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Bank Handlowy w Warszawie S.A.

The Semi-Annual Financial Statements of the Capital Group of Bank Handlowy w Warszawie SA as at 30 June 2006

September 2006

Selected financial data

	In PLN '000		In EUR '000	
	First half of 2006	First half of 2005	First half of 2006	First half of 2005
	period from 01/01/06 to 30/06/06	period from 01/01/05 to 30/06/05	period from 01/01/06 to 30/06/06	period from 01/01/05 to 30/06/05
Data related to consolidated financial statements				
Interest income	783,601	876,011	200,913	214,682
Fee and commission income	376,864	340,934	96,627	83,552
Profit before tax	443,868	401,350	113,806	98,358
Net profit	343,094	318,249	87,968	77,993
Increase/decrease of net cash	39,626	62,488	9,800	15,467
Total assets*	34,641,033	32,915,502	8,567,303	8,527,774
Financial liabilities valued at amortized cost*	24,859,311	23,084,589	6,148,121	5,980,773
Shareholders' equity	4,997,321	5,033,841	1,235,921	1,245,969
Share capital	522,638	522,638	129,257	129,363
Number of shares	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN / EUR)	38.25	38.53	9.46	9.54
Capital adequacy ratio (%)*	14.78	14.63	14.78	14.63
Earnings per ordinary share (PLN / EUR)	2.63	2.44	0.67	0.60
Diluted net profit per ordinary share (in PLN)**	2.63	2.44	0.67	0.60
Data related to abbreviated financial statements				
Interest income	767,125	858,593	196,689	210,414
Fee and commission income	334,048	289,915	85,649	71,049
Profit before tax	434,947	360,828	111,519	88,427
Net profit	341,070	281,466	87,449	68,978
Increase/decrease of net cash	39,688	62,572	9,816	15,488
Total assets*	34,118,796	32,669,425	8,438,145	8,464,020
Financial liabilities valued at amortized cost*	24,759,711	23,223,955	6,123,488	6,016,880
Shareholders' equity	4,901,979	4,930,879	1,212,341	1,220,484
Share capital	522,638	522,638	129,257	129,363
Number of shares	130,659,600	130,659,600	130 659 600	130,659,600
Book value per share (PLN / EUR)	37.52	37.74	9.28	9.34
Capital adequacy ratio (%)*	13.79	13.37	13.79	13.37
Earnings per ordinary share (PLN / EUR)	2.61	2.15	0.67	0.53
Diluted net profit per ordinary share (in PLN)	2.61	2.15	0.67	0.53
Declared or distributed dividends per ordinary share (PLN / EUR)**	3.60	11.97	0.89	2.96

**The comparable financial data as at 31 December 2005*

***The presented ratios are related to, respectively: dividends to be paid in 2006 from the appropriation of the 2005 profit and dividends distributed in 2005 from the appropriation of the 2004 profit and from retained earnings*

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Consolidated income statement

in thousands of PLN	*Note*	**01.01. - 30.06. 2006**	**01.01. – 30.06 2005**
Interest and similar income	*4*	783,601	876,011
Interest expense and similar charges	*4*	(275,530)	(353,753)
Net interest income	*4*	**508,071**	**522,258**
Fee and commission income	*5*	376,864	340,934
Fee and commission expense	*5*	(74,433)	(57,217)
Net fee and commission income	*5*	**302,431**	**283,717**
Dividend income	*6*	100	1,573
Net income on financial instruments valued at fair value through profit and loss account	*7*	5,937	15,062
Net gain on investment (deposit) securities	*8*	33,166	112,295
Net profit on foreign exchange	*9*	173,873	204,817
Other operating income		59,246	49,191
Other operating expenses		(20,439)	(33,978)
Net other operating income	*10*	**38,807**	**15,213**
General administrative expenses	*11*	(681,687)	(697,066)
Depreciation expense	*12*	(66,407)	(69,990)
Profit / (loss) on sale of tangible fixed assets	*13*	117,289	(1,073)
Net impairment charges	*14*	9,634	17,028
Operating income		**441,214**	**403,834**
Share in profits / (losses) of undertakings accounted for under the equity method		2,654	(2,484)
Profit before tax		**443,868**	**401,350**
Income tax expenses	*15*	(100,774)	(83,101)
Net profit		**343,094**	**318,249**
Weighted average number of ordinary shares	*16*	130,659,600	130,659,600
Net profit per ordinary share (in PLN)	*16*	2.63	2.44
Diluted net profit per ordinary share (in PLN)	*16*	2.63	2.44

Consolidated balance sheet

In thousands of PLN	*Note*	**30.06.2006**	**31.12.2005**
ASSETS			
Cash and balances with central bank	*17*	834,819	922,649
Financial assets held-for-trading	*18*	5,341,743	5,883,358
Debt securities available-for-sale	*19*	8,092,338	7,171,157
Equity investments accounted for under the equity method	*20*	64,540	61,884
Other equity investments	*21*	23,909	20,615
Loans and advances	*22*	17,447,794	16,074,250
to financial sector		*7,379,446*	*6,467,157*
to non-financial sector		*10,068,348*	*9,607,093*
Property and equipment	*24*	674,911	700,212
land, buildings and equipment		*633,252*	*659,264*
investment property		*41,659*	*40,948*
Intangible assets	*25*	1,300,664	1,313,799
Deferred income tax assets	*27*	320,485	299,290
Other assets	*28*	529,250	430,574
Non-current assets held-for-sale	*29*	10,580	37,714
Total assets		**34,641,033**	**32,915,502**
LIABILITIES			
Financial liabilities held-for-trading	*18*	3,105,358	3,420,219
Financial liabilities valued at amortized cost	*30*	24,859,311	23,084,589
deposits from		*24,099,492*	*22,485,156*
financial sector		*5,917,773*	*5,223,503*
non-financial sector		*18,181,719*	*17,261,653*
other liabilities		*759,819*	*599,433*
Provisions	*31*	63,526	56,251
Income tax liabilities	*27*	23,162	163,311
Other liabilities	*32*	1,592,355	918,991
Liabilities held-for-sale	*29*	-	7,329
Total liabilities		**29,643,712**	**27,650,690**
EQUITY			
Issued capital	*33*	522,638	522,638
Share premium	*33*	3,027,470	3,010,452
Revaluation reserve	*33*	(204,764)	(64,554)
Other reserves	*33*	1,336,878	1,128,860
Retained earnings		315,099	667,416
Total equity		**4,997,321**	**5,264,812**
Total liabilities and equity		**34,641,033**	**32,915,502**

Consolidated statement of changes in equity

In thousands of PLN	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	**Total equity**
Balance as at 1 January 2005	**522,638**	**3,077,176**	**(9,371)**	**2,130,962**	**517,286**	**6,238,691**
Effects of transition to IFRS*	-	-	2,479	-	28,915	31,394
Balance as at 1 January 2005 – after restatement	**522,638**	**3,077,176**	**(6,892)**	**2,130,962**	**546,201**	**6,270,085**
Valuation of financial assets available-for-sale	-	-	124,026	-	-	124,026
Transfer of valuation of sold financial assets available-for-sale to profit and loss account	-	-	(112,295)	-	-	(112,295)
Deferred income tax on valuation of financial assets available-for-sale	-	-	(2,229)	-	-	(2,229)
Net profit	-	-	-	-	318,249	318,249
Dividends to be paid	-	(100,000)	-	(1,049,804)	(414,191)	(1,563,995)
Transfers to capital	-	26,961	-	35,159	(62,120)	-
Closing balance as at 30 June 2005	**522,638**	**3,004,137**	**2,610**	**1,116,317**	**388,139**	**5,033,841**

** in respect of IAS 3, IAS 39 and IAS 40*

Consolidated statement of changes in equity

In thousands of PLN	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	**Total Equity**
Balance as at 1 January 2006	**522,638**	**3,010,452**	**(64,554)**	**1,128,860**	**667,416**	**5,264,812**
Valuation of financial assets available-for-sale	-	-	(139,933)	-	-	(139,933)
Transfer of valuation of sold financial assets available-for-sale to profit and loss account	-	-	(33,166)	-	-	(33,166)
Deferred income tax on valuation of financial assets available-for-sale	-	-	32,889	-	-	32,889
Net profit	-	-	-	-	343,094	343,094
Dividends to be paid	-	-	-	-	(470,375)	(470,375)
Transfers to capital	-	17,018	-	208,018	(225,036)	-
Closing balance as at 30 June 2006	**522,638**	**3,027,470**	**(204,764)**	**1,336,878**	**315,099**	**4,997,321**

Consolidated statement of cash flows

In thousands of PLN	**01.01. – 30.06. 2006**	**01.01. – 30.06. 2005**
A. Cash flows from operating activities		
I. Net profit (loss)	**343,094**	**318,249**
II. Adjustments to reconcile net profit or loss to net cash provided by operating activities:	**(471,675)**	**187,373**
Current and deferred tax income, recognized in income statement	100,774	83,101
Share in profits / (losses) of undertakings accounted for under the equity method	(2,654)	2,484
Amortization	66,407	69,990
Impairment	(14,719)	(8,456)
Net provisions (recoveries)	5,085	(8,572)
Income on sale of investments	(119,685)	4,308
Received interest	657,066	848,146
Retained interest	(273,488)	(363,842)
Other adjustments	(1,080,393)	(1,652,977)
Cash flows from operating profits before changes in operating assets and liabilities	**(661,607)**	**(1,025,818)**
Increase / decrease in operating assets (excl. cash and cash equivalents)	**(1,619,275)**	**(1,531,278)**
Increase / decrease in loans and receivables	(1,240,096)	(1,044,387)
Increase / decrease in assets available-for-sale	(809,575)	978,741
Increase / decrease in equity investments	(1,514)	(1,932)
Increase / decrease in assets held-for-trading	560,638	(1,895,554)
Increase / decrease in other assets	(128,728)	431,854
Increase / decrease in operating liabilities (excl. cash and cash equivalents)	**1,809,207**	**2,744,469**
Increase / decrease in advances from central bank	-	(354)
Increase / decrease in financial liabilities valued at amortized cost	1,611,411	1,150,764
Increase / decrease in liabilities held-for-trading	(314,861)	176,467
Increase / decrease in other liabilities	512,657	1,417,592
Cash flows from operating activities	**(128,581)**	**505,622**
Income taxes (paid) refunded	**(66,026)**	**(23,297)**
III. Net cash flows from operating activities	**(194,607)**	**482,325**
B. Cash flows from investing activities		
Cash payments to acquire tangible assets	(24,981)	(52,543)
Cash receipts from the sale of tangible assets	5,534	2,989
Cash payments to acquire intangible assets	(4,268)	(33,372)
Cash receipts from the sale of intangible assets	139	-
Cash receipts from the disposal of investments in subordinated entities	-	6,157
Cash receipts from the disposal of tangible assets available-for-sale	174,927	-
Dividends received	100	1,580
Net cash flows from investing activities	**151,451**	**(75,189)**
C. Cash flows from financing activities		
Inflows from long-term loans from financial sector	185,215	19,292
Repayment of long-term loans from financial sector	(102,433)	(363,940)
Net cash flows from financing activities	**82,782**	**(344,648)**
D. Effect of exchange rate changes on cash and cash equivalent	**1,293**	**3,907**
E. Increase in net cash	**39,626**	**62,488**
F. Cash at the beginning of reporting period	**1,005,340**	**972,156**
G. Cash at the end of reporting period	**1,044,966**	**1,034,644**

Explanatory notes to the consolidated financial statements

1. General information about the Issuer

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

Bank Handlowy w Warszawie SA 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 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 following subordinated entities:

Subsidiaries	**Registered office**	**% of votes at the General Meeting of Shareholders**	
		30.06.2006	**31.12.2005**
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
Citileasing Sp. z o.o.	Warsaw	-	100.00
Handlowy Zarządzanie Aktywami S.A.	Warsaw	-	100.00
Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A.	Warsaw	-	100.00
PPH Spomasz Sp. z o.o. in liquidation	Warsaw	100.00	100.00
Entities accounted for under the equity method			
Handlowy Inwestycje Sp. z o.o.	Warsaw	100.00	100.00
Handlowy Investments S.A.	Luxembourg	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

*To 10 January 2006, before the merger of Citileasing sp. z o.o and Handlowy – Leasing sp. z o.o., under the name of Handlowy-Leasing S.A

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

Shares in associates accounted for under the equity method:

Associates	**Registered office**	**Share in the total number of votes at the General Meeting of Shareholders**	
		30.06.2006	**31.12.2005**
Entities accounted for under the equity method			
Handlowy Heller S.A.	Warsaw	-	50.00

The changes in the holding of shares in subordinated entities in the first half of 2006 resulted from sales or mergers of these entities. Detailed information about these transactions is presented in Note 41.

