818,347**
B. Cash flows from investing activities		
Cash payments to acquire tangible assets	(17,266)	(32,520)
Cash receipts from the sale of tangible assets	7,514	2,104
Cash payments to acquire intangible assets	(8,174)	(7,287)
Cash receipts from the disposal of tangible assets available-for-sale	-	7,223
Other income from investing activities	3,239	-
Net cash flows from investing activities	**(14,687)**	**(30,480)**
C. Cash flows from financing activities		
Dividends paid	(615)	-
Inflows from long-term loans from financial sector	240,300	130,279
Repayment of long-term loans from financial sector	(18,503)	(17,695)
Net cash flows from financing activities	**221,182**	**112,584**
D. Effect of exchange rate changes on cash and cash equivalent	**(7,859)**	**(1,708)**
E. Increase / (Decrease) in net cash	**(919,495)**	**898,743**
F. Cash at the beginning of reporting period	**3,746,323**	**1,321,162**
G. Cash at the end of reporting period	**2,826,828**	**2,219,905**

Explanatory notes on pages: 9 – 83 are integral parts of financial consolidated statement

Explanatory notes to the consolidated financial statements

1. General information about the Issuer

This interim consolidated financial statements shows the results of operations of the Capital Group of Bank Handlowy w Warszawie S.A. ("the Group"), composed of Bank Handlowy w Warszawie S.A. ("the Bank") as the parent and its subordinated entities.

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

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

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

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

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

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

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

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

Subsidiaries	**Registered office**	**% of votes at the General Meeting of Shareholders**	
		30.06.2008	**31.12.2007**
Entities fully consolidated			
Dom Maklerski Banku Handlowego S.A.	Warsaw	100.00	100.00
Handlowy – Leasing Sp. z o.o.	Warsaw	100.00	100.00
Handlowy Investments S.A.	Luxembourg	100.00	100.00
PPH Spomasz Sp. z o.o. under liquidation	Warsaw	100.00	100.00
Entities accounted for under the equity method			
Handlowy Inwestycje Sp. z o.o.	Warsaw	100.00	100.00
Handlowy Investments II S.a.r.l.	Luxembourg	100.00	100.00
Bank Rozwoju Cukrownictwa S.A.	Poznań	100.00	100.00

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

2. Significant accounting policies

Statement of compliance

Interim consolidated financial statements of the Group was prepared according to conditions of International Accounting Standard no 34 „Interim Financial Reporting", approved by European Union, and other valid regulations.

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

Basis of preparation

These consolidated interim financial statements have been prepared for the period from 1 January 2008 to 30 June 2008. The comparable financial data is presented for the period from 1 January 2007 to 30 June 2007 and for Balance Sheet to 31 December 2007. 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.
IFRS 8 concerning operating 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 to implement IFRS 8.

Other standards, amendments to the standards and IFRIC interpretations recently endorsed or awaiting endorsement are either not relevant to the Group'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 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 first half of 2007 have been presented, compared with the data previously published in the "Interim Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for period ended 30 June 2007". 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 Group.

Basis of consolidation

Subordinated entities comprise subsidiaries and associates.

Subsidiaries - definition

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

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

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

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

Associates - definition

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

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

Foreign currency translation

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 date of the transaction.

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

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

In PLN		**30 June 2008**	**31 December 2007**	**30 June 2007**
1	USD	2.1194	2.4350	2.7989
1	CHF	2.0907	2.1614	2.2730
1	EUR	3.3542	3.5820	3.7658

Financial assets and financial liabilities

Classification

The Group classifies its financial instruments into the following categories:

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

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

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

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

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

b) Loans and receivables

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

c) Available-for-sale financial assets

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

d) Other financial liabilities

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

Recognition and exclusions

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

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

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

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

Measurement

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

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

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

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

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

Finance lease receivables

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

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

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

Equity investments – stocks and shares in other entities

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

Derivative instruments

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

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

Hedge accounting

The Group does not apply hedge accounting.

Offsetting financial instruments

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

Cash pooling

The Group offers its clients cash management services, which consolidate balances within the structure of related accounts ("cash pooling"). Such transactions net the positive and negative balances of participants' current accounts on a designated account of the entity, which manages the settlements. The consolidation of balances is executed at the end of the working day and at the beginning of the next working day the transaction is reversed. Cash pooling transactions are presented on a net basis, if only meet the requirements of IAS 39 regarding derecognizing of financial assets and liabilities from the balance sheet. Conditions of transaction's dues presented on a gross basis - accounts receivable are presented in Financial Statement as loans and accounts payable as deposits.

Sale and repurchase agreements

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

Impairment of assets measured at amortized cost

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

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

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

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

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

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

Write-downs for impairment of individually significant assets

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

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

Write-downs for impairment of not individually significant assets

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

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

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

Impairment of financial assets available-for-sale

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

Impairment of financial assets valued at cost

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

Impairment of assets other than financial assets

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

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

Calculation of recoverable amount

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

Reversal of impairment losses

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

Goodwill

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

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

Property and equipment and intangible assets (excluding goodwill)

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

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

Depreciation and amortization are calculated using the straight-line method over the expected useful life of an asset on the basis of rates that are approved in the depreciation and amortization plan for 2008.

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

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

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

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

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

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

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

Investment properties

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

Employee benefits

Short-term employee benefits

The Group's short-term employee benefits include wages, bonuses, holiday pay, sick pay and social security contributions.
Depending on their individual compensation category, employees may receive an award from the incentive fund, a bonus under the bonus scheme applicable in a given area or a discretionary annual bonus under the

internal employee compensation regulations. Bonuses and awards are granted after completion of the period for which the employee’s performance is evaluated.
Short-term employee benefits are recognized as an expense in the period when they were incurred.

Share-based payments

The Group's employees are entitled to participate in Citigroup equity compensation plans. In accordance with these plans the Group's employees may receive awards under stock option programs based on stock options granted on Citigroup common stock and also under stock award programs based on shares of Citigroup common stock in the form of deferred stock. These programs are deemed to be settled up in capital instruments according to IFRIC 11 and IFRS 2. According to requirements of standard, fair value of prize is determined on a day of awarding the prize and is presented in profit and loss account during period of gaining rights. Simultaneously according to Agreement between Group and Citigroup regulated the principles of program’s accounting., a provision is created for the Group future payments and is presented in “Other liabilities”. The provision amount is determined on the basis of fair value of the prizes on the day of their calculate and is updating on every statement day.

Long-term employee benefits

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

Defined contribution plans

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

Provisions

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

Restructuring provision

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

Equity

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

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

Calculating net income

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

Accruals and prepayments

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

Interest income and interest expenses

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

The effective interest method calculates the amortized cost of a financial asset or a financial liability and allocates interest income or interest expense to appropriate periods. The effective interest rate is a rate that precisely discounts the estimated future inflows or payments in the expected period until the maturity of the financial instrument to the carrying value of a financial asset or a financial liability. When calculating the effective interest rate, the Group takes into account all the terms and conditions of a financial instrument agreement (e.g. prepayments, call options, etc.), but excludes potential future losses in connection with non-recoverable loans. The calculation covers all the commissions payable to and receivable from the parties to the agreement, integral components of the effective interest rate, transaction costs and any other premiums and discounts. As a result, commissions that are an integral part of the effective interest rate are recognized as components of interest income.
In the case of financial assets or groups of similar financial assets for which impairment losses were recognized, interest income is measured using the interest rate that was used to discount the future cash flows to estimate such impairment losses.

Fee and commission income and expenses

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

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

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

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

Other operating income and expenses

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

Income tax

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

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

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

Segmental reporting

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

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

Non-current assets held-for-sale

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

Accounting estimates and judgments

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

Fair value of derivatives

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

The Group applies the following methods of measurement of particular types of derivative instruments:

- fx forwards – discounted cash flows model;
- options - Garman - Kohlhagen model;
- interest rate transactions - discounted cash flows model;
- futures - current quotations.

Impairment of loans

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

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

Impairment of available-for-sale assets

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

Impairment of financial assets valued at cost

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

Impairment of goodwill

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

3. Segmental reporting

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

– *Corporate Bank*

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

– *Consumer Bank*

Within the Consumer Bank segment the Group provides products and financial services to individuals and also to micro enterprises and individual entrepreneurs though the Citibusiness offer. Apart from maintaining bank accounts and providing an extensive lending and deposit offer, it also offers 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 is based on the Group's accounting policies as described in note 2 (Significant accounting policies).

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

Income statement by business segment for 2007

For the period	01.01 – 30.06.2008			01.01 – 30.06.2007		
In thousands of PLN	Corporate Bank	Consumer Bank	Total	Corporate Bank	Consumer Bank	Total
Net interest income	267,271	379,414	646,685	259,102	323,741	582,843
Net fee and commission income	134,435	194,960	329,395	155,175	208,485	363,660
Dividend income	2,469	2,247	4,716	784	17	801
Net income on financial instruments and revaluation	197,581	17,562	215,143	225,602	16,423	242,025
Net gain on investment (deposit) securities	29,095	-	29,095	10,740	-	10,740
Net gain on investment (capital) instruments	(168)	-	(168)	40,204	3,789	43,993
Other operating income	42,427	(713)	41,714	33,332	(7,570)	25,762
General administrative expenses	(331,015)	(411,499)	(742,514)	(327,292)	(373,989)	(701,281)
Depreciation expense	(34,119)	(15,712)	(49,831)	(39,348)	(16,137)	(55,485)
Profit/ (loss) on sale of tangible fixed assets	1,223	224	1,447	(616)	26	(590)
Net impairment losses	8,887	(45,021)	(36,134)	52,169	(6,506)	45,663
Operating income	**318,086**	**121,462**	**439,548**	**409,852**	**148,279**	**558,131**
Share in profits / (losses) of undertakings accounted for under the equity method	1,809	-	1,809	(8,514)	-	(8,514)
Profit before tax	**319,895**	**121,462**	**441,357**	**401,338**	**148,279**	**549,617**
Income tax expenses			(91,186)			(110,047)
Net profit			**350,171**			**439,570**

State on day	30.06.2008			31.12.2007		
Assets including:	32,813,054	5,422,556	**38,235,610**	34,030,227	4,877,757	**38,907,984**
Non-current assets held-for-sale	*12,645*	-	*12,645*	*12,645*	-	*12,645*
Liabilities	29,904,643	8,330,967	**38,235,610**	31,464,198	7,443,786	**38,907,984**

4. Interest income

In thousands of PLN	**01.01. – 30.06. 2008**	**01.01. – 30.06. 2007**
Interest and similar income from:		
Central Bank	23,536	14,136
Placements in banks	177,007	159,604
Loans and advances, of which:	682,030	525,340
financial sector	*8,832*	*10,605*
non-financial sector	*673,198*	*514,735*
Debt securities available-for-sale	171,383	209,035
Debt securities held-for-trading	41,291	34,743
	1,095,247	**942,858**
Interest expense and similar charges for:		
Central Bank	-	(100)
Deposits from banks	(26,566)	(73,254)
Deposits from financial sector (excl. banks)	(63,763)	(38,658)
Deposits from non-financial sector	(341,407)	(239,533)
Loans and advances received	(16,826)	(8,470)
	(448,562)	**(360,015)**
	646,685	**582,843**

Net interest income for first half of 2008 includes interest received on impaired loans, of PLN 7,825 thousand (for first half of 2007: PLN 9,828 thousand)

5. Net fee and commission income

In thousands of PLN	**01.01. – 30.06. 2008**	**01.01. – 30.06. 2007**
Fee and commission income:		
Insurance and investment products	126,011	142,958
Payment and credit cards	81,264	92,992
Payment services	65,339	65,869
Custody services	42,250	48,794
Brokerage operations	30,894	39,682
Cash management	17,486	17,593
Off-balance sheet guarantee liabilities	7,416	9,979
Off-balance sheet financial liabilities	3,387	4,320
Other	9,372	8,050
	383,419	**430,237**
Fee and commission expense:		
Payment and credit cards	(26,724)	(37,322)
Brokerage operations	(16,781)	(17,081)
Fees paid to the National Depository for Securities (KDPW)	(4,477)	(5,282)
Brokers fees	(3,290)	(5,387)
Other	(2,752)	(1,505)
	(54,024)	**(66,577)**
	329,395	**363,660**

The net commission result for first half of 2008 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 86,699 thousand (for first half of 2007: PLN 98,623 thousand) and commission expenses in amount of PLN 26,724 thousand (for first half of 2007: PLN 37,322 thousand).