2. Significant accounting policies

Statement of compliance

The semi-annual consolidated financial statements of the Group for the period, ended on 30 June 2006 have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and in respect to matters that are not regulated by the above standards, in accordance with the requirements of the Accounting Act dated 29 September 1994 (Official Journal from 2002, No. 76, item 694 with amendments) and respective bylaws and regulations, and the requirements for issuers of securities admitted or sought to be admitted to trading on an official stock-exchange listing market.

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

Basis of preparation

These consolidated semi-annual financial statements have been prepared for the period from 1 January 2006 to 30 June 2006. The comparable financial data is presented for the period from 1 January 2005 to 30 June 2005. The implementation date of IAS 32 (Financial Instruments: Recognition and Presentation) and IAS 39 (Financial Instruments: Recognition and Measurement) was 1 January 2005.

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 7 (Financial Instruments: Disclosures) is not effective until 1 January 2007 with an early adoption encouraged. The Group has not adopted IFRS 7 early because management believes that the disclosures under IFRS 7 would not be very different from the requirements of IAS 32 and IAS 30.

Other standards, amendments to the standards and IFRIC interpretations recently endorsed or awaiting endorsement are either not relevant to the Bank 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.

Basis of consolidation

Subordinated entities comprise subsidiaries and associates.

Subsidiaries

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

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

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

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

Associates

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

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

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

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

Foreign currency translation

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

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction.
Foreign exchange gains and losses resulting from revaluation of balance sheet items denominated in foreign currencies and settlement of transactions in foreign currencies are included in net profit on foreign exchange.

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

in PLN		30 June 2006	31 December 2005	30 June 2005
1	USD	3.1816	3.2613	3.3461
1	CHF	2.5803	2.4788	2.6072
1	EUR	4.0434	3.8598	4.0401

Financial assets and financial liabilities

Classification

The Group classifies its financial instruments into the following categories:

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

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

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

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

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

b) Loans and receivables

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

c) Available-for-sale financial assets

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

d) Other financial liabilities

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

Recognition and exclusions

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

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

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

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

Measurement

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

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

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

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

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

Finance lease receivables

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

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

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

Equity investments – stocks and shares in other entities

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

Derivative instruments

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

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

Hedge accounting

The Group does not apply hedge accounting.

Offsetting financial instruments

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

Cash pooling

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

Sale and repurchase agreements

The Group enters into purchase and sale transactions under agreements to resell and repurchase the same financial assets, so called sell-buy-back and buy-sell-back respectively, as well as 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 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 2006.

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.

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. In accordance with IFRS 2 (Share-based payment) these programs are deemed to be cash-settled programs. A provision is created for future payments and is shown in "Other liabilities" and in "General administrative expenses" in the profit and loss account. The costs of the program are determined on the basis of a valuation model. According to IFRS 2, the fair value is, measured at grant date and, subsequently, at each reporting date until the final settlement. Total expenses recorded in a given period are based on the fair value of the options or deferred shares at the reporting date and the part of the rights that were deemed acquired in that period.

Long-term employee benefits

Under its compensation scheme, the 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. For employees who were hired before March 1, 2001, the base of the award includes periods of employment that were included pursuant to the principles of the Company Collective Labor Agreement in force from January 1, 1997. 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 (Tier 1 + Tier 2 capital) is stated at nominal value, with the exception of the revaluation reserve of available-for-sale financial assets that is stated after the effect of deferred income tax.

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

Calculating net income

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

Accruals and prepayments

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

Interest income and interest expenses

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

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

In the case of financial assets or groups of similar financial assets for which impairment losses were recognized, interest income is measured using the interest rate that was used to discount the future cash flows to estimate such impairment losses.

Fee and commission income and expenses

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

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

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

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

Other operating income and expenses

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

Income tax

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

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

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

Segmental reporting

A segment is a separate area of an entity's operations that either distributes goods or renders services in a specific sector environment (business segment) or distributes goods or renders services in a specific economic environment (geographical segment). A segment is exposed to certain risks and derives benefits that are specific only to that segment. The business segment has been adopted as the reporting segment in the Group since both risks and rates of return result from differences between products. The Group is managed at the level of three main business segments – Corporate and Investment Bank, Consumer Bank and Citifinancial. 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 that arose on the business combination between Bank Handlowy w Warszawie and Citibank (Polska) S.A as at 31 December 2005. 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 three business segments:

Corporate and Investment Bank

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

Consumer Bank

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

Citifinancial

– Within the Citifinancial segment the Group offers cash loans, consolidated loans and mortgage loans to customers. The segment products are offered via the dynamically developing network of small outlets conveniently located next to housing estates and shopping centers, as well as financial agents.

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

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

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

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

In thousands of PLN	**Corporate and Investment Bank**	**Consumer Bank**	**CitiFinancial**	**Total**
Net interest income	221,476	210,126	76,469	508,071
Net fee and commission income	160,888	133,979	7,564	302,431
Dividend income	100	-	-	100
Net income on financial instruments valued at fair value through profit and loss account	3,227	2,710	-	5,937
Net gain on investment (deposit) securities	33,166	-	-	33,166
Net profit on foreign exchange	157,526	16,347	-	173,873
Other operating income	30,806	7,899	102	38,807
General administrative expenses	(337,762)	(282,567)	(61,358)	(681,687)
Depreciation expense	(48,538)	(17,231)	(638)	(66,407)
Profit/ (loss) on sale of tangible fixed	105,295	11,994	-	117,289
Net impairment losses	23,050	3,185	(16,601)	9,634
Operating income	**349,234**	**86,442**	**5,538**	**441,214**
Share in profits / (losses) of undertakings accounted for under the equity method	2,654	-	-	2,654
Profit before tax	**351,888**	**86,442**	**5,538**	**443,868**
Income tax expenses				(100,774)
Net profit				**343,094**

Assets and liabilities of the Group by business segment as at 30 June 2006

In thousands of PLN	**Corporate and Investment Bank**	**Consumer Bank**	**CitiFinancial**	**Total**
Assets including:	31,277,170	2,622,117	741,746	34,641,033
Non-current assets held-for-sale	*10,580*	-	-	*10,580*
Liabilities	28,531,746	5,984,445	124,842	34,641,033

Consolidated income statement by business segment for the first half of 2005

In thousands of PLN	**Corporate and Investment Bank**	**Consumer Bank**	**CitiFinancial**	**Total**
Net interest income	244,191	232,813	45,254	522,258
Net fee and commission income	169,624	111,305	2,788	283,717
Dividend income	1,573	-	-	1,573
Net income on financial instruments valued at fair value through profit and loss account	13,113	1,949	-	15,062
Net gain on investment (deposit) securities	112,295	-	-	112,295
Net profit on foreign exchange	185,601	19,216	-	204,817
Other operating income	15,075	138	-	15,213
General administrative expenses	(366,095)	(284,306)	(46,665)	(697,066)
Depreciation expense	(49,522)	(19,848)	(620)	(69,990)
Profit/ (loss) on sale of tangible fixed assets	398	(1,471)	-	(1,073)
Net impairment losses	33,875	(9,022)	(7,825)	17,028
Operating income	**360,128**	**50,774**	**(7,068)**	**403,834**
Share in profits / (losses) of undertakings accounted for under the equity method	(2,484)	-	-	(2,484)
Profit before tax	**357,644**	**50,774**	**(7,068)**	**401,350**
Income tax expenses				(83,101)
Net profit				**318,249**

Assets and liabilities of the Group by business segment as at 31 December 2005

In thousands of PLN	**Corporate and Investment Bank**	**Consumer Bank**	**CitiFinancial**	**Total**
Assets, including:	29,915,327	2,368,597	631,578	32,915,502
non-current assets held-for-sale	*27,858*	*9,856*	-	*37,714*
Liabilities, including:	26,886,284	5,910,094	119,124	32,915,502
liabilities related to non-current assets held-for-sale	*2,959*	*4,370*	-	*7,329*

4. Interest income

In thousands of PLN	**01.01. – 30.06. 2006**	**01.01. - 30.06. 2005**
Interest and similar income from:		
Central Bank	6,985	8,058
Placements in banks	121,991	144,147
Loans and advances, of which:	458,601	526,110
financial sector	*9,665*	*14,144*
non-financial sector	*448,936*	*511, 966*
Debt securities available-for-sale	145,717	149,891
Debt securities held-for-trading	50,307	47,805
	783,601	**876,011**
Interest expense and similar charges for:		
Central Bank	(9)	(9)
Deposits from banks	(41,989)	(38,047)
Deposits from financial sector (excl. banks)	(34,417)	(34,609)
Deposits from non-financial sector	(194,536)	(263,095)
Loans and advances received	(4,579)	(17,993)
	(275,530)	**(353,753)**
	508,071	**522,258**

Net interest income for the first half of 2006 includes interest received on impaired loans, of PLN 17,045 thousand (for the first half of 2005: 21,897 thousand)

5. Net fee and commission income

In thousands of PLN	**01.01. – 30.06. 2006**	**01.01. - 30.06. 2005**
Fee and commission income:		
Insurance and investment products	125,384	88,197
Payment and credit cards	62,851	50,118
Payment services	59,013	63,992
Custody services	44,949	38,472
Brokerage operations	42,789	36,530
Cash management	19,478	39,994
Off-balance sheet guarantee liabilities	8,599	10,297
Off-balance sheet financial liabilities	3,557	4,007
Other	10,244	9,327
	376,864	**340,934**
Fee and commission expense:		
Insurance and investment products	(31,052)	(23,541)
Payment and credit cards	(21,526)	(9,980)
Brokerage operations	(10,902)	(11,781)
Fees paid to KPWiG	(4,762)	(2,919)
Brokers fees	(4,473)	(5,034)
Other	(1,718)	(3,962)
	(74,433)	**(57,217)**
	302,431	**283,717**

6. Dividend income

In thousands of PLN	**01.01. – 30.06. 2006**	**01.01 – 30.06. 2005**
Securities available-for-sale	-	1,563
Securities held-for-trading	100	10
	100	**1,573**

7. Net trading income

In thousands of PLN	**01.01. – 30.06. 2006**	**01.01. - 30.06. 2005**
Net income on financial instruments valued at fair value through profit and loss account:		
Debt instruments	(6,573)	83,204
Derivative instruments including:	12,510	(68,142)
Interest rate	*6,969*	*(72,072)*
Equity	*3,798*	*2,548*
Commodity	*1,743*	*1,382*
	5,937	**15,062**

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

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

8. Net gain on investment (deposit) securities

In thousands of PLN	**01.01. – 30.06. 2006**	**01.01. – 30.06 2005**
Profits realized on available-for-sale securities:		
Debt instruments	**37,031**	**123,455**
Losses realized on available-for-sale securities:		
Debt instruments	**(3,865)**	**(11,160)**
	33,166	**112,295**

9. Net profit on foreign exchange

In thousands of PLN	**01.01. – 30.06. 2006**	**01.01. – 30.06. 2005**
Net profit on foreign exchange:		
Net profit on foreign currency derivatives	373,432	(139,215)
Revaluation	(199,559)	344,032
	173,873	**204,817**

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

10. Net other operating income

In thousands of PLN	**01.01. – 30.06. 2006**	**01.01. – 30.06. 2005**
Other operating income:		
Data processing for related parties	28,714	21,849
Other income related to shares granted by MasterCard	6,120	-
Settlement of perpetual usufruct right to land	3,228	3,429
Investment property	3,178	2,863
Other	18,006	21,050
	59,246	**49,191**
Other operating expenses:		
Investment property	(3,255)	(10,578)
Vindication expenses	(2,764)	(2,774)
Other	(14,420)	(20,626)
	(20,439)	**(33,978)**
	38,807	**15,213**

11. General administrative expenses

In thousands of PLN	**01.01. – 30.06. 2006**	**01.01. – 30.06. 2005**
Staff expenses:		
Wages and salaries	(263,507)	(266,595)
Social security contributions and other benefits	(53,270)	(53,264)
Retirement benefits	(9,721)	(24,602)
Payments related to own equity instruments	(6,276)	(6,324)
	(332,774)	**(350,785)**
Administrative expenses:		
Telecommunication	(86,616)	(92,870)
Service expenses	(75,907)	(68,451)
Building maintenance and rent	(52,400)	(57,415)
Marketing	(30,451)	(19,976)
Advisory, audit and consulting services	(23,983)	(27,685)
Postal services	(8,943)	(8,788)
IT expenses	(8,370)	(7,967)
Training and education	(4,172)	(5,275)
Other	(58,071)	(57,854)
	(348,913)	**(346,281)**
	(681,687)	**(697,066)**

General administrative expenses for the first half of 2006 include wages and employee awards payable to members of the Management Board that amounted to PLN 5,678 thousand (for the first half of 2005: PLN 6,962 thousands).