6. Dividend income

In thousands of PLN	01.01. – 30.06. 2008	01.01. – 30.06. 2007
Securities available-for-sale	4,651	619
Securities held-for-trading	65	182
	4,716	**801**

7. Net gain on financial instruments an revaluation

In thousands of PLN	01.01. – 30.06. 2008	01.01. – 30.06. 2007
Net income on financial instruments valued at fair value through profit and loss account:		
Debt instruments	2,916	37,638
Capital instruments	(630)	791
Investment certificates	2	-
Derivative instruments including:	(8,136)	54,042
Interest rate	*(8,175)*	*53,362*
Equity	-	*526*
Commodity	*39*	*154*
	(5,848)	**92,471**
Net income on FX operations		
Operations on FX derivative instruments	371,217	154,776
FX gains and losses (revaluation)	(150,226)	(5,222)
	220,991	**149,554**
	215,143	**242,025**

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

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

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

8. Net gain on investment debt securities

In thousands of PLN	01.01. – 30.06. 2008	01.01. – 30.06. 2007
Profits realized on available-for-sale securities:	29,174	12,815
Losses realized on available-for-sale securities:	(79)	(2,075)
	29,095	**10,740**

9. Net gain on investment equity securities

In thousands of PLN	01.01. – 30.06. 2008	01.01. – 30.06. 2007
Net gain on investment equity securities available-for-sale	**(168)**	**43,993**

10. Net other operating income

In thousands of PLN	**01.01. – 30.06. 2008**	**01.01. – 30.06. 2007**
Other operating income:		
Data processing for related parties	28,589	30,994
Income from vindication of amount due	7,477	-
Income from office rent	1,604	3,925
Investment property	974	145
Settlement of perpetual usufruct right to land	-	758
Other	22,477	17,578
	61,121	**53,400**
Other operating expenses:		
Vindication expenses	(5,724)	(2,544)
Investment property	(546)	(3,011)
Provisions for UOKiK dispute	-	(10,228)
Other	(13,137)	(11,855)
	(19,407)	**(27,638)**
	41,714	**25,762**

11. General administrative expenses

In thousands of PLN	**01.01. – 30.06. 2008**	**01.01. – 30.06. 2007**
Staff expenses:		
Remuneration costs, including:	(321,277)	(276,091)
Provisions for retirement benefits	*(9,248)*	*(8,184)*
Perks and rewards including:	(71,568)	(68,119)
Payments related to own equity instruments	*(677)*	*2,089*
Rewards for long time employment	*-*	*(5,674)*
	(392,845)	**(344,210)**
Administrative expenses		
Telecommunication fees and hardware purchases costs	(74,371)	(84,339)
Advisory, audit, consulting and other services costs	(61,411)	(67,134)
Building maintenance and rent costs	(54,537)	(53,331)
Marketing	(36,587)	(37,433)
Transaction costs	(31,319)	(32,635)
Postal services costs	(15,469)	(13,923)
Training and education costs	(5,461)	(5,005)
Bank supervision costs	(3,904)	-
Other expenses	(66,610)	(63,271)
	(349,669)	**(357,071)**
	(742,514)	**(701,281)**

Staff expenses in first half of 2008 include PLN 10,219 thousand of remuneration and bonuses paid and payable to current and former members of the Management Board (in first half of 2007: PLN 7,623 thousands).

12. Depreciation expense

In thousands of PLN	**01.01. – 30.06. 2008**	**01.01. – 30.06. 2007**
Depreciation of tangible assets	(40,514)	(44,420)
Depreciation of intangible assets	(9,317)	(11,065)
	(49,831)	**(55,485)**

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

In thousands of PLN	**01.01. – 30.06. 2008**	**01.01. – 30.06. 2007**
Profits on:		
Investments in dependent entities	-	177
Other tangible fixed assets	1,601	544
	1,601	**721**
Losses on:		
Assets held-for-sale*	-	(1,137)
Other tangible fixed assets	(154)	(174)
	(154)	**(1,311)**
	1,447	**(590)**

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

14. Net impairment losses

Net impairment write-downs of financial assets

In thousands of PLN	**01.01. – 30.06. 2008**	**01.01. – 30.06. 2007**
Impairment write-downs:		
Loans and receivables valued at amortized cost	(173,767)	(177,860)
Other	(7,825)	(9,828)
	(181,592)	**(187,688)**
Reversals of impairment write-downs:		
Loans and receivables valued at amortized cost	**140,696**	**229,741**
	(40,896)	**42,053**

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

In thousands of PLN	**01.01. – 30.06. 2008**	**01.01. – 30.06. 2007**
Charges to provisions for off-balance sheet commitments	(22,107)	(35,584)
Releases of provisions for off-balance sheet commitments	26,869	39,194
	4,762	**3,610**
Net impairment losses	**(36,134)**	**45,663**

15. Income tax expense

Recognized in the income statement

In thousands of PLN	**01.01. – 30.06. 2008**	**01.01. – 30.06. 2007**
Current tax:		
Current year	(2,860)	(104,097)
Adjustments for prior years	(1,365)	8,856
	(4,225)	**(95,241)**
Deferred tax:		
Origination and reversal of temporary differences	(88,401)	(14,137)
Movement in receivables arising from tax deductions	(259)	(669)
Other	1,699	-
	(86,961)	**(14,806)**
Income tax expense	**(91,186)**	**(110,047)**

Reconciliation of effective tax rate:

In thousands of PLN	**01.01. – 30.06. 2008**	**01.01. – 30.06. 2007**
Profit before tax	441,357	549,617
Income tax at the domestic tax rate of 19%	(83,858)	(104,427)
Expenses not tax deductible	(5,764)	(16,987)
Taxable income not in income statement	(2,222)	(58,462)
Deductible expenses not in income statement	3,043	45,931
Non taxable income	366	15,092
Other	(2,751)	8,806
Income tax expense	**(91,186)**	**(110,047)**
Effective tax rate	**21%**	**20%**

Deferred tax recognized directly in equity

Deferred tax recognized directly in equity as at 30 June 2008 is related to debt and capital instruments available-for-sale and amounts to PLN 65,778 thousand (30 June 2007: PLN 44,794 thousand).

16. Earnings per share

As at 30 June 2008 earnings per share amounted to PLN 2.68 (30 June 2007: PLN 3.36)

The calculation of earnings per share as at 30 June 2008 was based on the consolidated profit attributable to owners of ordinary shares of PLN 350,171 thousand (30 June 2007: PLN 439,570 thousand) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2008 of 130,659,600 (30 June 2007: 130,659,600).
The Bank does not have any ordinary shares that may have a dilution impact.

17. Cash and balances with the Central Bank

In thousands of PLN	**30.06.2008**	**31.12.2007**
Cash at hand	396,238	395,549
Current balances with Central Bank	2,047,623	2,925,954
	2,443,861	**3,321,503**

On the current account in the National Bank of Poland (NBP), the Group maintains an obligatory reserve with the declared balance as at 30 June 2008 of PLN 871,005 thousand (31 December 2007: PLN 869,304 thousand). The Group may use the obligatory reserve provided that the sum of the average monthly balance on the current account in NBP is not lower than the declared balance.

18. Financial assets and liabilities held-for-trading

In thousands of PLN	**30.06.2008**	**31.12.2007**
Financial assets held for trading		
Debt securities		
Bonds and notes issued by:		
Banks	46,885	-
Financial sector	46,781	50,771
Non-financial sector	64,807	70,847
Government	530,400	916,555
Other debt securities issued by:		
Banks	43,521	85,883
	732,394	**1,124,056**
Including:		
Listed	*530,400*	*915,891*
Unlisted	*201,994*	*208,165*
Derivative financial instruments	**3,577,432**	**4,005,981**
Equity instruments	**2,568**	**5,671**
Including:		
Listed	*2,568*	*5,671*
Unlisted	-	-
	4,312,394	**5,135,708**

Debt securities held for trading (maturity):

In thousands of PLN	**30.06.2008**	**31.12.2007**
up to 1 month	15,422	4,598
1 month - 3 months	108,529	108,804
3 months - 1 year	186,768	88,516
1 year - 5 years	155,413	250,381
over 5 years	266,262	671,757
	732,394	**1,124,056**

Financial liabilities held- for- trading:

In thousands of PLN	**30.06.2008**	**31.12.2007**
Short positions in financial assets	111,309	34,932
Derivative financial instruments	3,714,244	4,338,214
	3,825,553	**4,373,146**

As at 30 June 2008 and 31 December 2007 the Group did not hold any financial assets and financial liabilities initially designated for valuation at fair value through the profit and loss account.

Derivative financial instruments as at 30 June 2008

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	**16,850,555**	**149,271,026**	**91,362,038**	**27,387,139**	**284,870,758**	**2,173,926**	**2,494,966**
FRA-purchase	-	58,111,935	13,550,000	-	71,661,935	211,977	16
FRA-sale	-	58,568,430	21,400,000	-	79,968,430	59	244,191
Interest rate swaps (IRS)	14,413,585	30,728,333	53,827,193	23,575,465	122,544,576	1,535,745	1,699,200
Currency- interest rate swaps (CIRS)	909,986	1,314,736	2,126,273	2,177,506	6,528,501	404,053	533,191
Interest rate options purchased	-	50,000	-	817,084	867,084	17,911	-
Interest rate options sold	-	50,000	-	817,084	867,084	-	17,911
Future contracts-purchase*	254,325	-	-	-	254,325	3,062	60
Future contracts-sale*	1,272,659	447,592	458,572	-	2,178,823	1,119	397
Currency instruments	**31,373,042**	**24,454,157**	**8,956,472**	**553,924**	**65,337,595**	**1,386,488**	**1,203,391**
FX forward	5,128,782	5,857,603	951,298	273,912	12,211,595	196,665	624,031
FX swap	20,199,920	3,901,397	138,846	-	24,240,163	903,248	293,596
Foreign exchange options purchased	2,981,873	7,282,990	3,893,061	132,212	14,290,136	265,828	20,316
Foreign exchange options sold	3,062,467	7,412,167	3,973,267	147,800	14,595,701	20,747	265,448
Securities transactions	**717,761**	**99,316**	**22,884**	-	**839,961**	**10,003**	**8,873**
Share options (purchase)	-	49,658	11,442	-	61,100	4,727	3,415
Share options (sale)	-	49,658	11,442	-	61,100	3,415	4,727
Securities purchased pending delivery	309,136	-	-	-	309,136	1,240	610
Securities sold pending delivery	408,625	-	-	-	408,625	621	121
Commodity transactions	**29,230**	**36,116**	-	-	**65,346**	**7,014**	**7,014**
Swaps	2,790	19,616	-	-	22,406	3,947	3,947
Purchase options	13,220	8,250	-	-	21,470	3,067	-
Sold options	13,220	8,250	-	-	21,470	-	3,067
Derivative instruments total	**48,970,588**	**173,860,615**	**100,341,394**	**27,941,063**	**351,113,660**	**3,577,431**	**3,714,244**

* Exchange-traded products

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**	**208,779,554**	**52,547,416**	**464,886,759**	**2,839,478**	**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	1,622,170	2,299,842	5,567,660	317,098	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**	**214,088,552**	**53,160,644**	**526,786,657**	**4,005,981**	**4,338,214**

*Exchange-traded products

Foreign currency contracts

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

	Weighted average contracted exchange rates		**Notional amount**	
In thousands of PLN	**30.06.2008**	**31.12.2007**	**30.06.2008**	**31.12.2007**
Buy Euro				
Less than three months	3.5675	3.7729	6,710,644	9,510,016
Between three months and one year	3.5951	3.7351	10,812,068	8,756,471
More than one year	3.5204	3.7478	4,329,746	2,172,671
Sell Euro				
Less than three months	3.4596	3.7110	8,953,148	12,190,066
Between three months and one year	3.5891	3.6762	9,559,279	7,780,681
More than one year	3.5074	3.7279	3,662,439	1,853,468
Buy US Dollars				
Less than three months	2.2327	2.5844	7,921,990	6,272,420
Between three months and one year	2.4385	2.7148	1,404,410	3,132,427
More than one year	2.6431	2.7516	744,621	1,144,284
Sell US Dollars				
Less than three months	2.2774	2.5587	9,934,446	8,065,961
Between three months and one year	2.4739	2.7710	1,643,330	3,359,748
More than one year	2.6115	2.7376	637,682	922,329
Buy Swiss Franc				
Less than three months	2.0798	2.1985	27,597	6,484
Between three months and one year	2.1268	-	10,140	-
Sell Swiss Franc				
Less than three months	2.0773	2.1564	2,241	18,178
Between three months and one year	2.1273	-	6,899	-
Buy Pound Sterling				
Less than three months	4.6306	5.4832	164,096	64,519
Between three months and one year	4.6809	5.5551	172,775	86,060
More than one year	4.6186	5.7650	185,457	26,292
Sell Pound Sterling				
Less than three months	4.3867	5.2544	174,683	45,498
Between three months and one year	4.8042	5.7292	100,989	43,385
More than one year	4.5485	5.7650	122,653	26,292

19. Debt securities available-for-sale

In thousands of PLN	**30.06.2008**	**31.12.2007**
Bonds and notes issued by:		
Central Bank	369,902	377,428
Non-financial sector	2,002	88,135
Government	6,381,680	6,002,075
	6,753,584	**6,467,638**
Including:		
Listed instruments	*6,123,931*	*5,933,705*
Unlisted instruments	*629,653*	*533,933*

Debt securities available-for-sale (maturity):

In thousands of PLN	**30.06.2008**	**31.12.2007**
up to 1 month	-	4,994
1 month - 3 months	-	-
3 months - 1 year	1,115,558	602,493
1 year - 5 years	2,745,900	2,761,921
over 5 years	2,892,126	3,098,230
	6,753,584	**6,467,638**

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

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

In thousands of PLN	**01.01. – 30.06. 2008**	**01.01. – 31.12. 2007**
As at 1 January	**6,467,638**	**8,247,313**
Increases (in respect of)		
Purchases	26,256,097	113,732,927
Amortization of discount, premium and interest	62,758	95,641
Decreases (in respect of)		
Purchases	(25,701,237)	(115,121,563)
Revaluation	(120,953)	(116,619)
FX differences	(192,099)	(306,985)
Amortization of discount, premium and interest	(18,620)	(63,076)
As at end of period	**6,753,584**	**6,467,638**

20. Equity investments accounted for under the equity method

In thousands of PLN	**30.06.2008**	**31.12.2007**
Stocks and shares in subordinated entities	**56,536**	**58,388**
Including:		
Listed instruments	-	-
Unlisted instruments	*56,536*	*58,388*

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

In thousands of PLN	**01.01. – 30.06. 2008**	**01.01. – 31.12. 2007**
As at 1 January	**58,388**	**67,910**
Increases (in respect of)		
Revaluation	413	599
Decrease (in respect of)		
Revaluation	(2,265)	(10,121)
As at end of period	**56,536**	**58,388**

21. Other equity investments

In thousands of PLN	**30.06.2008**	**31.12.2007**
Stocks and shares in other entities	55,728	57,028
Impairment	(35,119)	(35,119)
	20,609	**21,909**
Including:		
Listed instruments	-	*1,300*
Unlisted instruments	*20,609*	*20,609*

The change in other equity investments is as follows:

In thousands of PLN	**01.01. – 30.06. 2008**	**01.01. – 31.12. 2007**
As at 1 January	**21,909**	**54,618**
Increases (in respect of)		
Purchase	-	2,930
Revaluation	-	31,650
Decreases (in respect of)		
Sales	(1,299)	(32,731)
Revaluation	(1)	(34,558)
As at end of period	**20,609**	**21,909**

Financial information on subordinated entities as at 30 June 2008

Subordinated entities consolidated under the full method

In thousands of PLN

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY – LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	97.47	1,262,371	1,083,288	179,083	56,089	5,807
HANDLOWY – INVESTMENTS S.A. [1)]	Luxemburg	Investment activity	Subsidiary undertaking	100.00	27,972	360	27,612	2,016	1,534
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary undertaking	100.00	631,740	545,168	86,572	50,208	4,132
PPH SPOMASZ Sp. z o.o. under liquidation	Warsaw	-	Subsidiary undertaking	100.00	Entity under liquidation				

Other entities

In thousands of PLN

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
BANK ROZWOJU CUKROWNICTWA S.A.	Poznań	Banking	Subsidiary undertaking	100.00	40,023	40,413	380	40,033	916	399
HANDLOWY - INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	80.97	6,928	7,071	216	6,855	68	41
HANDLOWY INWESTYCJE Sp. z o.o.[2)]	Warsaw	Investment activity	Subsidiary undertaking	100.00	9,586	16,385	3,924	12,461	1,028	701

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

The explanation of indirect relationships:

1/ Indirect relationship via Handlowy Investments S.A

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY - INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	19.03	1,337	7,071	216	6,855	68	41

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	1,262,371	1,083,288	179,083	56,089	5,807

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

Financial data concerning subordinated entities as at 31 December 2007

Subordinated entities consolidated under the full method

In thousands of PLN

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY – LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	97.47	1,133,298	921,290	212,008	73,320	13,812
HANDLOWY – INVESTMENTS S.A. 1)	Luxembourg	Investment activity	Subsidiary undertaking	100.00	28,735	86	28,649	39,813	33,592
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary undertaking	100.00	437,956	338,173	99,783	92,617	18,851
PPH SPOMASZ Sp. z o.o. under liquidation	Warsaw	-	Subsidiary undertaking	100.00	Entity under liquidation				

Other entities

In thousands of PLN

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
BANK ROZWOJU CUKROWNICTWA S.A.	Poznań	Banking	Subsidiary undertaking	100.00	39,609	40,084	450	39,634	1,563	466
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	11,345	19,102	7,342	11,760	1,374	925

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

The explanation of indirect relationships:

1/ Indirect relationship via Handlowy Investments S.A.

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY - INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	19.03	1,428	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	1,133,298	921,290	212,008	73,320	13,812

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

22. Loans and advances

Loans and advances (by category)

In thousands of PLN	**30.06.2008**	**31.12.2007**
Loans and advances to the financial sector:		
Current accounts of banks	382,967	424,820
Loans, placements and advances, including:	7,249,861	8,252,222
placements in banks	*6,655,826*	*7,394,904*
Purchased receivables	10,403	24,311
Realized guarantees	178	205
Receivables subject to securities sale and repurchase agreements	143,171	57,097
Other receivables	56,683	36,665
	7,843,263	8,795,320
Impairment write-offs	(75,358)	(76,488)
	7,767,905	**8,718,832**
Loans and advances to the non-financial sector:		
Loans and advances	13,863,849	12,392,630
Purchased receivables	284,167	282,773
Realized guarantees	42,338	45,472
Other receivables	1,258,050	1,131,442
	15,448,404	13,852,317
Impairment write-offs	(1,373,812)	(1,365,776)
	14,074,592	**12,486,541**
Loans and advances	**21,842,497**	**21,205,373**

Loans and advances - gross (by time to maturity)

In thousands of PLN	**30.06.2008**	**31.12.2007**
Loans and advances to the financial sector:		
- banks and other monetary financial institutions		
up to 1 month	2,892,890	3,034,173
1 month- 3 months	867,694	2,299,204
3 months- 1 year	3,154,033	1,937,203
1 year- 5 years	432,967	760,401
over 5 years	-	45,701
	7,347,584	**8,076,682**
- other financial institutions		
up to 1 month	337,297	553,990
1 month- 3 months	84,400	5,147
3 months- 1 year	15,031	98,744
1 year- 5 years	48,354	48,582
over 5 years	10,597	12,175
	495,679	**718,638**
Loans and advances from financial sector – gross	**7,843,263**	**8,795,320**

In thousands of PLN	**30.06.2008**	**31.12.2007**
Loans and advances to the non-financial sector:		
up to 1 month	8,650,199	7,620,951
1 month- 3 months	702,373	733,892
3 months- 1 year	1,568,000	1,447,324
1 year- 5 years	4,019,496	3,703,021
over 5 years	508,336	347,129
	15,448,404	**13,852,317**
Loans and advances – gross	**23,291,667**	**22,647,637**

Finance lease receivables

The Group operates on the leasing market through its subordinated entity Handlowy – Leasing sp. z o.o.. The Group provides finance leases of vehicles, machines and equipment.

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

In thousands of PLN	**30.06.2008**	**31.12.2007**
Gross finance lease receivables	1,396,257	1,242,754
Unearned finance income	(149,877)	(117,332)
Net finance lease receivables	**1,246,380**	**1,125,422**
Gross finance lease receivables by time to maturity:		
Less then 1 year	429,557	440,294
between 1 and 5 years	952,936	792,606
over 5 years	13,764	9,854
	1,396,257	**1,242,754**
Net finance lease receivables by time to maturity:		
Less then 1 year	363,634	387,747
between 1 and 5 years	869,284	728,076
over 5 years	13,462	9,599
	1,246,380	**1,125,422**

As at 30 June 2008 impairment for unrecoverable finance lease receivables amounted to PLN 35,921 thousand (as at 31 December 2007 amounted PLN 38,687 thousand).

Finance lease income is presented in interest income.

23. Impairment of loans and advances

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

In thousands of PLN	**01.01. – 30.06. 2008**	**01.01. – 31.12. 2007**
Balance as at 1 January	**1,442,264**	**1,632,707**
Related to:		
Receivables from banks	1,886	9,572
Receivables from other customers of financial and non-financial sector	1,440,378	1,623,135
Change in impairment write-downs	6,906	(190,443)

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

In thousands of PLN	**01.01. – 30.06. 2008**	**01.01. – 31.12. 2007**
Charges	173,767	357,977
Write-offs	(39,423)	(191,340)
Amounts released	(140,696)	(418,212)
Other	13,258	61,132
Balance as end of period	**1,449,170**	**1,442,264**
Related to:		
Receivables from banks	1,630	1,886
Receivables from other customers of financial and non-financial sector	1,447,540	1,440,378

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

In thousands of PLN	**30.06.2008**	**31.12.2007**
Portfolio impairment loss	409,560	385,638
Individual impairment loss	982,824	1,006,747
Incurred but not reported losses	56,786	49,879

24. Property and equipment

Land, buildings and equipment

In thousands of PLN	Land and buildings	Machines and equipment	Vehicles	Other	Under construction	Total
Gross value:						
Balance as at 1 January 2007	**746,092**	**694**	**63,347**	**665,981**	**21,486**	**1,497,600**
Additions:						
Purchases	1,556	237	456	27,399	46,431	76,079
Other increases	-	-	-	7,135	-	7,135
Disposals:						
Disposals	(179)	-	(14,212)	(3,859)	-	(18,250)
Classified as investment property	(12,404)	-	-	(60)	(18,144)	(30,608)
Other decreases	(5,995)	(4)	(151)	(107,019)	-	(113,169)
Reclassification	13,643	-	19,344	7,952	(43,374)	(2,435)
Balance as at 31 December 2007	**742,713**	**927**	**68,784**	**597,529**	**6,399**	**1,416,352**
Balance as at 1 January 2008	**742,713**	**927**	**68,784**	**597,529**	**6,399**	**1,416,352**
Additions:						
Purchases	661	94	10,351	5,976	10,205	27,287
Other increases	-	-	-	1,963	-	1,963
Disposals:						
Disposals	(105)	-	(8,110)	(536)	(1,602)	(10,353)
Classified as investment property	(164)	-	-	-	-	(164)
Other decreases	(36)	-	(97)	(16,729)	-	(16,862)
Reclassification	4,253	-	3,147	1,172	(9,267)	(695)
Balance as at 30 June 2008	**747,322**	**1,021**	**74,075**	**589,375**	**5,735**	**1,417,528**