12. Depreciation expense

In thousands of PLN	**01.01. – 30.06. 2006**	**01.01. - 30.06. 2005**
Property and equipment	(49,000)	(54,593)
Intangible assets	(17,407)	(15,397)
	(66,407)	**(69,990)**

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

In thousands of PLN	**01.01. – 30.06. 2006**	**01.01. - 30.06. 2005**
Profits on:		
Assets held-for-sale*	116,379	-
Investments in subordinated entities	867	740
Tangible fixed assets	245	1,033
Finalization of lease contracts	-	204
	117,491	**1,977**
Losses on:		
Tangible fixed assets	(202)	(3,050)
	(202)	**(3,050)**
	117,289	**(1,073)**

*Refers to fixed assets classified as at 31 December 2005 as held-for-sale and sold in the first half of 2006 (see Note 29)

14. Net impairment losses

Net impairment write-downs of financial assets

In thousands of PLN	**01.01. – 30.06. 2006**	**01.01. - 30.06. 2005**
Impairment write-downs:		
Loans and receivables valued at amortized cost	(272,253)	(339,322)
Other	(20,183)	(25,332)
	(292,436)	**(364,654)**
Reversals of impairment write-downs:		
Loans and receivables valued at amortized cost	305,749	369,309
Other	1,406	3,801
	307,155	**373,110**
	14,719	**8,456**

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

In thousands of PLN	**01.01. – 30.06. 2006**	**01.01. - 30.06. 2005**
Charges to provisions for off-balance sheet commitments	(45,944)	(19,355)
Releases of provisions for off-balance sheet commitments	40,859	27,927
	(5,085)	**8,572**
Net impairment losses	**9,634**	**17,028**

15. Income tax expense

Recognized in the income statement

In thousands of PLN	**01.01. – 30.06. 2006**	**01.01. – 30.06. 2005**
Current tax:		
Current year	(81,785)	(195,539)
Adjustments for prior years	(1,188)	(969)
	(82,973)	**(196,508)**
Deferred tax:		
Origination and reversal of temporary differences	(16,825)	109,164
Movement in receivables arising from tax deductions	(976)	(2,093)
Other	-	6,336
	(17,801)	**113,407**
Income tax expense	**(100,774)**	**(83,101)**

Reconciliation of effective tax rate:

In thousands of PLN	**01.01. –30.06. 2006**	**01.01. -30.06. 2005**
Profit before tax	443,868	401,350
Income tax at the domestic tax rate of 19%	(84,335)	(76,256)
Expenses not tax deductible	(18,008)	(12,600)
Taxable income not in income statement	(24,875)	(25,185)
Deductible expenses not in income statement	20,279	25,346
Non taxable income	4,728	4,554
Other	1,437	1,040
Income tax expense	**(100,774)**	**(83,101)**
Effective tax rate	**23%**	**21%**

Deferred tax recognized directly in equity

Deferred tax recognized directly in equity as at 30 June 2006 is related to debt instruments available-for-sale and amounts to PLN 48,031 thousand (30 June 2005: PLN 612 thousand).

16. Earnings per share

As at 30 June 2006 earnings per share amounted to PLN 2.63 (30 June 2005: PLN 2.44)

The calculation of earnings per share as at 30 June 2006 was based on the consolidated profit attributable to owners of ordinary shares of PLN 343,094 thousand (30 June 2005: PLN 318,249 thousand) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2006 of 130,659,600 (30 June 2005: 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	**30.06.2006**	**31.12.2005**
Cash at hand	407,181	299,817
Current balances with Central Bank	427,638	622,832
	834,819	**922,649**

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 2006 of PLN 717,133 thousand (31 December 2005: PLN 670,717 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	**30.06.2006**	**31.12.2005**
Financial assets held for trading		
Debt securities		
Bonds and notes issued by:		
Banks	46,117	16,780
Financial sector	47,609	35,604
Non-financial sector	110,564	30,803
Government	1,827,818	2,203,519
Other debt securities issued by:		
Banks	111,827	13,356
	2,143,935	**2,300,062**
Including:		
Listed	*1,827,818*	*2,203,769*
Unlisted	*316,117*	*96,293*
Derivative financial instruments	**3,197,467**	**3,578,726**
Equity instruments	**341**	**4,570**
Including:		
Listed	*340*	*4,569*
Unlisted	*1*	*1*
	5,341,743	**5,883,358**

Debt securities held for trading (maturity):

In thousands of PLN	**30.06.2006**	**31.12.2006**
up to 1 month	62,088	35,015
1 month - 3 months	229,671	56,290
3 months - 1 year	714,389	369,845
1 year - 5 years	976,589	1,352,773
over 5 years	161,198	486,139
	2,143,935	**2,300,062**

In thousands of PLN	**30.06.2006**	**31.12.2005**
Financial liabilities held- for- trading:		
Derivative financial instruments	**3,105,358**	**3,420,219**

As at 30 June 2006 and 31 December 2005 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 2006

In thousands of PLN	Notional amount with remaining life of					Fair values	
	less than three months	**between three months and one year**	**between one year to five years**	**more than five years**	**Total**	**Assets**	**Liabilities**
Interest rate instruments	**12,827,090**	**106,274,478**	**126,656,176**	**33,614,290**	**279,372,034**	**2,690,060**	**2,599,327**
FRA-purchase	-	36,624,000	12,900,000	-	49,524,000	35,295	8,690
FRA-sale	-	39,795,000	11,550,000	-	51,345,000	12,348	37,205
Interest rate swaps (IRS)	11,264,669	27,619,016	99,587,676	29,740,267	168,211,628	2,419,235	2,397,761
Currency- interest rate swaps (CIRS)	73,354	1,082,910	2,618,500	2,374,023	6,148,787	200,215	134,639
Interest rate options purchased	-	-	-	750,000	750,000	19,748	-
Interest rate options sold	-	-	-	750,000	750,000	-	19,748
Future contracts-purchase*	676,501	904,003	-	-	1,580,504	12	1,261
Future contracts-sale*	812,566	249,549	-	-	1,062,115	3,207	23
Currency instruments	**31,985,752**	**18,272,191**	**1,318,123**	**742,071**	**52,318,137**	**482,852**	**479,328**
FX forward	5,665,368	2,897,665	229,697	367,796	9,160,526	94,794	107,433
FX swap	18,897,042	6,456,071	256,915	-	25,610,028	195,921	181,049
Foreign exchange options purchased	3,689,650	4,419,941	400,619	177,742	8,687,952	191,943	66
Foreign exchange options sold	3,733,692	4,498,514	430,892	196,533	8,859,631	194	190,780
Securities transactions	**2,422,087**	**8,868**	**29,588**	**-**	**2,460,543**	**6,801**	**8,949**
Share options (purchase)	10,855	4,434	14,794	-	30,083	4,110	104
Share options (sale)	10,855	4,434	14,794	-	30,083	104	4,110
Securities purchased pending delivery	1,215,711	-	-	-	1,215,711	2,122	2,960
Securities sold pending delivery	1,184,666	-	-	-	1,184,666	465	1,775
Commodity transactions	**39,184**	**54,701**	**93,933**	**-**	**187,818**	**17,754**	**17,754**
Swaps	34,832	54,701	38,847	-	128,380	15,175	15,175
Purchase options	2,176	-	27,543	-	29,719	2,579	-
Sold options	2,176	-	27,543	-	29,719	-	2,579
Derivative instruments total	**47,274,113**	**124,610,238**	**128,097,820**	**34,356,361**	**334,338,532**	**3,197,467**	**3,105,358**

*Exchange-traded products

Derivative financial instruments as at 31 December 2005

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	**12,955,830**	**102,770,765**	**94,019,220**	**27,242,675**	**236,988,490**	**3,136,905**	**2,899,561**
FRA-purchase	-	37,252,000	3,150,000	-	40,402,000	9,317	15,785
FRA-sale	-	36,877,000	3,400,000	-	40,277,000	15,974	7,958
Interest rate swaps (IRS)	12,683,333	27,375,552	84,879,507	21,966,838	146,905,230	2,797,493	2,681,343
Currency- interest rate swaps (CIRS)	-	798,420	2,527,677	3,775,837	7,101,934	301,840	182,775
Interest rate options purchased	-	133,009	-	750,000	883,009	11,672	-
Interest rate options sold	-	133,009	-	750,000	883,009	-	11,672
Future contracts-purchase*	192,177	-	-	-	192,177	572	-
Future contracts-sale*	80,320	201,775	62,036	-	344,131	37	28
Currency instruments	**21,003,886**	**15,999,287**	**1,308,327**	**735,277**	**39,046,777**	**408,717**	**486,318**
FX forward	3,359,898	1,609,689	193,603	364,546	5,527,736	74,926	113,074
FX swap	10,920,131	9,062,758	213,271	-	20,196,160	179,433	220,896
Foreign exchange options purchased	3,315,321	2,643,339	431,753	176,397	6,566,810	154,019	165
Foreign exchange options sold	3,408,536	2,683,501	469,700	194,334	6,756,071	339	152,183
Securities transactions	**302,152**	**48,232**	**38,506**	**-**	**388,890**	**7,368**	**8,604**
Share options (purchase)	21,216	24,116	19,253	-	64,585	6,638	302
Share options (sale)	21,216	24,116	19,253	-	64,585	302	6,638
Securities purchased pending delivery	95,278	-	-	-	95,278	100	1,664
Securities sold pending delivery	164,442	-	-	-	164,442	328	-
Commodity transactions	**143,226**	**133,530**	**-**	**-**	**276,756**	**25,736**	**25,736**
Swaps	134,210	133,530	-	-	267,740	25,467	25,467
Purchase options	4,508	-	-	-	4,508	269	-
Sold options	4,508	-	-	-	4,508	-	269
Derivative instruments total	**34,405,094**	**118,951,814**	**95,366,053**	**27,977,952**	**276,700,913**	**3,578,726**	**3,420,219**

*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	**30.06.2006**	**31.12.2005**	**30.06.2006**	**31.12.2005**
Buy Euro				
Less than three months	4.0032	4.0770	3,522,179	4,346,758
Between three months and one year	4.0248	4.0880	4,680,779	2,627,891
More than one year	4.2116	4.3273	839,037	493,482
Sell Euro				
Less than three months	4.0030	4.0637	5,145,846	3,672,993
Between three months and one year	4.0206	4.1038	3,538,126	2,694,794
More than one year	4.2737	4.3375	693,450	524,938
Buy US Dollars				
Less than three months	3.1988	3.2968	9,550,715	5,320,548
Between three months and one year	3.2257	3.2722	5,071,223	5,351,800
More than one year	3.1229	3.1301	635,366	996,433
Sell US Dollars				
Less than three months	3.2002	3.2533	11,942,023	7,847,620
Between three months and one year	3.2147	3.2720	4,948,354	5,033,878
More than one year	3.1039	3.1082	563,408	733,304
Buy Swiss Franc				
Less than three months	2.5823	2.4837	137,272	268,281
Between three months and one year	2.5210	2.5400	5,161	1,767
Sell Swiss Franc				
Less than three months	2.5672	2.4832	272,790	527,860
Between three months and one year	2.5205	2.5260	7,741	5,733
Buy Pound Sterling				
Less than three months	5.8706	5.7524	52,384	106,041
Between three months and one year	5.7876	5.9784	42,448	217,550
Sell Pound Sterling				
Less than three months	5.8246	5.8467	17,790	63,744
Between three months and one year	-	6.0066	-	206,299

19. Debt securities available-for-sale

In thousands of PLN	**30.06.2006**	**31.12.2005**
Bonds and notes issued by:		
Central Bank	2,582,749	2,258,159
Government	5,509,589	4,912,998
	8,092,338	**7,171,157**
Including:		
Listed instruments	*5,469,896*	*4,872,996*
Unlisted instruments	*2,622,442*	*2,298,161*

Debt securities available-for-sale (maturity):	**30.06.2006**	**31.12.2005**
In thousands of PLN		
up to 1 month	2,213,039	1,886,194
1 month - 3 months	336,788	14,847
3 months - 1 year	125,018	327,668
1 year - 5 years	2,437,102	1,882,493
over 5 years	2,980,391	3,059,955
	8,092,338	**7,171,157**

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. 2006**	**01.01. -31.12. 2005**
As at 1 January	**7,171,157**	**6,091,194**
Increases (in respect of)		
Purchases	39,689,348	68,190,468
FX differences	40,831	4,806
Amortization of discount, premium and interest	69,036	84,066
Decreases (in respect of)		
Purchases	(38,688,123)	(67,043,561)
Revaluation	(170,626)	(122,475)
Amortization of discount, premium and interest	(19,285)	(33,341)
As at the end of a period	**8,092,338**	**7,171,157**

20. Equity investments accounted for under the equity method

In thousands of PLN	**30.06.2005**	**31.12.2005**
Stocks and shares in subordinated entities	**64,540**	**61,884**
Including:		
Listed instruments	-	-
Unlisted instruments	*64,540*	*61,884*

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

In thousands of PLN	**Subordinated entities**	**Associated entities**	**Total**
As at 1 January 2005	**68,503**	**18,171**	**86,674**
Increases (in respect of)			
Revaluation	2,897	1,385	4,282
Decreases (in respect of)			
Sales	(4,072)	(4,700)	(8,772)
Revaluation	(5,444)	(6,800)	(12,244)
Classified as non-current assets held-for-sale (see note 29)	-	(8,056)	(8,056)
As at 31 December 2005	**61,884**	**-**	**61,884**

In thousands of PLN	**Subordinated entities**
As at 1 January 2006	**61,884**
Increases (in respect of)	
Revaluation	4,436
Decrease (in respect of)	
Revaluation	(1,780)
As at 30 June 2006	**64,540**

21. Other equity investments

In thousands of PLN	**30.06.2006**	**31.12.2005**
Stocks and shares in other entities	56,118	52,824
Impairment	(32,209)	(32,209)
	23,909	**20,615**
Including:		
Listed instruments	*3,294*	-
Unlisted instruments	*20,615*	*20,615*

The change in other equity investments is as follows:

In thousands of PLN	Associated entities	Other entities	Total
As at 1 January 2005	**329**	**27,758**	**28,087**
Increases (in respect of)			
Conversion of debt into shares	-	5,000	5,000
Decreases (in respect of)			
Sales	(329)	(8,835)	(9,164)
Revaluation	-	(3,308)	(3,308)
As at 31 December 2005	**-**	**20,615**	**20,615**

In thousands of PLN	Other entities
As at 1 January 2006	**20,615**
Increases (in respect of)	
Purchases	3,160
Revaluation	134
As at 30 June 2006	**23,909**

Financial information on subordinated entities as at 30 June 2006

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	797,644	617,006	180,638	26,868	6,705
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary undertaking	100.00	541,695	444,982	96,713	50,243	17,716
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	41,240	41,712	472	41,240	1,067	424
HANDLOWY- INVESTMENTS S.A. 1)	Luxembourg	Investment activity	Subsidiary undertaking	100.00	-	92,316	162,856	(70,540)	12,450	8,566
HANDLOWY - INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	80.97	13,202	31,704	24,720	6,984	467	(11)
HANDLOWY INWESTYCJE Sp. z o.o.2)	Warsaw	Investment activity	Subsidiary undertaking	100.00	10,098	18,799	5,216	13,583	11,548	7,940

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	1,960	31,704	24,720	6,984	467	(11)

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)
CITILEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	2.53	3,125	797,644	617,006	180,638	26,868	6,705

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 2005

Subordinated entities consolidated under the equity method

In thousands of PLN

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Assets	Liabilities	Equity	Revenues	Profit/(loss)
CITILEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	97.47	173,372	3,713	169,659	10,057	4,407
DOM MAKLERSKI BANKU HANDLOWEGO S.A .	Warsaw	Brokerage	Subsidiary undertaking	100.00	652,732	544,677	108,055	99,323	31,589
TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH BH S.A.	Warsaw	Investment activity	Subsidiary undertaking	100.00	36,673	4,519	32,154	47,160	8,708
HANDLOWY ZARZĄDZANIE AKTYWAMI S.A.	Warsaw	Brokerage	Subsidiary undertaking	100.00	8,677	2,146	6,531	10,024	1,964
HANDLOWY-LEASING S.A.	Warsaw	Leasing	Subsidiary undertaking	100.00	711,115	703,731	7,384	58,136	10,083
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	40,816	41,699	883	40,816	4,126	1,947
HANDLOWY- INVESTMENTS S.A. [1/]	Luxembourg	Investment activity	Subsidiary undertaking	100.00	-	88,711	160,627	(71,916)	13,374	(4,058)
HANDLOWY - INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	80.97	14,981	33,860	24,680	9,180	119	(1,414)
HANDLOWY INWESTYCJE Sp. z o.o. [2/]	Warsaw	Investment activity	Subsidiary undertaking	100.00	6,086	15,587	6,300	9,287	785	365
HANDLOWY HELLER S.A.*	Warsaw	Factoring	Associated undertaking	25.00	8,056	495,402	463,172	32,230	44,525	7,459

*/ Equity investments in Towarzystwo Funduszy Inwestycyjnych BH S.A., Handlowy Zarządzanie Aktywami S.A.and Handlowy Heller S.A. have been classified as assets held-for-sale in accordance with IFRS 5 and are presented in the balance sheet in "Non-current assets held-for-sale" (see note 29)

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	1,871	33,860	24,680	9,180	119	(1,414)

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)
CITILEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	2.53	-	173,372	3,713	169,659	10,057	4,407
HANDLOWY HELLER S.A.	Warsaw	Factoring	Associated undertaking	25.00	8,056	495,402	463,172	32,230	44,525	7,459

The financial data of these entities is based on audited financial information available at the time of preparation of these statements except for Handlowy Investments S.A. and Handlowy Investments II S.a.r.l..

22. Loans and advances

Loans and advances (by category)

In thousands of PLN	**30.06.2006**	**31.12.2005**
Loans and advances to the financial sector:		
Current accounts of banks	210,146	82,691
Loans, placements and advances, including:	7,221,428	6,499,915
placements in banks	*6,615,102*	*5,813,106*
Purchased receivables	38,604	17,566
Realized guarantees	267	274
Other receivables	44,207	11,012
	7,514,652	6,611,458
Impairment write-offs	(135,206)	(144,301)
	7,379,446	**6,467,157**
Loans and advances to the non-financial sector:		
Loans and advances	11,466,829	11,129,056
Purchased receivables	203,542	166,182
Realized guarantees	55,166	63,069
Other receivables	4,347	2,307
	11,729,884	11,360,614
Impairment write-offs	(1,661,536)	(1,753,521)
	10,068,348	**9,607,093**
Loans and advances	**17,447,794**	**16,074,250**

Loans and advances - gross (by time to maturity)

In thousands of PLN	**30.06.2006**	**31.12.2005**
Loans and advances to the financial sector:		
up to 1 month	4,973,458	4,197,005
1 month- 3 months	249,912	207,483
3 months- 1 year	1,409,826	1,456,476
1 year- 5 years	821,006	665,700
over 5 years	60,450	84,794
	7,514,652	**6,611,458**
Loans and advances to the non-financial sector:		
up to 1 month	6,682,488	6,264,397
1 month- 3 months	754,120	779,752
3 months- 1 year	1,639,977	1,460,153
1 year- 5 years	2,597,456	2,786,033
over 5 years	55,843	70,279
	11,729,884	**11,360,614**
Loans and advances - gross	**19,244,536**	**17,972,072**

Finance lease receivables

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

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

In thousands of PLN	**30.06.2006**	**31.12.2005**
Gross finance lease receivables	821,239	785,136
Unearned finance income	(72,457)	(75,240)
Net finance lease receivables	**748,782**	**709,896**
Gross finance lease receivables by time to maturity:		
Less then 1 year	421,936	349,967
between 1 and 5 years	397,467	434,789
over 5 years	1,836	380
	821,239	**785,136**
Net finance lease receivables by time to maturity:		
Less then 1 year	384,709	314,051
between 1 and 5 years	362,399	395,476
over 5 years	1,674	369
	748,782	**709,896**

As at 30 June 2006 impairment for unrecoverable finance lease receivables amounted to 60,606 thousand (31 December 2005: 64,150 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. 2006**	**01.01. – 31.12. 2005**
As at 1 January	**1,897,822**	**1,776,560**
Related to:		
Receivables from banks	11,332	9,751
Receivables from other customers of financial and non-financial sector	1,886,490	1,766,809
Effects of transition to IFRS*	-	234,935
1 January - after restatement of opening balance	**1,897,822**	**2,011,495**
Change in impairment write-downs	(101,080)	(113,673)
Charges	272,253	709,602
Write-offs	(77,369)	(86,522)
Amounts released	(305,749)	(775,732)
Other	9,785	38,979
As at the end of a period	**1,796,742**	**1,897,822**

** MSR 32 and 39*

Related to:		
Receivables from banks	11,051	11,332
Receivables from other customers of financial and non-financial sector	1,785,691	1,886,490

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

In thousands of PLN	**30.06.2006**	**31.12.2005**
Portfolio impairment loss	452,183	462,432
Individual impairment loss	1,270,754	1,366,990
Incurred but not reported losses	73,805	68,400

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 2005	**775,679**	**1,394**	**63,059**	**663,469**	**5,022**	**1,508,623**
Effects of transition to IFRS*	(41,249)	-	-	-	(1,154)	(42,403)
As at 1 January - after restatement of opening balance	**734,430**	**1,394**	**63,059**	**663,469**	**3,868**	**1,466,220**
Additions:						
Purchases	1,237	80	2,235	36,386	45,180	85,118
Other increases	-	-	-	4,380	-	4,380
Disposals:						
Disposals	(3,749)	(304)	(16,868)	(8,034)	-	(28,955)
Classified as "Non-current assets held-for-sale" (see Note 29)	-	(568)	(185)	(9,682)	-	(10,435)
Other decreases	(8,249)	(1)	(311)	(27,553)	(262)	(36,376)
Reclassification	15,737	-	15,772	9,838	(43,986)	(2,639)
Balance as at 31 December 2005	**739,406**	**601**	**63,702**	**668,804**	**4,800**	**1,477,313**
** MSR 40*						
Balance as at 1 January 2006	**739,406**	**601**	**63,702**	**668,804**	**4,800**	**1,477,313**
Increases:						
Purchases	206	41	516	10,989	13,236	24,988
Other increases	-	-	-	1,140	-	1,140
Decreases:						
Disposals	-	(6)	(2,426)	(5,815)	-	(8,247)
Reclassification	9,143	-	101	3,437	(13,862)	1,181
Other decreases	(1,835)	-	(127)	(5,436)	-	(7,398)
Balance as at 30 June 2006	**746,920**	**636**	**61,766**	**673,119**	**4,174**	**1,486,615**
Depreciation and amortization						
Balance as at 1 January 2005	**206,865**	**1,205**	**26,092**	**548,899**	**-**	**783,061**
Effects of transition to IFRS*	(17,554)	-	-	-	-	(17,554)
As at 1 January - after restatement of opening balance	**189,311**	**1,205**	**26,092**	**548,899**	**-**	**765,507**
Increases:						
Depreciation charge for the period	38,146	115	12,993	55,639	-	106,893
Other increases	59	-	-	4,669	-	4,728
Decreases:						
Disposals	(3,749)	(304)	(13,515)	(7,074)	-	(24,642)
Classified as "Non-current assets held-for-sale" (see Note 29)	-	(536)	(106)	(4,443)	-	(5,085)
Other decreases	(5,127)	(1)	(6)	(25,909)	-	(31,043)
Balance as at 31 December 2005	**218,640**	**479**	**25,458**	**571,781**	**-**	**816,358**