In thousands of PLN	Land and buildings	Machines and equipment	Vehicles	Other	Under construction	Total
Depreciation and amortization						
Balance as at 1 January 2007	**252,258**	**591**	**27,515**	**588,376**	**-**	**868,740**
Increases:						
Depreciation charge for the period	31,904	192	12,949	42,902	-	87,947
Other increases	-	-	-	3,553	-	3,553
Decreases:						
Disposals	(179)	-	(11,572)	(3,837)	-	(15,588)
Classified as investment property	(4,005)	-	-	(11)	-	(4,016)
Other decreases	(5,404)	(3)	(60)	(106,586)	-	(112,053)
Balance as at 31 December 2007	**274,574**	**780**	**28,832**	**524,397**	**-**	**828,583**
Balance as at 1 January 2008	**274,574**	**780**	**28,832**	**524,397**	**-**	**828,583**
Increases:						
Depreciation charge for the period	15,244	145	5,365	19,760	-	40,514
Other increases	-	-	-	910	-	910
Decreases:						
Disposals	(58)	-	(7,722)	(385)	-	(8,165)
Other decreases	-	-	(334)	(16,449)	-	(16,783)
Balance at 30 June 2008	**289,760**	**925**	**26,141**	**528,233**	**-**	**845,059**
Carrying amounts						
As at 1 January 2007	493,834	103	35,832	77,605	21,486	628,860
As at 31 December 2007	468,139	147	39,952	73,132	6,399	587,769
As at 1 January 2008	468,139	147	39,952	73,132	6,399	587,769
As at 30 June 2008	457,562	96	47,934	61,142	5,735	572,469

Investment properties

In thousands of PLN	**01.01. – 30.06. 2008**	**01.01. – 31.12. 2007**
Balance as at 1 January	**25,028**	**9,386**
Increases:		
Reclassified from Bank's properties	164	26,592
Decreases:		
Disposals	-	(920)
Classify as tangible assets held for sale	-	(8,466)
Revaluation	-	(1,564)
Balance as at end of period	**25,192**	**25,028**

25. Intangible assets

In thousands of PLN	Goodwill	Patents and trademarks	Software	Other intangible assets	Prepay-ments	Total
Gross value:						
Balance as at 1 January 2007	**1,245,976**	**1,651**	**226,607**	**19,088**	**43**	**1,493,365**
Additions:						
Purchases	-	-	8,730	-	10,545	19,275
Decreases:						
Reclassification	-	-	5,468	-	(5,530)	(62)
Balance as at 31 December 2007	**1,245,976**	**1,651**	**240,805**	**19,088**	**5,058**	**1,512,578**
Balance as at 1 January 2008	**1,245,976**	**1,651**	**240,805**	**19,088**	**5,058**	**1,512,578**
Additions:						
Purchases	-	-	4,850	-	3,323	8,173
Reclassification	-	-	6,894	-	(6,894)	-
Balance as at 30 June 2008	**1,245,976**	**1,651**	**252,549**	**19,088**	**1,487**	**1,520,751**
Depreciation and amortization:						
Balance as at 1 January 2007	**-**	**1,639**	**193,741**	**12,232**	**-**	**207,612**
Increases:						
Depreciation charge for the period	-	-	18,126	2,762	-	20,888
Balance as at 31 December 2007	**-**	**1,639**	**211,867**	**14,994**	**-**	**228,500**
Balance as at 1 January 2008	**-**	**1,639**	**211,867**	**14,994**	**-**	**228,500**
Increases:						
Depreciation charge for the period	-	-	8,437	880	-	9,317
Balance as at 30 June 2008	**-**	**1,639**	**220,304**	**15,874**	**-**	**237,817**
Carrying amounts						
As at 1 January 2007	1,245,976	12	32,866	6,856	43	1,285,753
As at 31 December 2007	1,245,976	12	28,938	4,094	5,058	1,284,078
As at 1 January 2008	1,245,976	12	28,938	4,094	5,058	1,284,078
As at 30 June 2008	1,245,976	12	32,245	3,214	1,487	1,282,934

As at 30 June 2008, goodwill includes the amount of PLN 1,243,645 thousand arising from the merger of Bank Handlowy w Warszawie SA and Citibank (Poland) S.A. on 28 February 2001 and the amount of PLN 2,331 thousand as a result of the purchase of an organized part of an enterprise from ABN AMRO Bank (Poland) S.A. on 1 March 2005.

26. Impairment test for goodwill

According to MSR 36 "Lost of assets' value", the Group is preparing annual tests regarding lost of the company's value. Tests are carried out according to estate at 31 December of every reporting year. Detailed information concerning test, including allocation of goodwill to cash generating units and basics of the units received value valuation, were described in note no 26 "Test of value lost for goodwill" for the annual consolidated financial statement of Grupa Kapitałowa Banku Handlowego w Warszawie S.A. for period ended 31 December 2007.

27. Income tax assets and liabilities

In thousands of PLN	**30.06.2008**	**31.12.2007**
Income tax assets*		
Current tax	51,322	770
Deferred tax	309,978	373,698
	361,300	**374,468**
Income tax liabilities*		
Current tax	**241**	**101,889**

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

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

Deferred tax assets are attributable to the following:

In thousands of PLN	**30.06.2008**	**31.12.2007**
Interest accrued and other expense	7,926	15,341
Loan loss provisions	100,806	92,755
Unrealized premium	15,301	12,389
Unrealized financial instruments valuation expenses	392,979	533,044
Negative pricing of securities	1,063	4,215
Income collected in advance	17,736	17,707
Valuation of shares	6,335	5,986
Commissions	6,048	5,333
Debt securities available-for-sale	65,778	42,797
Unrealized cost related to asymmetric transaction	64,822	156,767
Staff expenses and other cost due to pay	61,044	61,838
Differences between balance sheet and tax value of leases	14,523	10,777
Other	24,907	19,988
Deferred tax assets	**779,268**	**978,937**

Deferred tax liabilities are attributable to the following:

In thousands of PLN	**30.06.2008**	**31.12.2007**
Accrued interest income	67,221	71,652
Unrealized premium from options	363	475
Unrealized financial instruments valuation income	344,287	482,766
Unrealized securities discount	927	319
Incomes to receive	8,821	8,406
Positive valuation of securities	444	3,719
Investment relief	21,393	21,706
Valuations of shares	1,496	1,215
Other	24,338	14,981
Deferred tax provisions	**469,290**	**605,239**

Movement in temporary differences during the year

In thousands of PLN	Balance as at 1 January 2007	Adjustments recognized in income	Adjustments recognized in equity	Balance as at 31 December 2007
Interest accrued and other expense	17,240	(1,899)	-	15,341
Loan loss provisions	107,515	(14,760)	-	92,755
Subordinated loans provisions	547	(547)	-	-
Unrealized premium	7,346	5,043	-	12,389
Unrealized financial instruments valuation expense	637,714	(104,670)	-	533,044
Negative valuation of securities	683	3,532	-	4,215
Income collected in advance	27,055	(9,348)	-	17,707
Valuation of shares	68	5,918	-	5,986
Commission	5,666	(333)	-	5,333
Debt securities available-for-sale	19,118	-	23,679	42,797
Unrealized cost related to asymmetric transaction	74,258	82,509	-	156,767
Staff expenses and other cost due to pay	53,707	8,131	-	61,838
Differences between balance sheet and tax value of leases	-	10,777	-	10,777
Other	21,924	(1,936)	-	19,988
	972,841	**(17,583)**	**23,679**	**978,937**

In thousands of PLN	Balance as at 1 January 2007	Adjustments recognized in income	Balance as at 31 December 2007
Interest accrued (income)	63,810	7,842	71,652
Unrealized premium from options	133	342	475
Unrealized financial instruments valuation income	618,827	(136,061)	482,766
Unrealized 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
Valuation of shares	667	548	1,215
Differences between balance sheet and tax value of leases	303	(303)	-
Other	10,218	4,763	14,981
	723,797	**(118,558)**	**605,239**

In thousands of PLN	Balance as at 1 January 2008	Adjustments recognized in income	Adjustments recognized in equity	Balance as at 30 June 2008
Interest accrued and other expense	15,341	(7,415)	-	7,926
Loan loss provisions	92,755	8,051	-	100,806
Unrealized premium	12,389	2,912	-	15,301
Unrealized financial instruments valuation expenses	533,044	(140,065)	-	392,979
Negative valuation of securities	4,215	(3,152)	-	1,063
Income collected in advance	17,707	29	-	17,736
Valuation of shares	5,986	349	-	6,335

In thousands of PLN	Balance as at 1 January 2008	Adjustments recognized in income	Adjustments recognized in equity	Balance as at 30 June 2008
Commissions	5,333	715	-	6,048
Debt securities available-for-sale	42,797	-	22,981	65,778
Unrealized cost related to asymmetric transaction	156,767	(91,945)	-	64,822
Staff expenses and other cost due to pay	61,838	(794)	-	61,044
Differences between balance sheet and tax value of leases	10,777	3,746	-	14,523
Other	19,988	4,919	-	24,907
	978,937	**(222,650)**	**22,981**	**779,268**

In thousands of PLN	Balance as at 1 January 2008	Adjustments recognized in income	Balance as at 30 June 2008
Interest accrued (income)	71,652	(4,431)	67,221
Unrealized premium from options	475	(112)	363
Unrealized financial instruments valuation income	482,766	(138,479)	344,287
Unrealized securities discount	319	608	927
Incomes to receive	8,406	415	8,821
Positive valuation of securities	3,719	(3,275)	444
Investment relief	21,706	(313)	21,393
Valuation of shares	1,215	281	1,496
Other	14,981	9,357	24,338
	605,239	**(135,949)**	**469,290**

28. Other assets

In thousands of PLN	30.06.2008	31.12.2007
Interbank settlements	1,981	23,321
Settlements related to brokerage activity	315,099	185,379
Accounts receivable	64,131	60,417
Staff loans out of the Social Fund	27,355	29,878
Sundry debtors	120,230	98,376
Prepayments	22,765	16,078
Other assets	28	28
	551,589	**413,477**

29. Non-current assets held-for-sale

In thousands of PLN	30.06.2008	31.12.2007
Own properties	12,645	12,645
Non-current assets held-for-sale	**12,645**	**12,645**

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

In thousands of PLN	**01.01. – 30.06. 2008**	**01.01. – 31.12. 2007**
Balance as at 1 January	**12,645**	**12,539**
Increases:		
Reclassification from investment properties	-	8,466
Decreases:		
Disposal of education and holiday resorts	-	(8,360)
Balance as at end of period	**12,645**	**12,645**

As at 30 June 2008 non-current assets held-for-sale include two Group's own property, that fulfils the requirements of IFRS 5 and therefore was reclassified to this group from fixed tangible assets.

30. Financial liabilities valued at amortized cost

Financial liabilities valued at amortized cost (by category)

In thousands of PLN	**30.06.2008**	**31.12.2007**
Deposits from financial sector:		
Current accounts, including:	2,597,787	2,434,363
current accounts of banks	*1,668,092*	*2,190,764*
Deposits, including:	2,947,112	4,609,805
term deposits of banks	*477,270*	*1,705,572*
Accrued interest	2,340	40,874
	5,547,239	**7,085,042**
Deposits from non-financial sector:		
Current accounts, including:	8,660,897	8,050,347
corporate customers	*3,722,213*	*3,939,403*
individual customers	*4,232,420*	*3,498,981*
budgetary units	*444,418*	*224,502*
Deposits, including:	11,863,237	11,748,246
corporate customers	*8,402,602*	*9,213,611*
individual customers	*1,698,097*	*1,695,854*
budgetary units	*1,193,686*	*332,744*
Accrued interest	15,080	12,776
	20,539,214	**19,811,369**
Deposits	**26,086,453**	**26,896,411**
Other liabilities:		
Loans and advances received	978,788	795,544
Liabilities in respect of securities subject to sale and repurchase agreements	87,330	69,155
Other liabilities, including:	225,711	234,808
cash collateral	*127,232*	*140,592*
Accrued interest	3,937	4,085
	1,295,766	**1,103,592**
	27,382,219	**28,000,003**

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

In thousands of PLN	**30.06.2008**	**31.12.2007**
Financial sector		
- Banks and other monetary financial institutions		
up to 1 month	2,178,278	2,890,891
1 month - 3 months	17,293	837,875
3 months - 1 year	674,657	229,100
1 year - 5 years	331,643	612,384
over 5 years	-	-
Accrued interest	4,156	41,710
	3,206,027	**4,611,960**
- Other financial institutions		
up to 1 month	3,358,889	3,269,469
1 month - 3 months	25,145	7,063
3 months - 1 year	2,362	5,050
1 year - 5 years	4,743	5,915
over 5 years	29	29
Accrued interest	1,169	1,228
	3,392,337	**3,288,754**
	6,598,364	**7,900,714**
Non-financial sector		
up to 1 month	19,665,395	19,120,245
1 month - 3 months	624,705	591,858
3 months – 1 year	459,213	294,842
1 year - 5 years	18,349	77,378
over 5 years	161	169
Accrued interest	16,032	14,797
	20,783,855	**20,099,289**
	27,382,219	**28,000,003**

31. Provisions

In thousands of PLN	**30.06.2008**	**31.12.2007**
For disputes	16,707	23,974
For restructuring	24,497	-
For off-balance sheet commitments	8,812	13,574
	50,016	**37,548**

The movement in provisions is as follows:

In thousands of PLN	**01.01. – 30.06. 2008**	**01.01. – 31.12. 2007**
Balance as at 1 January	**37,548**	**44,378**
Concerning:		
Disputes	23,974	20,120
Off-balance sheet commitments	13,574	24,258
Increases:		
Creation of provisions in the period, including:	56,668	74,306
Disputes	4,561	14,500
For restructuring	30,000	-
Off-balance sheet commitments	22,107	59,806

In thousands of PLN	01.01. – 30.06. 2008	01.01. – 31.12. 2007
Decreases:		
Use of provisions	(5,906)	-
for disputes	(403)	-
for restructuring	(5,503)	-
Release of provisions:	(38,294)	(81,136)
for disputes	(11,425)	(10,646)
for off-balance sheet liabilities	(26,869)	(70,490)
Balance as at end of period	**50,016**	**37,548**

32. Other liabilities

In thousands of PLN	30.06.2008	31.12.2007
Fund of social service	71,100	65,409
Interbank settlements	307,025	60,531
Interbranch settlements	18,305	4,344
Settlements related to brokerage activity	300,327	187,603
Settlements with Tax Office and National Insurance (ZUS)	10,182	8,342
Dividends for paying out	620,983	-
Sundry creditors	90,788	82,252
Accruals	292,665	340,063
Provision for employee payments	*69,314*	*134,926*
Provision for employees retirement and jubilee payments	*63,176*	*63,176*
Other	*160,175*	*141,961*
Deferred income	35,090	43,770
	1,746,465	**792,314**

33. Capital and reserves

Share capital

Issued share capital

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

Par value of 1 share = PLN 4.00

As at 30 June 2008, the Bank's share capital amounted to PLN 522,638,400 divided into 130,659,600 common bearer shares nominal value of PLN 4 each, which has not changed since 31 December 2006. The Bank has not issued preference shares.

Principal shareholders

As at 30 June 2008 the list of shareholders who held at least 5% of the total number of votes in the General Assembly or at least 5% of the Bank's share capital is as follows:

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

In first half of 2008 and in 2007 the structure of major shareholdings has not changed.

Supplementary capital

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

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

Revaluation reserve

In thousands of PLN	**30.06.2008**	**31.12.2007**
Revaluation of financial assets available-for-sale	**(280,422)**	**(182,450)**

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

Other reserves

In thousands of PLN	**30.06.2008**	**31.12.2007**
Reserve capital	1,233,821	1,066,053
General risk reserve	390,000	390,000
Foreign currency translation adjustment	(4,247)	(1,698)
	1,619,574	**1,454,355**

Reserve capital

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

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

General risk fund

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

Dividends

Dividends declared

In accordance with Resolution No. 10 of the Ordinary General Meeting of the Bank of 19 June 2008 the profit for 2007 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 620,633,100.00 as dividend (in 2007 dividend was paid out from 2006 profit: PLN 535,704,360.00). This means that the dividend per one ordinary share amounts to PLN 4.75 (in 2006 appropriately: PLN 4.10).

The date of determination of the right to the dividend was designated as 4 July 2008. The date of dividend payment was 29 August 2008.

34. Repurchase and reverse repurchase agreements

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

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

As at 30 June 2008 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	87,214	87,344	To 1 month	87,381

**including interest*

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*

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

As at 30 June 2008 and 31 December 2007, of all assets sold through repo, cannot be traded further.

In first half of 2008 the total interest expenses on repurchase agreements was PLN 1,388 thousand (in first half of 2007: PLN 1,489 thousand).

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

As at 30 June 2008 assets purchased under resell agreements were as follows:

In thousands of PLN	**Fair value of underlying assets**	**Carrying amount of corresponding liabilities***	**Repurchase dates**	**Repurchase price**
Loans and other receivables from financial sector:	143,171	142,981	To 1 week	143,185

/ including interest

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

In thousands of PLN	**Fair value of underlying assets**	**Carrying amount of corresponding liabilities***	**Repurchase dates**	**Repurchase price**
Loans and other receivables from financial sector:	57,097	57,067	To 1 week	57,141

/ including interest

As at 30 June 2008 and 31 December 2007, the Group held the option to pledge or sell the assets acquired through reverse repo.

In first half of 2008 total interest incomes on repurchase agreement was PLN 3 thousand (in first half of 2007: PLN 44 thousand).

35. Fair value information

Fair value of financial assets and liabilities

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

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

As at 30 June 2008

In thousands of PLN	*Note*	**Held for trading**	**Credit, loans and other receivables**	**Available for sale**	**Other financial assets/ liabilities**	**Total balance value**	**Fair value**
Assets							
Cash and balances with central bank	*17*	-	-	-	2,443,861	2,443,861	2,443,861
Financial assets held for trading	*18*	4,312,394	-	-	-	4,312,394	4,312,394
Debt securities available for sale	*19*	-	-	6,753,584	-	6,753,584	6,753,584
Capital investment valued at equity method	*20*	-	-	56,536	-	56,536	56,536
Other capital investment	*21*	-	-	20,609	-	20,609	20,609
Credit, loans and other receivables	*22*	-	21,842,497	-	-	21,842,497	21,801,193
		4,312,394	**21,842,497**	**6,830,729**	**2,443,861**	**35,429,481**	**35,388,177**

In thousands of PLN	*Note*	**Held for trading**	**Credit, loans and other receivables**	**Available for sale**	**Other financial liabilities**	**Total balance value**	**Fair value**
Liabilities							
Financial liabilities held for trading	*18*	3,825,553	-	-	-	3,825,553	3,825,553
Financial liabilities valued at amortized cost	*30*	-	-	-	27,382,219	27,382,219	27,391,524
		3,825,553	**-**	**-**	**27,382,219**	**31,207,772**	**31,217,077**

As at 31 December 2007

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*	-	-	-	3,321,503	3,321,503	3,321,503
Financial assets held for trading	*18*	5,135,708	-	-	-	5,135,708	5,135,708
Debt securities available for sale	*19*	-	-	6,467,638	-	6,467,638	6,467,638
Capital investment valued at equity method	*20*	-	-	58,388	-	58,388	58,388
Other capital investment	*21*	-	-	21,909	-	21,909	21,909
Credit, loans and other receivables	*22*	-	21,205,373	-	-	21,205,373	21,168,353
		5,135,708	**21,205,373**	**6,547,935**	**3,321,503**	**36,210,519**	**36,173,499**

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	*30*	-	-	-	28,000,003	28,000,003	28,009,758
		4,373,146	**-**	**-**	**28,000,003**	**32,373,149**	**32,382,904**

Fair Value Definition

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

Equity Investments

Equity investments accounted for under the equity method: In the case of shares in subsidiaries and associated entities that are fixed assets available-for-sale the fair value is based on the binding sale offer.

The fair value of shares in subsidiaries that are not consolidated is presented as the percentage of net assets of an entity that is attributable to the Group's shares in a given entity. Management believes that this is the best available approximation of fair value of such instruments.

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

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

In first half of 2008 the Group hasn't sold equity investments without calculated fair value. In 2007 from among equity investments that the fair value was not able to estimate, the Group has sold minority shares of Fabryka Maszyn i Urządzeń FAMAK S.A. ("FAMAK"). The balance value of sold shares amounted PLN 0 and profit on sale amounted PLN 71 thousand.

Loans and advances

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

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

Financial liabilities valued at amortized cost

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

In first half of 2008 and in 2007, the Group did not re-qualify its financial assets from or to the individual categories (whether carried at fair value, at cost or at depreciated cost).

36. Contingent liabilities

Information on pending proceedings

As at 30 June 2008, no proceedings relating to the liabilities or receivables of the Bank or its subsidiaries, the value of which would correspond to at least 10% of the Group's shareholders' equity, were pending before any court, administrative authority or an arbitration court.
The total value of all pending court proceedings involving the Bank or its subsidiaries and related to their receivables exceeded 10% of the Group's shareholders' equity and amounted to PLN 1,006,149 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 obtain repayment from the bankrupt's assets for arrangement on 14 October 1996. The Bank realized all the collateral. The Bank will probably not receive its receivables. The official receiver expected to complete the bankruptcy proceeding by the end of 2006. The Bank expects to receive a resolution on completion of the bankruptcy proceeding.
Creditor: Bank Handlowy w Warszawie S.A.	44,732	On 22 June 2001, the court declared the debtor bankrupt.	The Bank submitted its receivables to the proceedings. Case pending.

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

As at 30 June 2008, 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.

Join value of liabilities of the Bank or its subsidiaries, from title of judicial procedure, has not reached at least 10% of the Bank's shareholders' equity.

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

Off-balance sheet commitments

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

In thousands of PLN	**30.06.2008**	**31.12.2007**
Off-balance sheet commitments granted		
Letters of credit	201,449	159,804
Guarantees granted	2,015,399	2,158,948
Credit lines granted	10,502,048	10,874,042
Deposits to be issued	46,959	-
Issue guarantees	49,500	172,000
	12,815,355	**13,364,794**

In thousands of PLN	**30.06.2008**	**31.12.2007**
Letters of credit by categories		
Import letters of credit issued	183,208	146,673
Export letters of credit confirmed	18,241	13,131
	201,449	**159,804**

As at 30 June 2008 and 31 December 2007 the Group did not have any contingent liabilities granted to subordinated entities.

The Group makes specific provisions for off-balance sheet commitments. As at 30 June 2008, the specific provisions created for off balance sheet commitments amounted to PLN 8,812 thousand, (31 December 2007: PLN 13,574 thousand).

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	**30.06.2008**	**31.12.2007**
Contingent liabilities received		
Finance	-	50,000
Guarantees	2,892,841	2,573,703
	2,892,841	**2,623,703**

37. Assets pledged as collateral

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

In thousands of PLN	**30.06.2008**	**31.12.2007**
Liabilities		
Financial liabilities valued at amortized cost:		
Liabilities in respect of securities subject to sale and repurchase agreements	87,344	69,173

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

In thousands of PLN	**30.06.2008**	**31.12.2007**
Assets pledged		
Debt securities held for trading	87,214	69,304
Debt securities available-for-sale	67,674	66,252
Loan and advantages		
From financial sector	53,094	30,743
Other assets		
Settlements related to operations on derivative instruments	2,543	-
	210,525	**166,299**

As at 30 June 2008 and 31 December 2007, the debt securities available for sale presented in the table constituted a reserve against the funds guaranteed to the Bank Guarantee Fund. The information on the assets securing repo liabilities of the Group has been discussed in Note 34. Other assets disclosed above secure settlement of their respective transactions, including derivatives transactions. The terms and rules of the transactions executed to date are standard and typical for such dealings.

38. Trust activities

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 30 June 2008 the Bank maintained 12,354 securities accounts (31 December 2007: 11,690 accounts).