**MSR 40*

Balance as at 1 January 2006	**218,640**	**479**	**25,458**	**571,781**	**-**	**816,358**
Increases:						
Depreciation charge for the period	19,036	56	6,107	23,803	-	49,002
Other increases	-	-	-	977	-	977
Decreases:						
Disposals	-	(2)	(1,967)	(5,922)	-	(7,891)
Other decreases	(1,725)	-	(39)	(5,010)	-	(6,774)
Balance at 30 June 2006	**235,951**	**533**	**29,559**	**585,629**	**-**	**851,672**
Impairment losses						
Balance at 1 January 2005	**1,453**	**-**	**-**	**238**	**-**	**1,691**
Increases						
Decreases						
Balance at 31 December 2005	**1,453**	**-**	**-**	**238**	**-**	**1,691**
Balance at 1 January 2006	**1,453**	**-**	**-**	**238**	**-**	**1,691**
Increases						
Decreases						
Balance at 30 June 2006	**1,453**	**-**	**-**	**238**	**-**	**1,691**
Carrying amounts						
As at 1 January 2005	543,666	189	36,967	114,332	5,022	700,176
As at 31 December 2005	519,313	122	38,244	96,785	4,800	659,264
As at 1 January 2006	519,313	122	38,244	96,785	4,800	659,264
As at 30 June 2006	509,516	103	32,207	87,252	4,174	633,252

Investment properties

In thousands of PLN	**01.01. – 30.06. 2006**	**01.01. – 31.12. 2005**
As at 1 January	**40,948**	**-**
Effects of transition to IFRS*	-	54,923
As at 1 January - after restatement	**40,948**	**54,923**
Increases:		
Restructuring	-	13,200
Revaluation	711	-
Other increases	-	139
Decreases:		
Disposals	-	(3,929)
Classified as “Non-current assets held-for-sale” (see Note 29)	-	(12,740)
Revaluation	-	(10,645)
As at the end of a period	**41,659**	**40,948**

**** MSR 40***

In the opening balance sheet in 2005, the Group identified certain repossessed property and own property as investment properties. As a result of identification of investment property, the positive difference between the fair value of a given property and its carrying value at the moment of identification was recorded as an adjustment to retained earnings amounting to PLN 8,050 thousand

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 2005	**1,448,907**	**1,752**	**204,953**	**410**	**107**	**1,656,129**
Additions:						
Purchases	4,876	2	10,172	20,900	6,536	42,486
Reclassification	-	-	4,531	-	-	4,531
Disposals:						
Classified as "Non-current assets held-for-sale" (see Note 29)	-	(104)	(281)	(2)	-	(387)
Other decreases	(2,545)	-	(788)	(2,347)	(4,543)	(10,223)
Balance as at 31 December 2005	**1,451,238**	**1,650**	**218,587**	**18,961**	**2,100**	**1,692,536**
Balance as at 1 January 2006	**1,451,238**	**1,650**	**218,587**	**18,961**	**2,100**	**1,692,536**
Additions:						
Purchases	-	-	2,495	-	1,773	4,268
Reclassification	-	-	130		(130)	-
Balance as at 30 June 2006	**1,451,238**	**1,650**	**221,212**	**18,961**	**3,743**	**1,696,804**
Depreciation and amortization:						
Balance as at 1 January 2005	**205,262**	**1,476**	**139,238**	**387**	**-**	**346,363**
Increases:						
Depreciation charge for the period	-	147	28,224	5,030	-	33,401
Decreases:						
Classified as "Non-current assets held-for-sale" (see Note 29)	-	(104)	(135)	-	-	(239)
Other decreases	-	-	(788)	-	-	(788)
Balance as at 31 December 2005	**205,262**	**1,519**	**166,539**	**5,417**	**-**	**378,737**
Balance as at 1 January 2006	**205,262**	**1,519**	**166,539**	**5,417**	**-**	**378,737**
Increases:						
Depreciation charge for the period	-	70	13,992	3,346	-	17,408
Decreases:						
Disposals	-	-	(5)	-	-	(5)
Balance as at 30 June 2006	**205,262**	**1,589**	**180,526**	**8,763**	**-**	**396,140**
Carrying amounts						
As at 1 January 2005	1,243,645	276	65,715	23	107	1,309,766
As at 31 December 2005	1,245,976	131	52,048	13,544	2,100	1,313,799
As at 1 January 2006	1,245,976	131	52,048	13,544	2,100	1,313,799
As at 30 June 2006	1,245,976	61	40,686	10,198	3,743	1,300,664

As at 31 December 2005, goodwill includes the amount of PLN 1,243,645 thousand arising from the merger of Bank Handlowy w Warszawie S.A. and Citibank (Poland) S.A. 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. As at 1 January 2004, as required by IFRS, the Group ceased to make write-downs of goodwill, and replaced them with the impairment test. In addition, PLN 13,229 thousand of other intangible assets was recognized in the balance sheet as a result of the purchase of an organized part of an enterprise from ABN AMRO Bank (Poland) S.A.

26. Impairment test for goodwill

According to IAS 36 "Impairment of Assets", the Group performs annual impairment tests for goodwill as a result of the merger between Bank Handlowy w Warszawie S.A. and Citibank (Poland) S.A. Tests are performed as at 31 December each reporting year. Detailed information concerning tests, including allocation of goodwill to cash generating units and the basis of valuation of the units' recoverable amounts, is disclosed in note 26 "Impairment test for goodwill" to the annual consolidated financial statements of the Capital Group of Bank Handlowy w Warszawie S.A. as at 31 December 2005.

27. Income tax assets and liabilities

In thousands of PLN	**30.06.2006**	**31.12.2005**
Income tax assets*		
Current tax	8,583	3,452
Deferred tax	311,902	295,838
	320,485	**299,290**
Income tax liabilities*		
Current tax	**23,162**	**163,311**

*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	**30.06.2005**	**31.12.2005**
Interest accrued and other expense	66,222	58,653
Loan loss provisions	156,739	160,986
Subordinated loans provisions	15,698	3,896
Unrealized premium	7,959	5,371
Unrealized financial instruments valuation expenses	592,615	652,181
Income collected in advance	23,763	9,737
Valuation of shares	14,781	7,739
Commissions	5,827	24,205
Debt securities available-for-sale	48,031	15,142
Unrealized cost related to asymmetric transaction	93,435	114,417
Differences between balance sheet and tax value of leases	-	2,610
Other	9,719	24,583
Deferred tax assets	**1,034,789**	**1,079,520**

Deferred tax liabilities are attributable to the following:

In thousands of PLN	**30.06.2006**	**31.12.2005**
Accrued interest income	70,271	63,886
Unrealized premium from options	26	40
Unrealized financial instruments valuation income	607,466	673,440
Unrealized securities discount	538	380
Investment relief	22,866	23,054
Valuations of shares	978	1,223
Differences between balance sheet and tax value of leases	10,489	2,148
Other	10,253	19,511
Deferred tax provisions	**722,887**	**783,682**

Movement in temporary differences during the year

In thousands of PLN	**Balance as at 31 December 2004**	**IFRS Adjustments**	**Balance as at 1 January 2005**	**IFRS Adjustments recognized in income**	**IFRS Adjustments recognized in equity**	**Balance as at 31 December 2005**
Interest accrued and other expense	46,095	78	46,173	12,480	-	58,653
Loan loss provisions	175,621	17,198	192,819	(31,833)	-	160,986
Subordinated loans provisions	5,403	-	5,403	(1,507)	-	3,896
Unrealized premium	5,629	-	5,629	(258)	-	5,371
Unrealized financial instruments valuation expense	738,803	-	738,803	(86,622)	-	652,181
Income collected in advance	11,556	-	11,556	(1,819)	-	9,737
Valuation of shares	29,822	-	29,822	(22,083)	-	7,739
Commission	14,542	5,274	19,816	4,389	-	24,205
Debt securities available-for-sale	2,198	-	2,198	-	12,944	15,142
Unrealized cost related to asymmetric transaction	48,092	-	48,092	66,325	-	114,417
Settlement of retained tax loss	1,580	-	1,580	(1,580)	-	-
Differences between balance sheet and tax value of leases	926	-	926	1,684	-	2,610
Other	4,395	(1,530)	2,865	21,718	-	24,583
	1,084,662	**21,020**	**1,105,682**	**(39,106)**	**12,944**	**1,079,520**

In thousands of PLN	**Balance as at 31 December 2004**	**IFRS Adjustments**	**Balance as at 1 January 2005**	**IFRS Adjustments recognized in income**	**IFRS Adjustments recognized in equity**	**Balance as at 31 December 2005**
Interest accrued (income)	27,374	25,617	52,991	10,895	-	63,886
Unrealized premium from options	26	-	26	14	-	40
Unrealized financial instruments valuation income	775,058	-	775,058	(101,618)	-	673,440
Unrealized securities discount	2,383	-	2,383	(2,003)	-	380
Investment relief	23,754	-	23,754	(700)	-	23,054
Valuation of shares	2,690	-	2,690	(1,467)	-	1,223
Differences between balance sheet and tax value of leases	2,805	-	2,805	(657)	-	2,148
Other	22,962	-	22,962	(3,451)	-	19,511
	857,052	**25,617**	**882,669**	**(98,987)**	**-**	**783,682**

In thousands of PLN	Balance as at 31 December 2005	IFRS Adjustments recognized in income	Adjustments recognized in equity	Balance as at 30 June 2006
Interest accrued and other expense	58,653	7,569	-	66,222
Loan loss provisions	160,986	(4,247)	-	156,739
Subordinated loans provisions	3,896	11,802	-	15,698
Unrealized premium	5,371	2,588	-	7,959
Unrealized financial instruments valuation expenses	652,181	(59,566)	-	592,615
Income collected in advance	9,737	14,026	-	23,763
Valuation of shares	7,739	7,042	-	14,781
Commissions	24,205	(18,378)	-	5,827
Debt securities available-for-sale	15,142	-	32,889	48,031
Unrealized cost related to asymmetric transaction	114,417	(20,982)	-	93,435
Differences between balance sheet and tax value of leases	2,610	(2,610)	-	-
Other	24,583	(14, 864)	-	9,719
	1,079,520	**(77,620)**	**32,889**	**1,034,789**

In thousands of PLN	Balance as at 31 December 2005	IFRS Adjustments recognized in income	Balance as at 30 June 2006
Interest accrued (income)	63,886	6,385	70,271
Unrealized premium from options	40	(14)	26
Unrealized financial instruments valuation income	673,440	(65,974)	607,466
Unrealized securities discount	380	158	538
Investment relief	23,054	(188)	22,866
Valuation of shares	1,223	(245)	978
Differences between balance sheet and tax value of leases	2,148	8,341	10,489
Other	19,511	(9,258)	10,253
	783,682	**(60,795)**	**722,887**

28. Other assets

In thousands of PLN	30.06.2006	31.12.2005
Interbank settlements	27,548	13,192
Interbranch settlements	686	-
Settlements related to operations on derivative instruments	1,988	18,751
Settlements related to brokerage activity	307,667	224,799
Accounts receivable	41,689	15,608
Staff loans out of the Social Fund	35,096	38,943
Sundry debtors	70,083	81,998
Prepayments	44,187	36,967
Other assets	306	316
	529,250	**430,574**

29. Non-current assets held-for-sale

Non-current assets held-for-sale as at 31 December 2005

In thousands of PLN	Shares associated entity	Subordinated entity	Training and holiday centers	Organized part of Group's enterprise	Total
Non - current assets held-for-sale					
Equity investments valued at equity method	8,056	-	-	-	8,056
Loans and advances	-	305	-	-	305
Tangible fixed assets	-	72	12,740	5,278	18,090
Intangible assets	-	-	-	144	144
Assets related to deferred tax	-	288	-	-	288
Other assets	-	6,397	-	4,434	10,831
Liabilities held-for-sale					
Other liabilities	-	(2,959)	-	(4,370)	(7,329)
Non- current assets held-for-sale	**8,056**	**4,103**	**12,740**	**5,486**	**30,385**

Non-current assets held-for-sale as at 30 June 2006

In thousands of PLN	Training and holiday centers
Non-current assets held-for-sale	
Tangible fixed assets	**10,580**

The assets (group of assets), classified as at 31 December 2005 to "Non-current assets held-for-sale" and the explanation of changes in these assets in the first half of 2006 have been presented below:

- Shares in the associated entity Handlowy Heller S.A. which was sold on 2 February 2006 (see Note 41)

- Assets and related liabilities of Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A. („TFI") and Handlowy Zarządzanie Aktywami S.A. („HANZA") which were sold on 1 February 2006 (See Note 41)

- Organized part of the Bank's enterprise that consists of holiday resorts located in Dźwirzyna, Rowy, Skubianka, Łeba and Wisła. In the first half of 2006 resorts in Dźwirzyna and Skubianka were sold. Out of the other training and holiday centers classified as at 31 December 2005 to "Non-current assets held-for-sale", the holiday resort in Łeba was also sold. An active program to locate buyers and complete the sale plan, concerning the remaining centers in Rowy and Wisła, is advanced. The Extraordinary General Meeting agreed on the sale of the organized part of the Bank's enterprise, mentioned above in a resolution dated 22 December 2005.