39. Operating leases

Leases where the Group is the lessee

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

In thousands of PLN	**30.06.2008**	**31.12.2007**
Less than 1 year	40,898	43,737
Between 1 and 5 years	82,474	102,747
More than 5 years	6,496	35,815
	129,868	**182,299**
Total operating leasing rentals for unprescribed time	**1,814**	**1,516**

The Group uses office space under operating lease contracts. The most significant lease contracts relate to office space situated in Warsaw at Wolska 171/175 and Chałubińskiego 8. Generally the contracts have been signed for 5 years and there is an ability to extend them over the next three years. Some contracts have been signed for an unspecified period of time. Lease payments are under one year indexation. In first half of 2008 the total amount of lease payments was PLN 20,279 thousand (in first half of 2007: PLN 20,580 thousand).
These payments are presented in the income statement in "General expenses".

Leases where the Group is the lessor

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

In thousands of PLN	**30.06.2008**	**31.12.2007**
Less than 1 year	2,517	4,024
Between 1 and 5 years	4,013	7,348
More than 5 years	1,426	1,419
	7,956	**12,791**
Total operating leasing rentals for unprescribed time	**2,016**	**2,717**

Part of the Group's office space is leased.
Most of the agreements are signed for an unspecified period of time. Other agreements are signed for a period of between 2 and 10 years. Lease payments are under one year indexation. In first half of 2008 the income related to these contracts amounted to PLN 3,406 thousand (in first half of 2007: PLN 2,945 thousand).
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 first half of 2008 amounted to PLN 94 thousand (in first half of 2007: PLN 41 thousand).

These payments are presented in the income statement in "Other operating income".

40. Cash flow statement

In thousands of PLN	**30.06.2008**	**30.06.2007**
Cash related items		
Cash at hand	396,238	329,777
Nostro current account in Central Bank	2,047,623	1,743,725
Current accounts in other banks	382,967	146,403
	2,826,828	**2,219,905**

41. Related parties

Transactions with related parties

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

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

Transactions with Citigroup Inc. entities

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

In thousands of PLN	**30.06.2008**	**31.12.2007**
Receivables, including:	2,421,871	3,391,324
Placements	2,140,582	3,367,120
Liabilities, including:	1,307,886	1,786,620
Deposits	463,984	1,786,506
Loans received	812,644	606,884
Balance valuation of derivative transactions		
Assets held-for-trading	1,537,512	2,418,523
Liabilities held-for-trading	2,455,997	3,052,520
Off-balance sheet guarantee liabilities granted	111,702	67,318
Off-balance sheet guarantee liabilities received	221,574	227,389
Interest and commission income in first half of 2008/2007	50,060	43,262
Interest and commission expense in first half of 2008/2007	25,110	29,860

Furthermore the Group incurs costs and receives income of an operational nature from agreements concluded between Citigroup Inc. entities and the Group for the provision of mutual services.
The costs arising and accrued in first half of 2008 from concluded agreements amounted in total to PLN 85,937 thousand (in first half of 2007: PLN 76,775 thousand) and related in particular to the costs arising from the provision of services related to the maintenance of the Group's information systems and advisory support for the Group; income of PLN 25,734 thousand (in first half of 2007: 36,411 thousand) arose from the provision of data processing and other services by the Group.

Transactions with subordinated entities

In thousands of PLN	**30.06.2008**	**31.12.2007**
Loans, advances and other receivables*		
Current accounts	**167 041**	**228 214**
Loans, advances and other receivables		
Opening balance	228 214	352 156
Closing balance	167 041	228 214
Deposits		
Current accounts (in respect of):	261 170	240 030
consolidated subordinated undertakings	*258 621*	*237 604*
subordinated undertakings accounted under for the equity method	*2 549*	*2 426*
Term deposits (in respect of):	43 645	26 931
consolidated subordinated undertakings	*26 171*	*6 098*

In thousands of PLN	**30.06.2008**	**31.12.2007**
subordinated undertakings accounted under for the equity method	*17 474*	*20 833*
	304 815	**266 961**
Deposits		
Opening balance	266 961	372 245
Closing balance	304 815	266 961
Contingent liabilities granted**		
Letters of credit	758	4 513
Guarantees granted	867	1 340
Credit lines granted	335 089	330 172
	336 714	**336 025**
Interest and commission income in first half of 2008/2007 (in respect of):	10 212	8 451
consolidated subordinated undertakings	*10 208*	*6 361*
subordinated undertakings accounted for under the equity method	*4*	*2 090*
Interest and commission expenses in first half of 2008/2007 (in respect of):		
consolidated subordinated undertakings	6 222	6 807
subordinated undertakings accounted for under the equity method	*5 963*	*6 480*
	259	*327*

*On 30 June 2008 and 31 December 2007 loans, advances and other receivables were related to taken advantage credits in current account of consolidation included units.
**On 30 June 2008 and 31 December 2007, contingent liabilities granted to dependent units concerned obligations granted to consolidation included units.

As at 30 June 2008 and 31 December 2007, the amount of impairment write-downs for receivables of subsidiaries have not subjected to write-offs.

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

In thousands of PLN		**30.06.2008**			**31.12.2007**	
	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	55,265	72	-	72,235	288	4
Staff benefits	27,355	-	-	29,878	-	-
Prepayments	25	-		52	-	-
	82,645	**72**	**-**	**102,165**	**288**	**4**
Deposits						
Current accounts	80,581	3,276	548	62,463	2,171	636
Term deposits	15,738	554	319	19,519	100	116
	96,319	**3,830**	**867**	**81,982**	**2,271**	**752**
Guarantees issued	5	-	-	49	-	-

42. Employee benefits

Employee benefits are divided into the following categories:

– short-term benefits, which include salaries, social insurance contributions, paid leave and benefits in kind (such as medical care, company apartments, company cars and other free or subsidized benefits).

The costs of short-term benefits are expensed in the profit and loss account in the period to which they relate. At the end of a given reporting period, if there is a balance payable that equals the expected undiscounted value of short-term benefits for that period, the Group will record it as an accrued expense.

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

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

Description of Employee Pension Plan

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

The current Plan, which is a continuation of PPE Polskie Towarzystwo Emerytalne "Diament", was implemented on 19 March 2004 under an agreement with Legg Mason Senior Specjalistyczny Fundusz Inwestycyjny Otwarty ("LM Senior SFIO") and is registered in the District Court for Warsaw under number RFJ-8. LM Senior SFIO is managed by Legg Mason Towarzystwo Funduszy Inwstycyjnych SA and its transfer agent is Obsługa Funduszy Inwestycyjnych Sp. z o.o.
The basic premium for Plan participants is paid out of the Group's own funds. Each employee who participates in the Plan can also make additional premium contributions to the Plan. The total of premiums paid to Plan is invested in units of LM Senior SFIO.

- other long-term employee benefits – jubilee and other long service awards. Information about jubilee awards is described in Note 2. These are paid under a pre-determined benefit scheme and their valuation is carried out by actuarially method according to IAS no 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.

Provision, amounted PLN 30 million, for costs concerning reduction of employment has been created, according to planned on 2008 restructuring of employment. The rules of provision's creating for restructuring have been presented in Note no 2, point "Restructuring provision".

Provisions for the above employee benefits are as follows:

In thousands of PLN	**30.06.2008**	**31.12.2007**
Provision for remuneration	57,446	119,674
Provision for employees' retirement and jubilee payments	63,176	63,176
Provision for employees' equity compensation	11,869	15,252
Provision for personal cost of restructurings	24,497	-
	156,988	**198,102**

In first half of 2008, the Group's expenses in respect of premiums for the employee pension plan amounted to PLN 9,229 thousand (in first half of 2007: 8,151 thousand).

Employment in the Group:

	First half of 2008	2007
Mid employment during a year	5,775	5,722
At the end of the year	5,616	5,921

Description and principles of employee stock benefits

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

Within the framework of the SOP, eligible employees receive options to buy stock at the NYSE average closing price as at the 5 days directly preceding the award grant date. Employees acquire the right to a portion of their options on each anniversary of their SOP award grant date. Options granted during 2005-2007 will be transferred partially in 25% every year for the next four years, starting from the first anniversary of option acquire. Options may be exercised by purchases of stock in the period from the acquisition date of the right to an option to the expiry date of the option.

Deferred shares within the framework of the CAP are granted at the NYSE average closing price as at the 5 days prior to the grant date. Deferred shares give the right to equivalents of dividends, but without voting rights, and must not be sold prior to their conversion into stocks. Deferred shares are converted into stocks after the end of a period that is determined in the Program Rules, which commences on the CAP award allocation date, provided, however, that an eligible employee is still with Citigroup. Options granted during 2005 - 2007 will be transferred partially in 25% every year for the next four years, starting from the first anniversary of option acquire.

Assumptions of valuation of the employee equity benefit programs

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

SOP Program	Grant date	Exercise price/ stock price at grant date	Number of eligible employees	Number of options / shares
1	13.02.02	42.11 or 41.90	257	97,161
2	12.02.03	32.05	236	72,021
3	20.01.04	49.50	94	55,894
4	18.01.05	47.50	5	1,547
5	20.09.05	45.36	1	1,500
6	17.01.06	48.92	1	1,538
7	16.01.07	54.38	1	436
8	22.01.08	24.45	7	22,617

CAP Program	Grant date	Exercise price/ stock price at grant date	Number of eligible employees	Number of options / shares
1	18.01.05	35.96 or 47.95	171	17,913
2	15.11.05	48.24	2	2,332
3	17.01.06	36.58 or 48.77	156	42,188
4	21.11.06	50.73	1	2,218
5	16.01.07	40.84 or 54.46	186	73,027
6	17.07.07	52.19	1	1,917
7	20.11.07	32.00	1	4,687
8	22.01.08	19,75 or 26,33	234	308,859

CAP Program	Grant date	Exercise price/ stock price at grant date	Number of eligible employees	Number of options / shares
			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 each of the following years (4)-(8) 25% after each of the following years	(1)-(6) and (7)- (8) 25% after each of the following years (6) 100% after 3 years
Expected variances			47.22%	47.22%
Life cycle of the instrument			(1)-(8) -1 year from the moment of rights acquisition	In the moment of rights acquisition
Risk free interest rate (for USD)			2.81%	2.81%
Expected dividends (in USD per one share)			1.28	1.28
Probability of premature termination of employment (annual staff turnover for awarded employees)			7 %	7 %
Fair value of one instrument* (in USD)			0.00 – 2.57	19.75-54.46

** Varies depending on the date of exercise*

Options – volumes and weighted-average strike prices:

	30.06.2008		31.12.2007	
	Number ('000)	**Weighted average strike price**	**Number ('000)**	**Weighted average strike price**
At the beginning of the period	250,616	40.75	328,107	39.94
Allocated in the period	22,617	24.45	436	54.38
Redeemed in the period	-	-	59,543	39.48
Expired in the period	20,519	-	18,383	-
At the end of the period	252,714	39.41	250,616	40.75
Exercisable at the end of the period	227,595	40.80	247,335	40.66

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

30.06.2008			31.12.2007		
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	0.03	41.90	0.81	0.53
42.11	96.35	0.03	42.11	102.72	0.53
32.05	72.02	0.00	32.05	81.26	0.00
49.5	55.89	0.05	49.5	61.05	0.55
47.5	1.55	1.06	47.5	1.31	1.06
45.36	1.5	1.22	45.36	1.5	1.06
48.92	1.54	1.56	48.92	1.54	1.56
54.38	0.44	2.06	54.38	0.44	2.56
24.45	22.62	3.06	-	-	-

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

	30.06.2008		31.12.2007	
	Number ('000)	**Weighted average strike price**	**Number ('000)**	**Weighted average strike price**
At the beginning of the period	226,616	42.23	217,022	40.29
Allocated in the period	308,859	21.87	114,898	43.68
Redeemed/expired in the period	82,333	-	105,304	-
At the end of the period	453,142	28.37	226,616	42.23

43. Subsequent events

As at 30 June 2008 there were no major events after the balance sheet date not included in the financial statement that could have a significant influence on the net result of the Group or required to be disclosed in the financial statement.

44. Risk management

Derivative instruments

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

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

As at 30 June 2008, the Group has placed deposits at other institutions as collateral against derivative transactions amounted to PLN 2,543 thousand, and for derivative transactions, the Group received collateral totaling PLN 76,932 thousand (31 December 2007: 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 Group's liquidity and position on nostro accounts.