- Organized part of the Bank's enterprise that consists of card's transactions settlements within the Consumer Banking Sector. The Bank rents POS terminals and provides service as a settlement agent in accordance with Electronic Payment Instruments Act of 12 September 2002. The sale was completed on 31 January 2006 in aid of Cardpoint SA, with its headquarters in Poznań. The Extraordinary General Meeting agreed on the sale of this organized part of the Bank's enterprise in a resolution of 22 December 2005.

30. Financial liabilities valued at amortized cost

Financial liabilities valued at amortized cost (by category)

In thousands of PLN	**30.06.2006**	**31.12.2005**
Deposits from financial sector:		
Current accounts, including:	1,330,528	946,076
current accounts of banks	*1,115,444*	*725,453*
Term deposits, including:	4,555,666	4,251,141
term deposits of banks	*2,339,161*	*1,624,486*
Accrued interest	31,579	26,286
	5,917,773	**5,223,503**
Deposits from non-financial sector:		
Current accounts, including:	5,856,585	5,487,025
corporate customers	*3,581,424*	*3,412,132*
individual customers	*1,744,442*	*1,499,724*
Term deposits, including:	12,309,312	11,755,614
corporate customers	*8,450,705*	*7,931,673*
individual customers	*2,933,107*	*3,034,863*
Accrued interest	15,822	19,014
	18,181,719	**17,261,653**
Total	**24,099,492**	**22,485,156**
Other liabilities:		
Loans and advances received	413,288	285,410
Liabilities in respect of securities subject to sale and repurchase agreements	65,225	8,174
Other liabilities, including:	278,191	302,686
cash collateral	*207,723*	*240,075*
Accrued interest	3,115	3,163
Other liabilities	**759,819**	**599,433**
Total	**24,859,311**	**23,084,589**

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

In thousands of PLN	**30.06.2006**	**31.12.2005**
Financial sector:		
up to 1 month	4,042,682	4,112,302
1 month - 3 months	80,098	34,338
3 months - 1 year	1,825,114	1,128,599
1 year - 5 years	417,560	97,396
over 5 years	4,522	143,108
Accrued interest	33,232	27,580
	6,403,208	**5,543,323**
Non-financial sector:		
up to 1 month	16,356,618	15,714,663
1 month - 12 months	1,155,751	912,729
1 year - 5 years	850,628	811,412
over 5 years	75,732	81,104
Accrued interest	91	475
	17,283	20,883
	18,456,103	**17,541,266**
	24,859,311	**23,084,589**

31. Provisions

In thousands of PLN	**30.06.2006**	**31.12.2005**
For disputes	21,863	19,673
For off-balance sheet commitments	41,663	36,578
	63,526	**56,251**

The movement in provisions is as follows:

In thousands of PLN	**01.01. - 30.06. 2006**	**01.01. - 31.12. 2005**
Balance as at 1 January	**56,251**	**217,808**
Provisions for:		
Disputes	19,673	14,456
Off-balance sheet commitments	36,578	39,352
General risk	-	164,000
Effects of transition to IFRS*	-	(156,935)
As at 1 January after restatement	**56,251**	**60,873**
Movements in provisions:		
Charges to provisions:	48,989	52,261
for litigations	3,045	12,453
for off-balance sheet liabilities	45,944	39,808
Use of provisions	(631)	(146)
Release of provisions:	(41,083)	(56,737)
for litigations	(224)	(7,090)
for off-balance sheet liabilities	(40,859)	(49,647)
Balance as the end of a period	**63,526**	**56,251**

** MSR 32 and 39*

As at 1 January 2005, following the full adoption of IFRS (date of implementation of IAS 32 and IAS 39) the Group made an adjustment to the opening balance related to the dissolution of its provision for general banking risk against retained earnings. In accordance with IAS 39 the Group created a provision for incurred but not recognized losses (IBNR), which is included in impairment of receivables from customers and decreases the balance sheet value of these receivables.

32. Other liabilities

In thousands of PLN	**30.06.2006**	**31.12.2005**
Staff benefits	69,644	65,448
Interbank settlements	259,169	82,648
Interbranch settlements	-	1,386
Settlements related to brokerage activity	308,663	226,567
Settlements with Tax Office and National Insurance (ZUS)	17,066	3,858
Dividends to be paid	470,375	-
Sundry creditors	75,423	185,837
Accruals	294,050	255,816
Provision for employee payments	93,726	118,544
Provision for employees retirement and jubilee payments	51,356	48,942
Other	148,968	88,330
Deferred income	97,965	97,431
	1,592,355	**918,991**

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 2006, 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 2005.

The Bank has not issued preference shares.

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

Principal shareholders

In accordance with information held by the Bank as at 25 September 2006 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
International Finance Associates B.V., Netherlands	55,916	13,978,958	10.7	13,978,958	10.7
Other shareholders	74,743	18,685,942	14.3	18,685,942	14.3
	522,638	**130,659,600**	**100.0**	**130,659,600**	**100.0**

The shares held by International Finance Associates B.V. (IFA), incorporated in the Netherlands, a subordinated entity of Citibank Overseas Investment Corporation (COIC) are designated for holders of Citibank N.A. Senior Exchangeable Notes (Bonds), which were issued in 2004 and amount to USD 436.5 million with an annual interest rate of 2.875% and maturity date in 2007. These Bonds are quoted on the

Warsaw Stock Exchange. In accordance with the Bonds' issue conditions included in the Information Memorandum from 3 December 2004, every holder can exchange them for 4,951 Bank shares. In the period from 2 February 2006 to 10 August 2006 IFA's ownership decreased from 14.3% to 10.7% as a result of bonds exchange, and COIC's ownership held directly and indirectly via IFA was reduced from 89.3% to 85.7%.

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	**30.06.2006**	**31.12.2005**
Revaluation of financial assets available-for-sale	**(204,764)**	**(64,554)**

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	**30.06.2006**	**31.12.2005**
Reserve capital	946,878	738,860
General risk reserve	390,000	390,000
	1,336,878	**1,128,860**

Reserve capital

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

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

General risk fund

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

Dividends

In accordance with Resolution No. 10 of the Ordinary General Meeting of the Bank of 22 June 2006 on the distribution of 2005 profit and dividend payment, the profit for 2005 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 470,375 thousand as dividend (in 2005 dividend was paid out from 2004 profit: PLN 414,191 thousand and retained earnings: PLN 1,149,804 thousand). This means that the dividend per one ordinary share amounts to PLN 3.60 (in 2005 appropriately: PLN 3.17 and PLN 8.80)

The date of determination of the right to the dividend was designated as 5 July 2006 and the date of dividend payment as 31 August 2006.

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 2006 assets sold under repurchase agreements were as follows:

In thousands of PLN	**Fair value of underlying assets**	**Carrying amount of corresponding liabilities***	**Repurchase dates**	**Repurchase price**
Trading instruments	65,237	65,263	To 1 month	65,294

*including interest

As at 31 December 2005 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	8,183	8,186	To 1 month	8,188

*including interest

For the first half of 2006 the total interest expense on repurchase agreements was PLN 1,067 thousand (the first half of 2005: PLN 1,293 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 2006 and 31 December 2005 there were no assets purchased subject to agreements to resell.

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 and fair value information for each asset and liability group that is not presented in the balance sheet at fair value.

In thousands of PLN	**30.06.2006** Carrying amount	**30.06.2006** Fair value	**31.12.2005** Carrying amount	**31.12.2005** Fair value
Assets				
Equity investments accounted for under the equity method	64,540	64,540	61,884	61,884
Other equity investments	23,909	23,909	20,615	20,615
Loans and other receivables	17,447,794	17,414,597	16,068,922	16,067,148
Net fixed assets available-for-sale including:	10,580	10,580	30,385	183,001
Equity investments	-	-	*8,056*	*11,099*
Liabilities				
Financial liabilities valued at amortized cost	24,859,311	24,874,958	23,084,590	23,104,448

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 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.

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. It is assumed that loans will be paid back on their contractual date. In the case of loans for which repayment dates are not fixed (e.g. overdrafts), fair value is the repayment that would be required if the amount were due on the balance sheet date. Expected future cash flows connected with homogenous loan categories, are assessed on the basis of the loan portfolio and discounted using the current interest rate.

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

Non-current assets held-for-sale: the fair value of non-current assets held-for-sale was established on the basis of binding sale offers excluding these for which the balance sheet is equal to fair value on the basis of valuation prepared by an independent expert.

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.

36. Contingent liabilities

Information on pending proceedings

As at 30 June 2006, 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 1,372,883 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 expects to complete the bankruptcy proceeding by the end of 2006. The Bank is waiting for a resolution on completion of the bankruptcy proceeding.
Creditor: Bank Handlowy w Warszawie S.A.	65,947	In 2000 the court declared the borrower bankrupt.	Within the framework of the pending proceedings, the Bank submitted a receivable. The Bank's receivable may remain unpaid.
Plaintiff: Bank Handlowy w Warszawie S.A.	33,976	Suit for payment under loan liability from 29 June 2003	Case pending. The writ of payment was issued on 8 September 2003. The defendant has raised objections to the writ for payment. On 30 May 2005 the court hold the legal force of the writ of payment. The defendant lodged an appeal. As at 4 April 2006 the appeal court disallowed the appeal. The defendant is planning to lodge a counter appeal.
Creditor: Bank Handlowy w Warszawie S.A.	47,054	On 22 June 2001, the court declared the debtor bankrupt.	Case pending. The Bank submitted its receivables to the proceedings.
Creditor: Bank Handlowy w Warszawie S.A.	30,953	The court declared the debtor bankrupt in March 2004.	The Bank submitted the receivable to obtain repayment from the bankrupt's assets for arrangement. Case pending.