Currency option contracts

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

Interest rate contracts

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

counterparties may also exchange notional amounts of contracts. The Bank concludes IRS and CIRS contracts on the interbank market and with its customers.

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

Interest rate option contracts

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

Securities term contracts

The Group concludes purchase and sale contracts in debt securities at a fixed price where the settlement occurs later than two days following the spot date (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 organized stock exchange, related to the purchase or sale of a standard amount of the specific financial instrument at a specified date in the future and at a pre-agreed price.

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

Commodities derivatives

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

Market risk

The Bank manages market risk in line with principles and politics approved by the Management Board of the Bank and procedures established by the Assets and Liabilities Committee. In case of the Group's companies, pricing risk management is regulated by procedures, established by management of these companies. These procedures are subjected to consultation with Director of Marker Risk Department in the Bank.

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

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

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

Liquidity risk management

Liquidity management has the aim of ensuring the Bank and the Group's objects 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 Bank's liquidity risk assessment reports include: regulating measures of liquidity, the short-term liquidity gap report – demonstrating the relationship between liquid assets and unstable sources of funds – and reports 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 Group prepares the MAR report. The report demonstrates the gaps in 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, transactions of currency exchange, future currency valuable papers buying and selling transactions. The liquidity gap reports are prepared on daily basis and encompass the Bank's and dependent comapnies Handlowy-Leasing Sp. z o.o. and Dom Maklerski Banku HAndlowego S.A., 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 Group's balance sheet structure and analyzes changes in these relationships over time.

The measure of the assessment of 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 30 June 2008 and 31 December 2007 are shown in the tables below.

The liquidity gap as at 30 June 2008 in real terms:

In thousands of PLN	**Up to 1 month**	**More than 1 to 3 months**	**More than 3 months to 1 year**	**More than 1 year to 2 years**	**More than 2 years**
Assets	4,274,406	857,848	3,031,717	281,923	29,789,716
Liabilities	3,779,441	67,524	659,091	12,610	33,716,944
Balance sheet gap in the period	494,965	790,324	2,372,626	269,313	(3,927,228)
Off-balance sheet transactions – inflows	18,841,678	7,721,907	11,305,876	1,360,146	4,656,640
Off-balance sheet transactions – outflows	18,660,067	7,495,958	11,430,814	1,374,940	4,725,690
Off-balance sheet gap in the period	181,611	225,949	(124,938)	(14,794)	(69,050)
Cumulative gap	676,576	1,692,849	3,940,537	4,195,056	198,778

The liquidity gap as at 31 December 2007 in real terms:

In thousands of PLN	**Up to 1 month**	**More than 1 to 3 months**	**More than 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	431,051	29,390,544
Liabilities	4,803,476	860,220	69,814	455,274	32,731,571
Balance sheet gap in the period	(116,965)	1,424,173	2,058,042	(24,223)	(3,341,027)
Off-balance sheet transactions – inflows	16,145,664	6,012,349	12,864,609	873,564	4,227,464
Off-balance sheet transactions – outflows	16,073,820	6,109,831	12,783,930	902,277	4,277,569
Off-balance sheet gap in the period	71,844	(97,482)	80,679	(28,713)	(50,105)
Cumulative gap	(45,121)	1,281,570	3,420,291	3,367,355	(23,777)

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

In thousands of PLN	**30.06.2008**	**31.12.2007**	**Change**
Liquid assets, including:	9,229,579	10,424,552	(1,194,973)
obligatory reserve in NBP and stable part of cash	2,163,860	3,059,474	(895,614)
debt securities held for trade	739,798	1,177,367	(437,569)
debt securities available for sale	6,325,922	6,187,712	138,210
Cumulative liquidity gap up to 1 year	3,940,537	3,420,291	520,246
Coverage of the gap with liquid assets	Positive gap	Positive gap	Not applicable

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

As at 30 June 2008:

	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*	111,309	111,309	-	-	-	-	-
Financial liabilities valued at amortized cost								
Deposits from financial sector	*30*	5,547,260	5,468,203	42,203	29,722	4,743	29	2,360
Including banks	*30*	*2,146,582*	*2,098,347*	*17,293*	*29,722*	-	-	*1,220*
Deposits from non-financial sector	*30*	20,539,232	19,479,059	602,692	426,133	16,089	161	15,098
Other liabilities	*30*	1,295,963	255,300	22,248	680,523	333,903	-	3,989
		27,382,455	25,202,562	667,143	1,136,378	354,735	190	21,447
Financial liabilities held for trading								
Derivative financial instruments	*18*	2,265,663	97,305	247,483	587,386	825,530	507,959	-
Unused credit lines liabilities		10,502,048	9,776,073	1,089	169,582	477,303	78,001	-
		40,261,475	**35,187,249**	**915,715**	**1,893,346**	**1,657,568**	**586,150**	**21,447**
Gross derivatives								
Inflows		42,018,090	18,236,855	7,782,584	11,016,192	2,783,567	2,198,892	
Outflows		41,961,636	18,207,792	7,549,600	11,084,771	2,895,992	2,223,481	
		56,454	**29,063**	**232,984**	**(68,579)**	**(112,425)**	**(24,589)**	

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*	7,085,166	6,144,625	842,659	55,000	1,855	29	40,998
Including banks	*30*	*3,790,469*	*2,864,837*	*835,859*	*50,000*	-	-	*39,773*
Deposits from non-financial sector	*30*	19,811,372	18,898,970	573,487	249,598	76,367	169	12,781
Other liabilities	*30*	1,103,687	237,009	20,650	224,394	617,456	-	4,178
		28,000,225	25,280,604	1,436,796	528,992	695,678	198	57,957
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		10,874,042	9,742,453	1,492	274,002	778,667	77,428	-
		42,006,735	**35,215,762**	**1,656,606**	**1,478,041**	**2,809,670**	**788,699**	**57,957**
Gross derivatives								
Inflows		38,582,702	15,848,325	6,024,356	12,513,327	1,846,563	2,350,131	
Outflows		38,648,175	15,775,189	6,071,284	12,522,393	1,902,218	2,377,091	
		(65,473)	**73,136**	**(46,928)**	**(9,066)**	**(55,655)**	**(26,960)**	

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 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 Group includes the following assets and liabilities:

- Subject to the fair value risk (interest-rate linked):

  - Fixed rate debt securities and discounting securities, and
  - Fixed rate loans and deposits

- Subject to the cash flow risk (cash flows linked to the interest rate):

  - Floating rate debt securities, and
  - Floating rate loans and deposits

- Not subject to a direct interest rate risk:

  - Fixed assets
  - Capital investments, and
  - Intangible assets

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

Measurement of the pricing risk of the bank portfolios

The 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 with fixed interest rate, 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. Additionally 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 insensitive for changes of interest rates, included cash, capital assets, capital, other assets/liabilities;
- 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.

Method of percentage revenue exposed to risk (IRE), serve for estimation of potential influence specific parallel shift in yield curves of interest rates on interest income from the Bank's ledger before tax, which can be gotten in the specific period of time. 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 Group 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 entities of the Group 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 Group valid on 30 June 2008 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 Group's balance sheet.

In thousands of PLN	**30.06.2008**		**31.12.2007**	
	IRE 12M	IRE 5L	IRE 12M	IRE 5L
PLN	12,673	108,345	8,130	90,683
USD	(10,307)	(7,817)	(3,649)	(4,469)
EUR	(18,635)	(59,188)	(18,431)	(48,043)

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 or Group's entities;
- 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	**30.06.2008**			**31.12.2007**			**Overall between 01.01.2008 and 30.06.2008**		
	Total	Securities	IRS	Total	Securities	IRS	Average	Minimum	Maximum
PLN	(1,208)	(1,208)	-	(1,338)	(1,338)	-	(1,302)	(1,368)	(1,208)
USD	(91)	(157)	66	(123)	(203)	80	(141)	(420)	1
EUR	(826)	(826)	-	(650)	(827)	177	(854)	(983)	(657)

The Group'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.

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 Financial 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 alike for currency positions, and also 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 first half of year 2008 have been listed in the table below:

in thousands of PLN			**Overall between 01.01.2008 and 30.06.2008**		
	30.06.2008	**31.12.2007**	**Average**	**Maximum**	**Minimum**
PLN	44	-43	-77	294	-510
EUR	-5	-73	-63	82	-218
USD	-46	-14	23	243	-46
HUF	-36	-31	-54	12	-113

The marked increase of exposure to the interest rates risk, in the first half of the year 2008, compared with the year 2007, derives primarily from the lower medium exposure level for the risk in EUR. Taking into consideration PLN, the average risk level in 2008 was on higher level than in relative period of 2007 and the maximum level of exposure that can be accepted by Treasury Division in PLN were more lower than in last year (maximum exposure amounted PLN -510 thousand comparing to PLN -690 thousand in 2007)

Over the period, the Treasury Division, which trades financial instruments within the Bank, has continue the strategy of very active managing exposures exposed to FX risk and interest rate 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 first half of year 2008:

in thousands of PLN	**30.06.2008**	**31.12.2007**	**Overall between 1.01.2008 and 30.06.2008**		
			Average	**Maximum**	**Minimum**
FX risk	476	151	1,085	5,029	29
Interest rate risk	2,146	4,254	2,632	6,368	1,107
Overall risk	2,308	4,225	3,061	6,156	1,172

In the first half of year 2008, the overall, average level of the pricing risk of the trading portfolios was lower than medium level in year 2007 for about PLN 1.2 million, also maximum risk levels were much lower than in year 2008. Maximum price risk level gain amount of PLN 6.1 million, compared to amount of PLN 8.9 million in the same period of the year 2007

Capital instruments risk

The Dom Maklerski Banku Handlowego S.A. (DM BH) is the Group's key partner transacting the capital instruments. In order to run its core business, DMBH has been authorised to take up the pricing risk of the trading portfolio of shares, or share rights, traded, or likely to be traded on Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange or WSE), or Centralna Tabela Ofert (Central Bids Table or CTO), WIG20 futures and the Indexed Participation Units, as well as shares on the international stock exchanges of the companies listed on the WSE. The pricing risk of DMBH's instruments portfolios is curbed by the volume limits applicable to specific types of financial instruments and the warning thresholds applicable to the volume of instruments introduced to the market by specific issuers. Moreover, warning thresholds are used for DMBH, alerting on the potential loss for the stress scenarios and the cumulated, realised loss on the trading portfolio. The total volume for capital instruments portfolio remain at the same level as in 2007 PLN, amounted PLN 19.7 million.

Currency structure

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

In thousands of PLN	**30.06.2008**	**31.12.2007**
Assets:		
PLN	27,315,888	29,698,499
EUR	6,070,096	4,908,141
USD	3,946,811	4,074,052
GBP	370,959	11,818
CHF	339,816	199,114
Other currencies	192,040	16,360
	38,235,610	**38,907,984**
Liabilities:		
PLN	30,294,006	32,110,716
EUR	4,545,205	3,892,161
USD	2,172,729	2,508,183
GBP	484,461	153,499
CHF	442,755	179,192
Other currencies	296,454	64,233
	38,235,610	**38,907,984**

Credit risk

Credit risk management

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

The credit risk is minimized through the Group's regulations, covering rules particularly related to:

- organizational structure and division of responsibilities,

- methods of calculation and control of credit risk,
- credit risk policy and assessment framework,
- delegation of credit risk authority,
- setting up and monitoring collateral,
- vindication and restructuring activities,
- acceptance criteria for exposure and/or obligors.

Corporate Banking risk management rules, include the following elements:

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

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

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

Credit Risk Exposure

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

The portfolio without impairment 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 classification.

The tables below present direct exposure of the Group to credit risk of Bank and customers.