The Group in accordance with law makes provisions for contingent liabilities. Impairment related to these provisions is also made.
As at 30 June 2006, no proceedings relating to the liabilities or receivables of the Group or its subsidiaries, the value of which would correspond to at least 10% of the Group's shareholders' equity, were pending before any court, administrative authority or an arbitration court. The total value of all pending court proceedings involving the Group or its subsidiaries and related to their receivables exceeded 10% of the Group's shareholders' equity and amounted to PLN 986,617 thousand. The most significant legal actions that are pending in relation to liabilities:

Parties to Proceedings	Litigation Value (in thousands of PLN)	Proceedings Commencement Date	Description of Case
Plaintiff: shareholder of company – the client of the Bank **Defendant:** Bank Handlowy w Warszawie S.A.	276,508 with interest from the date of the suit	8 April 2003	The plaintiff submitted a suit as a majority shareholder of the company for which the Bank organized an issue of bonds. The claim is that the Bank violated the agreement from 20 June 1999 concerning the issue of bonds. On 15 February 2005 the court of first instance disallowed the complaint entirely. On 2 June 2006 the court disallowed the plaintiff's appeal. The claimant is planning to petition for annulment.
Plaintiff: Borrower of the Bank **Defendant:** Bank Handlowy w Warszawie S.A.	149,202	5 October 2005	The plaintiff claims that the Bank's notice of termination of the contract was illegal and paralyzed the business activity of the plaintiff and resulted in significant loss of profits. Case pending.
Plaintiff: Borrower of the Bank **Defendant:** Bank Handlowy w Warszawie S.A.	42,306 with interest from 1 March 2002	23 May 2003	The suit concerns the irregularities of the Bank's activity during the restructuring of its client's debt – the plaintiff who bears a loss. On 3 February the court suspend the proceedings owing to proceedings of bankruptcy.
Plaintiff: Borrower of the Bank **Defendant:** Bank Handlowy w Warszawie S.A.	24,661	6 February 2006	The claimant requests the payment of PLN 233,000 plus statutory interest for a period from 3 November 1999 to the payment date and the amount of PLN 24,428,000 plus statutory interest from the date of filing a statement of claim (28 October 2005) to the payment date. The first amount refers to the claim for contractual damages and equals the difference between the amount of debts deducted by the claimant, arising from a letter of credit confirmed by the Bank and the loan granted to the claimant. The claim for PLN 24,428,000 is based on the Bank's liability in tort. Until now, the claimant did not present sufficient evidence, confirming that his claims are reasonable. The response to the statement of claim was filed on 20 February 2006. The court has not set the date of the first trial yet.
Plaintiff: Entrepreneur **Defendant:** Bank Handlowy w Warszawie S.A.	387,400	11 April 2006	The claimant requests the payment of compensation. In the plaintiff's opinion the Bank infringed copyright law. The petitioner claims that the Bank violated

Parties to Proceedings	Litigation Value (in thousands of PLN)	Proceedings Commencement Date	Description of Case
			copyright law by applying a strategy in a marketing campaign, to which the claimant was entitled.

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	**30.06.2006**	**31.12.2005**
Off-balance sheet commitments granted:		
Letters of credit	170,176	149,681
including to related parties	*2,369*	-
Guarantees granted	2,209,823	2,778,598
including to related parties	*2,367*	-
Credit lines granted	8,378,488	8,720,951
including to related parties	*342,173*	*24,192*
Deposits to be issued	222,872	15,439
	10,981,359	**11,664,669**

In thousands of PLN	**30.06.2006**	**31.12.2005**
Letters of credit by categories:		
Import letters of credit issued	149,320	132,216
including to related parties	*2,369*	-
Export letters of credit confirmed	20,856	17,465
	170,176	**149,681**

In thousands of PLN	**30.06.2006**	**31.12.2005**
Contingent liabilities received:		
Financial	-	-
Guarantee	2,499,536	2,341,400
	2,499,536	**2,341,400**

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

The Group makes specific provisions for off-balance sheet commitments when it has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. As at 30 June 2006, the specific provisions created for off balance sheet commitments amounted to PLN 41,663 thousand, no provisions for off-balance sheet commitments granted to subordinated undertakings were created (31 December 2005: PLN 36,578 thousand, including off-balance sheet commitments to subordinated undertakings – PLN 80 thousand).

37. Assets pledged as collateral

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

In thousands of PLN	**30.06.2006**	**31.12.2005**
Liabilities		
Financial liabilities valued at amortized cost:		
Liabilities in respect of securities subject to sale and repurchase agreements	65,263	8,186

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

In thousands of PLN	**30.06.2006**	**31.12.2005**
Assets pledged:		
Debt securities held for trading	65,237	8,183
Debt securities available-for-sale	38,090	27,253
Loan and advantages		
From financial sector	38,597	4,050
Other assets		
Settlements related to operations on derivative instruments	6,473	21,687
	148,397	**61,173**

38. Trust activities

The Group is the leader on the market of custodian banks in Poland. It offers both custody services connected with securities accounts for foreign institutional investors and depositary services for Polish financial institutions, including pension, investment and equity insurance funds. As at 30 June 2006 the Group maintained 9,664 securities accounts (31 December 2005: 8,952 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	**30.06.2006**	**31.12.2005**
Less than 1 year	45,748	41,148
Between 1 and 5 years	86,267	113,128
More than 5 years	5,049	7,937
	137,064	**162,213**
Total operating leasing rentals for unprescribed time	**2,538**	**2,344**

The Group uses office space under operating lease contracts. The most significant lease contracts relate to office space situated in Warsaw at Wolska 171/175 and Chałubińskiego 8. Generally the contracts have been signed for 5 years and there is an ability to extend them over the next three years. Some contracts have been signed for an unspecified period of time. Lease payments are under one year indexation. In the first half of 2006 the total amount of lease payments was PLN 18,262 thousand (the first half of 2005: PLN 17,908 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	**30.06.2006**	**31.12.2005**
Less than 1 year	2,184	1,435
Between 1 and 5 years	5,672	6,368
More than 5 years	1,026	-
	8,882	**7,803**
Total operating leasing rentals for unprescribed time	**1,356**	**1,252**

Part of the Group's office space is leased. Most of the agreements are signed for an unspecified period of time. Other agreements are signed for a period of between 2 and 10 years. Lease payments are under one year indexation. In the first half of 2006 the income related to these contracts amounted to PLN 2,063 thousand (the first half of 2005: PLN 604 thousand). These payments are presented in the income statement in other operating income.

40. Cash flow statement

In thousands of PLN	**30.06.2006**	**31.12.2005**
Cash related items		
Cash at hand	407,181	299,817
Nostro current account in Central Bank	427,638	622,832
Current accounts in other banks	210,147	82,691
	1,044,966	**1,005,340**

41. Related parties

Transactions with related parties

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

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

Transactions with Citigroup Inc. entities

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

In thousands of PLN	**30.06.2006**	**31.12.2005**
Receivables, including:	1,458,069	2,478,919
Placements	1,401,716	2,403,679
Liabilities, including:	622,938	483,509
Deposits	400,551	398,526
Loans received	222,387	84,916
Balance valuation of derivative transactions		
Assets available-for-sale	2,275,854	2,580,110
Liabilities available-for-sale	2,463,969	2,653,971
Off-balance sheet guarantee liabilities granted	184,444	81,838
Off-balance sheet guarantee liabilities received	156,799	77,226

In thousands of PLN	**30.06.2006**	**31.12.2005**
Interest and commission income in the first half 2006/2005	48,056	59,361
Interest and commission expense in the first half 2006/2005	4,258	8,545

Furthermore the Group incurs costs and receives income of an operational nature from agreements concluded between Citigroup Inc. entities and the Group for the provision of mutual services.
The costs arising and accrued in the first half of 2006 from concluded agreements amounted in total to PLN 88,366 thousand (in 2005: PLN 84,304 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 31,789 thousand (in the first half of 2005: 27,339 thousand) arose from the provision of data processing and other services by the Group.

Transactions with subordinated entities

In thousands of PLN	**30.06.2006**		**31.12.2005**	
	Subsidiaries	**Associates**	**Subsidiaries**	**Associates**
Loans, advances and other receivables:				
Current accounts (in respect of):	301,177	-	441,103	103,385
consolidated subordinated undertakings	*301,177*	-	*441,103*	-
subordinated undertakings accounted under for the equity method	-	-	-	*103,385*
Loans granted (in respect of):	14,671	-	12,774	-
consolidated subordinated undertakings	-	-	-	-
subordinated undertakings accounted under for the equity method	*14,671*	-	*12,774*	-
Subordinated loans (in respect of):	77,837	-	72,755	-
consolidated subordinated undertakings	-	-	-	-
subordinated undertakings accounted under for the equity method	*77,837*	-	72,755	-
	393,685	**-**	**526,632**	**103,385**
Loans, advances and other receivables:				
Opening balance	526,632	103,385	648,171	105,061
Closing balance	393,685	-	526,632	103,385
Deposits:				
Current accounts (in respect of):	310,937	-	375,950	349
consolidated subordinated undertakings	*280,802*	-	*345,257*	-
subordinated undertakings accounted under for the equity method	*30,135*	-	*30,693*	*349*
Term deposits (in respect of):	31,448	-	263,743	-
consolidated subordinated undertakings	-		*245,071*	-
subordinated undertakings accounted under for the equity method	*31,448*	-	*18,672*	-
	342,385	**-**	**639,693**	**349**
Deposits:				
Opening balance	639,693	349	540,519	314
Closing balance	342,385	-	639,693	349

In thousands of PLN	30.06.2006		31.12.2005	
	Subsidiaries	**Associates**	**Subsidiaries**	**Associates**
Contingent liabilities granted:				
Letters of credit (in respect of):	2,369	-	5,207	-
consolidated subordinated undertakings	*2,369*		*5,207*	
subordinated undertakings accounted for under the equity method	-		-	-
Guarantees granted (in respect of):	2,367	-	3,274	-
consolidated subordinated undertakings	*2,367*	-	*3,274*	
subordinated undertakings accounted for under the equity method	-		-	
Credit lines granted (in respect of):	342,173	-	212,110	24,193
consolidated subordinated undertakings	*342,173*	-	*212,110*	-
subordinated undertakings accounted for under the equity method	-	-	-	*24,193*
	346,909	-	**220,591**	**24,193**

In thousands of PLN	30.06.2006		31.12.2005	
	Subsidiaries	**Associates**	**Subsidiaries**	**Associates**
Interest and commission income (in respect of):	6,942	-	41,243	6,677
consolidated subordinated undertakings	*6,936*	-	*39,844*	-
subordinated undertakings accounted for under the equity method	*6*	-	*1,399*	*6,677*
Interest and commission expenses (in respect of):	5,185	-	20,296	-
consolidated subordinated undertakings	*4,777*	-	*19,827*	-
subordinated undertakings accounted for under the equity method	*408*	-	*469*	-

As at 30 June 2006, the amount of impairment write-downs for receivables of subsidiaries and associates amounted to PLN 47,890 thousand (31 December 2005: PLN 58,591 thousand), write-downs for off balance sheet commitments granted amounted to PLN 4,231 thousand (31 December 2005: PLN 2,441 thousand).

Transactions related to subordinated entities

The following transactions related to subordinated entities occurred in the first half of 2006:

On 10 January 2006 a merger of Citileasing sp. z o.o. (Bidding Company) and Handlowy - Leasing S.A. (Target Company), subordinated entities of the Bank, occurred in accordance with the resolution (signed on 2 December 2005) of the Extraordinary Meeting of Partners of Citileasing sp. z o. o. and the Extraordinary General Meeting of Handlowy-Leasing S.A. The entire assets of the Target Company were transferred to the Bidding Company without increasing the equity of the Bidding Company because the Bidding Company holds all the shares of Target Company. The Bidding Company operates under the firm Handlowy - Leasing sp. z o.o. The Bank and Handlowy-Inwestycje sp. z o. o. hold shares in Handlowy - Leasing sp. z o. o. The Bank holds all shares in Handlowy - Inwestycje sp. z o. o. The Bank holds 97.47% of shares – 6,000 votes at Meeting of Partners. Handlowy - Inwestycje holds 2.53% of shares - 156 votes at Meeting of Partners. The Target Company used purchased assets to conduct lease activity. The Bidding Company is going to use these assets in the same way.

On the basis of the agreement signed on 16 November 2005 between the Bank and Citibank Overseas Investment Corporation ("COIC") the subordinated entity of Citigroup Inc, that obliged the Bank to sell all owned shares in the share capital of Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A. and Handlowy Zarządzanie Aktywami S.A. ("the Company") in aid of COIC or the advisable entity (Legg Mason or its associate could be the only advisable entity), the disposal agreements of Companies' shares were signed. On 1 February 2006 the Bank and Legg Mason Inc. ("the Purchaser") signed the disposal agreement of the Companies' shares.

On the basis of this agreement the Bank transferred the ownership of the following shares in aid of the Purchaser:
- 130,000 of ordinary shares of Towarzystwo Funduszy Inwestycyjncych Banku Handlowego S.A. with its headquarters in Warsaw ("TFI") constituting PLN 100 of nominal value by each share. The total nominal value amounted to PLN 13,000 thousand constituting 100% of its share capital. The registered value of the sold shares of TFI on the transaction date amounted to PLN 42,000 thousand.