In thousand PLN	30.06.2008		31.12.2007	
	Receivables from customers	**Receivables from banks**	**Receivables from customers**	**Receivables from banks**
Individually				
Assessed receivables				
Risk category II	74,752	-	43,759	-
Risk category III	84,908	-	213,956	-
Risk category IV	1,043,542	1,612	952,101	1,852
Gross value	**1,203,202**	**1,612**	**1,209,816**	**1,852**
Impairment	981,212	1,612	1,004,895	1,852
Net value	**221,990**	**-**	**204,921**	**-**
Collectively				
Assessed receivables				
Risk category II	11,911	-	11,421	-
Risk category III	14,082	-	29,718	-
Risk category IV	490,254	-	446,416	-
Gross value	**516,247**	**-**	**487,555**	**-**
Impairment	409,560	-	385,638	-
Net value	**106,687**	**-**	**101,917**	**-**
Not impaired receivables				
Risk rating 1-4	11,813,507	7,344,883	9,760,222	8,269,748
Risk rating 5-6	2,228,135	2,772	2,762,258	1,403
Risk rating 7-8	138,022	43,287	154,783	-
Gross value	**14,179,664**	**7,390,942**	**12,677,263**	**8,271,151**
Impairment	56,768	18	49,845	34
Net value	**14,122,896**	**7,390,924**	**12,627,418**	**8,271,117**
Total net value	**14,451,573**	**7,390,924**	**12,934,256**	**8,271,117**

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

In thousand PLN	**30.06.2008**	**31.12.2007**
Receivables with incurred but not recognized (IBNR) losses		
Regular receivables		
0-30 days	21,518,521	20,882,043
Overdue receivables		
31-90 days	52,022	66,323
91-180 days	63	48
Gross value	**21,570,606**	**20,948,414**

In thousand PLN	30.06.2008		31.12.2007	
	Receivables from customers	**Receivables from banks**	**Receivables from customers**	**Receivables from banks**
Impairment value for receivables assessed individually				
Risk category II	6,049	-	3,113	-
Risk category III	46,428	-	110,966	-
Risk category IV	928,735	1,612	890,816	1,852
	981,212	**1,612**	**1,004,895**	**1,852**

Impairment value for receivables assessed collectively				
Risk category II	2,617	-	2,771	-
Risk category III	5,295	-	12,352	-
Risk category IV	401,648	-	370,515	-
	409,560	**-**	**385,638**	**-**
IBNR provisions				
Risk rating 1-4	43,033	10	32,923	25
Risk rating 5-6	9,715	8	12,911	9
Risk rating 7-8	4,020	-	4,011	-
	56,768	**18**	**49,845**	**34**
Total net value	**1,447,540**	**1,630**	**1,440,378**	**1,886**

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

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

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

- Security deposit;
- Mortgage; and
- Insurance.

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

Concentration of exposure

<u>Exposure limits</u>

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

As at 30 June 2008, the Group had an exposure to a related party from the banking sector exceeding the statutory debt concentration limits. The excess exposure arose by virtue of derivative transactions. As a consequence, an additional capital requirement for excess exposure was factored into the calculation of the Group's capital adequacy ratio as at 30 June 2008.

The Group sets out to limit its exposure to a group of customers. As at 30 June 2008, the Group's exposure in banking portfolio transactions with customers, which all-in exceeded 10 % of the Group's equity, amounted to PLN 2,483,080 thousand i.e. 71.45% of these funds (31 December 2007: PLN 2,805,204 thousand i.e. 81.7 %).
Concentration of exposure of 10 biggest customers of the Group (non-banking):

In thousand PLN	**30.06.2008**			**31.12.2007**		
	Balance Outstanding*	**Off-Balance Outstanding**	**Total Outstanding**	**Balance Outstanding***	**Off-Balance Outstanding**	**Total Outstanding**
Group 1	505,211	142,383	647,594	443,585	159,694	603,279
Group 2	132,037	379,690	511,727	132,638	473,595	606,233
Group 3	178,615	298,235	476,850	186,218	298,882	485,100
Client 4	435,744	28,612	464,356	167,690	141,592	309,282
Group 5	3,971	378,582	382,553	21	360,522	360,543
Client 6	80,849	225,719	306,568	10	125,425	125,435
Client 7	300,000	-	300,000	250,000	-	250,000
Group 8	91,009	186,816	277,825	36,406	255,205	291,611
Client 9	199,315	50,685	250,000	199,913	150,087	350,000
Group 10	138,711	103,114	241,825	119,010	100,668	219,678
Total	**2,065,462**	**1,793,836**	**3,859,298**	**1,535,491**	**2,065,670**	**3,601,161**

**Excluding outstanding on commercial papers and subsidiaries.*

Concentration of exposure in individual industries

To avoid excessive concentration of credit risk, the Group monitors its exposure in individual industry sectors, defining the areas where the Group's exposure should grow and the areas where opportunities for development are poor, and where the exposure should be reduced. In the case of large corporate customers and financial institutions, the divisions of the Bank responsible for its policy concerning exposures to particular sectors are those of the Corporate Bank while the Commercial Bank exercises a similar function with respect to small and medium-sized enterprises and Consumer Bank with respect to micro-companies in CitiBusiness.
The Group'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 an element in the internal rating assignment process
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 particular 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 particular 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 gross exposure to the 20 largest industries in particular reporting periods.

Sector of the economy according to Polish Classification of Economic Activity (PKD)	**30.06.2008 %**	**31.12.2007 %**
Wholesale and sale on commission basis, except for trade with vehicles and motorcycles	17.1	17.5
Production of food and beverages	7.3	7.5
Provision of power, gas, steam and hot water	6.8	8.2
Financial intermediation, except for insurance and retirement fund business	6.5	9.1
Retail trade, except for trade with vehicles and motorcycles; servicing and repair of personal commodities	6.0	4.3
Production of chemicals	5.4	5.4
Building industry	3.3	2.5
Production of rubber and plastic goods	3.1	2.6
Postal services and telecommunications	2.9	3.7
Land-based transport, pipeline transport	2.8	2.2
Top 10 business sectors	**61.2**	**63.0**
Production of machines and equipments	2.7	1.9
Production, sale and service of vehicles and motorcycles; retail sale of fuel for car vehicles	2.5	3.0
Production of vehicles, trailers and semi- trailers	2.5	1.6
Other services concerned with economic activity	2.5	3.0
Production of equipment, otherwise unclassified	2.1	2.2
Production of goods out of other non-metallic resources	2.0	1.8
Production of metallic goods, except for machines and equipment	2.0	1.9
Production of coke, oil refinery and atomic fuel	1.8	2.3
Production of other transportation equipment	1.8	1.6
Production of tobacco goods	1.6	1.6
Top 20 business sectors	**82.7**	**83.9**
Other sectors	**17.3**	**16.1**
	100.0	**100.0**

Although concentration in some industries has changed the overall portfolio concentration remains on similar level.

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

In thousand PLN	**30.06.2008**	**31.12.2007**
Gross receivables from customers and banks (by type of activity)		
Gross receivables from economic entity and banks		
Financial	7,493,089	9,010,899
Production	4,073,897	3,586,522
Services	1,509,477	1,591,744
Other	4,963,107	3,689,717
	18,039,570	**17,878,882**
Gross receivables from individuals	**5,252,097**	**4,768,755**
	23,291,667	**22,647,637**

Operational risk

The Group defines operating risk as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. Operating risk includes the risk relating to business practices as well as legal risk, or the risk of noncompliance with the effective legal regulations or internal regulations of the Group. Operating risk does not include the reputational risk, the strategic risk or the risk of potential losses arising from decisions relating to undertaking the credit risk, the market of potential, the liquidity risk or the insurance and underwriting activity risk.

The rules of operating risk management are regulated by the Policy for the Operating Risk Management.

The key roles and responsibilities for operating risk at different levels of the Bank's top management:

- the Bank Management Board is responsible for development and implementation of the risk management strategy, and within that for organisation and functioning of operating risk management process and – if needed – for ensuring the adjustments necessary for improving that process. The operating risk management rules and procedures cover the entire scope of the Bank's operations. All the strategic decisions on the Bank's policy, its organisation, allocation of roles and responsibilities, process reengineering, automation and centralisation represent the sole domain of the Bank Management Board;
- the Supervisory Board exercises oversight over the control of the operating risk management system and assesses its adequacy and effectiveness;
- Each of the main business segments and each subsidiary have the obligation of implementing their operating risk management process that is consistent with the requirements of the operating risk management policy. Though risk identification, self-assessment and the reporting processes and largely regulated and uniform in the business units, each business unit defines own risk containment, monitoring and measurement processes, which can differ between them.

The operating risk management process in the Group is aimed at ensuring:

- consistent and effective approach to identification, control, assessment, monitoring and measurement of operating risk and reporting in this respect;
- effective reduction of the level of exposure to operating risk, and consequently reduction of the number of operating risk events and severity of their effects (the policy of low level of tolerance for operating losses);
- fulfilment of the operating risk related capital requirement; and
- compliance with regulations relating to operating risk management.

The Group has employed various tools and methods in managing operating risk (including in particular policies, procedures, checklists, limits, the self-assessment process, data security management tools, contingency plans, insurance policies and audits). The operating risk management process is further supported through the qualitative and quantitative measurements of operating risk. The risk management processes the Group applies serve to limit the sources of adverse consequences of any operational events (outage with operational losses), to reduce the probability of occurrence of such events and to minimise the severity of the potential effects.

Management of operating risk is based on the following key elements:

- risk identification,
- risk limitation,
- risk self-assessment and control,
- risk monitoring,
- risk measurement, and
- reporting of the areas exposed to operating risk.

The self-assessment process implemented by the Group includes ongoing identification, control, assessment, monitoring, measurement and reporting of the both the control process quality and of any potential threats. Data on the impact of operating risk (loss) related events are collected and analysed on regular basis.

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/or theft,
- losses resulting from failure of systems and/or technologies, and
- losses resulting from failure of processes and/or products.

The responsibility for ongoing monitoring of operating risk in the Group rests with the Risk, Control and Compliance System Committee. All detected oversights, remedial actions, operational events and operating risk indicators are the subject of regular reports submitted with the relevant committees. At the same time, the operating risk management process quality (including the self-assessment process) in the respective organisational units of the Group entities is the subject of inspections and assessments carried out by the internal audit.

In the Bank Management Board's opinion, the overall level of operating risk is assessed as moderate, and typical for the scale of the Group's operations. In the future the Group will focus on further tailoring the operating risk related processes to the Group's risk profile.

The Group 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 5.2 bn as at 30 June 2008. Regulatory capital, which included increases and decreases set by Commission for Banking Supervision (KNB), (since 1 January 2008 named Polish Financial Supervision Authority) amounted to PLN 3.5 bn. Such capital level is regarded as sufficient for conducting business activity. 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. There had place classification of risks with regard for relevance criterion and for risks identified as relevant the capital required for coverage of these risks was calculated.

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.

45. Capital adequacy

The table below present financial data for calculating capital adequacy ratio on the basis of the consolidated financial report of the Group, calculated according to the rules stated in the Resolution No. 1/2007 of the Commission for Banking Supervision of 13 March 2007 on the scope and detailed rules of stating capital requirements with respect to particular types of risk (...) (NBP Official Gazette No. 2, item 3 as amended) which was not effective until 1 April 2007. According to the paragraph 14 point 3 above-mentioned Resolution on 31 December 2007, the Group performed dwindling of all capital requirements concerning operational risk.

	30.06.2008	31.12.2007
Total capital requirement	2,436,245	2,137,404
Funds held by the entity, including:	3,541,304	3,434,911
Primary funds (including deductions)	3,597,357	3,489,031
Counterpart funds	483	4,267
Reductions of the total primary and counterpart funds	56,536	58,387
Capital adequacy ratio (%)	**11.63**	**12.86**

46. Statement of the Bank's Management Board

Accuracy and fairness of the statements presented

To the best knowledge of the Bank's Management Board, the financial data and the comparative data presented in the "Interim Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. as at 30 June 2008" 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 Group. The "Report on Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in the first half 2008" contained in this document is a true representation of the development, achievements and situation (together with a description of the main types of risks) of the Group in the first half of 2008.

Selection of the entity authorized to examine financial statements

The entity authorized to examine financial statements KPMG Audyt Sp. z o.o., reviewing the "Interim Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. as at 30 June 2008" 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
18.09.2008	Sławomir Sikora	President of the Management Board	....
18.09.2008	Michał H. Mrożek	Vice-President of the Management Board	....
18.09.2008	Edward Wess	Vice-President of the Management Board	....
18.09.2008	Sonia Wędrychowicz-Horbatowska	Vice-President of the Management Board	....
18.09.2008	Witold Zieliński	Vice- President of the Management Board	....