- 5,000 of ordinary shares of Handlowy Zarządzanie Aktywami S.A. with its headquarters in Warsaw ("HANZA") constituting PLN 1,000 of nominal value by each share. The total nominal value amounted to PLN 5,000 thousand constituting 100% of its share capital. The registered value of the sold shares of HANZA on the transaction date amounted to PLN 5,000 thousand.

The sale price of the Companies' shares amounted to USD 44,550 thousand that is equivalent to PLN 139,927 thousand based on the exchange rate set on 1 February by Central Bank of Poland. There are no relations between the Bank and persons who manage and supervise the Bank and the Purchaser and persons who manage the Purchaser. As a result of the sale the Bank doesn't hold any shares in the Companies.

The Bank, Handlowy-Inwestycje sp. z o.o. (a subsidiary of the Bank) ("HI") and ING Commercial Finance B.V with its headquarters in Amsterdam, Holland ("the Purchaser") signed on 2 February 2006 the sale agreement on the basis of the preliminary sale agreement of 2 November 2005. The Bank and HI by the agency of Dom Maklerski Banku Handlowego SA transferred all owned shares in the share capital of Handlowy-Heller SA with its headquarters in Warsaw ("the Company") in aid of the Purchaser. The subject of the contract was 111,880 A series shares and 388,120 B series shares each of PLN 10 of nominal value and representing 50 % in the share capital of the Company. The Bank transferred 111,880 A series shares and 138,119 B series shares each of PLN 10 of nominal value. These shares constitute approximately 25 % in the share capital of the Company and at General Meeting. On the transaction date the value of the shares sold in the Bank's balance sheet amounted to PLN 2,752 thousand, whereas in HI's balance sheet they amounted to PLN 8,056 thousand. HI (a subsidiary of the Bank) transferred 250,001 of shares of B series constituting PLN 10 of nominal value by each share. These shares constituting approx. 25 % in share capital of the Company and at General Meeting. The sale price amounted to EUR 5,800 thousand. Transferable shares are long-term capital placement of the Bank. There are no relations between the Bank and persons who manage and supervisor the Bank and the Purchaser and persons that manage the Purchaser. As a result of the sale the Bank and its subsidiaries didn't hold any shares in the Companies. On 16 March in National Court Register the new name of the company was registered – ING Commercial Finance Polska S.A.

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

In thousands of PLN	30.06.2006			31.12.2005		
	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	79,680	811	17	78,337	873	-
Staff benefits	35,096	-	-	39,209	-	-
Prepayments	83	3	-	154	1	-
	114,859	**814**	**17**	**117,700**	**874**	**-**
Deposits						
Current accounts	27,545	367	1,228	22,356	83	948
Term deposits	47,598	2,438	227	42,402	2,490	515
	75,143	**2,805**	**1,455**	**64,758**	**2,573**	**1,463**
Guarantees issued	240	-	-	367	-	-

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 calculates 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 when paid.

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 CitiSenior SFIO ("PPE CitiSenior") managed by Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A. ("TFI BH").
The basic premium for Plan participants is paid from the Group's funds. Each employee who participates in the Plan can also make additional premium contributions to the Plan.
The total of premiums paid to PPE CitiSenior is invested in units of Specjalistyczny Otwarty Fundusz Inwestycyjny Kapitał Handlowy Senior managed by Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A. TFI BH.

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

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

Provisions for the above employee benefits are as follows:

In thousands of PLN	**30.06.2006**	**31.12.2005**
Provision for remuneration	67,879	90,796
Provision for employees' retirement and jubilee payments	51,356	48,942
Provision for employees' equity compensation	25,848	27,748
Provision for personnel restructuring expense	-	10,501
	145,083	**177,987**

In the first half of 2006, the Group's expenses in respect of premiums for the employee pension plan amounted to PLN 7,694 thousand (in the first half of 2005: PLN 7,322 thousand).

In the first half of 2006, the average number of employees in the Group was 5,443 (in the first half of 2005: 5,591).

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 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.

Within the framework of the SOP, eligible employees receive options to buy stock at the NYSE closing price as of the date directly preceding the award grant date. Employees acquire the right to a portion of their options on each anniversary of their SOP award allocation date. Options may be exercised by purchases of stock or settlements in cash of a difference between the striking price and the current market price in the period from the acquisition date of the right to an option to the expiry date of the option.

Within the framework of the CAP, eligible employees receive so-called "deferred shares" of Citigroup. Deferred shares within the framework of the CAP are granted at the NYSE closing price on the business day prior to the grant date. Deferred shares give the right to 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.

In 2003, employees were eligible to participate in the Citigroup 2003 Stock Purchase Program. Funds to buy stocks were deducted from an employee's salary for two years and accumulated in a separate interest-bearing account. Employees were entitled to buy Citigroup stock during the program or on the last day of the program at the lower of the price offered on the program commencement day and the NYSE close rate on the stock purchase day. After buying the stock, an employee had the right to sell them at any time.

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 2003 Stock Purchase Program, the amount of which is immaterial for the financial statements, are shown below:

Grant date		Exercise price/ stock price at grant date	Number of eligible employees	Number of options / shares
SOP Program				
(1)	13-02-2002	42.11 or 41.90	331	143,097
(2)	12-02-2003	32.05	358	113,231
(3)	05-01-2004	49.00	2	474
(4)	20-01-2004	49.50	114	84,575
(5)	28-01-2004	50.07	1	307
(6)	17-02-2004	49.49	1	3,000
(7)	18-03-2004	50.82	1	77
(8)	30-03-2004	51.32	2	320
(9)	15-09-2004	47.19	1	129
(10)	18-01-2005	47.50	7	6,131
(11)	30-09-2005	45.36	1	2,000
(12)	17-01-2006	48.92	2	2,426

Grant date		Exercise price/ stock price at grant date	Number of eligible employees	Number of options / shares
CAP Program				
(1)	20-01-2004	37.27-49.69	29	26,031
(2)	18-01-2005	47.95	222	67,325
(3)	15-02-2005	49.25	1	3,900
(4)	15-11-2005	48.24	2	4,664
(5)	17-01-2006	36.58-48.77	201	108,658

Program	**SOP**	**CAP**
Period to acquire the title (in years)	(1) 20% after the each of the following years (2)-(9) 33.33% after each of the following years (10)-(12) 25% after each of the following years	(1) after 3 years (2)-(5) 25% after each of the following years
Expected variances	18.46%	18.46%
Life cycle of the instrument	(1)-(11) - year from the moment of rights acquisition	In the moment of rights acquisition
Risk free interest rate (for USD)	5.20%	5.20%
Expected dividends (in USD per one share)	1.96	1.96
Probability of premature termination of employment (annual staff turnover for awarded employees)	7%	7 %
Fair value of one instrument* (in USD)	0.15 – 16.20	48.25

** Varies depending on the date of exercise*

Options – volumes and weighted-average strike prices:

	30.06.2006		**31.12.2005**	
	Number ('000)	**Weighted average strike price**	**Number ('000)**	**Weighted average strike price**
At the beginning of the period	351,282	40.86	531,887	40.11
Allocated in the period	9,049	38.3	8,131	46.97
Redeemed in the period	4,562	40.04	188,736	39.32
At the end of the period	355,769	40.91	351,282	40.86
Exercisable at the end of the period	133,791	38.85	227,852	38.74

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

30.06.2006			**31.12.2005**		
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**
42.11	142,203	0.04	42.11	145,395	1.53
41.90	895	0.04	41.90	418	1.53
32.05	113,232	0.04	32.05	111,106	1.03
49.00	474	1.01	49.00	474	1.51
49.50	84,575	1.05	49.50	81,925	1.55
50.07	307	1.08	50.07	307	1.57
49.49	3,000	0.64	49.49	3,000	1.63
50.82	77	1.22	50.82	77	1.72
51.32	320	1.25	51.32	320	1.75
47.19	129	1.71	47.19	129	2.20
47.50	6,131	2.06	47.50	6,131	3.06
45.36	2,000	2.73	45.36	2,000	3.72
48.92	2,426	3.06			

43. Subsequent events

As at 30 June 2006 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.

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 2005, the Group placed deposits at other institutions as collateral against derivative transactions amounting in total to PLN 1,973 thousand (31 December 2005: PLN 18,687 thousand), and for derivative transactions, the Group received collateral totaling PLN 5,420 thousand (31 December 2005: PLN 6,072 thousand).

Forward and swap FX contracts

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

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

Currency option contracts

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

Interest rate contracts

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

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

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

Interest rate option contracts

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

Securities term contracts

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

Share options

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

Futures contracts

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

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

Commodities derivatives

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

Market risk

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

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

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

Liquidity risk management

Measurement and mitigation of the liquidity risk

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

The measure of the assessment of the Bank's liquidity risk is the level of the modified gap in financial flows in respect of the potential sources of financing. Therefore, the gap level is compared with the possibility of obtaining additional finance from the wholesale market (other banks, investment funds, pension funds, insurance companies) and with the balance of liquid assets (mainly, liquid securities), which may be sold or pledged (as part of repo transactions or using a pawn loan from NBP) in the assumed time horizon. The levels of the modified gap in financial flows and the level of liquid assets as at 30 June 2006 and 31 December 2005 are shown in the tables below:

The liquidity gap as at 30 June 2006 in real terms:

In thousands of PLN	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**More than 1 year**	**More than 2 years**
Assets	6,529,661	48,010	1,228,575	101,748	26,729,693
Equity and liabilities	4,141,584	98,439	1,812,494	4,295	28,580,875
Balance sheet gap in the period	2,388,077	(50,429)	(583,919)	97,453	(1,851,182)
Off-balance sheet transactions – inflows	14,712,068	9,498,667	10,461,801	820,280	6,204,693
Off-balance sheet transactions – outflows	14,845,696	9,525,615	10,754,540	804,977	5,981,026
Off-balance sheet gap in the period	(133,628)	(26,948)	(292,739)	15,303	223,667
Cumulative gap	2,254,449	2,177,072	1,300,414	1,413,170	(214,345)

The liquidity gap as at 31December 2005 in real terms:

In thousands of PLN	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**More than 1 year**	**More than 2 years**
Assets	5,310,538	154,162	1,598,428	58,703	26,937,066
Equity and liabilities	4,562,722	51,724	1,093,807	19,242	28,331,402
Balance sheet gap in the period	747,816	102,437	504,621	39,462	(1,394,336)
Off-balance sheet transactions – inflows	11,400,102	3,041,978	12,306,679	750,556	6,274,774
Off-balance sheet transactions - outflows	11,411,060	3,070,677	12,505,879	722,639	6,317,725
Off-balance sheet gap in the period	(10,958)	(28,699)	(199,200)	27,917	(42,951)
Cumulative gap	736,858	810,596	1,116,017	1,183,395	(253,892)

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

In thousands of PLN	**31.12.2005**	**30.06.2006**	**Change**
Liquid assets, including:	10,784,407	9,977,915	806,492
- obligatory reserve in NBP and cash surplus	586,680	773,417	(186,737)
- debt securities held-for-sale	2,148,884	2,293,314	(144,430)
- debt securities available-for-sale	8,048,843	6,911,184	1,137,659
Cumulative liquidity gap up to 1 year	1,300,415	1,115,952	184,463
Coverage of the gap with liquid assets (in %)	Positive gap	Positive gap	Doesn't apply

The liquidity analyzes relate to the Bank and its leasing subsidiaries. The level of liquidity risk of other entities in the Group is immaterial for the Group as whole.

Pricing risk management

Scope

Pricing risk management applies to all portfolios where income is exposed to the adverse effect of market factors, such as interest rates, foreign exchange rates, share prices, prices of mass commodities and the volatility parameters of these factors. In managing the pricing risk, two types of portfolios are identified: trading and banking. Trading portfolios cover transactions in financial instruments (balance sheet and off-balance sheet) the purpose of which is to achieve income related to the change of the market parameters within a short period. Trading portfolios are valued at market prices. The Treasury Department conducts operations on the trading portfolios comprising portfolios involving interest rate risk and foreign exchange risk. Banking portfolios comprise all the remaining balance sheet and off-balance sheet items not included in the trading portfolios. The purpose of concluding these transactions is to achieve results over the entire contractual transaction period. The Treasury Department manages the interest rate risk from the banking portfolios of all business units of the Group. The mechanism of transferring the interest rate risk is based on an internal transfer pricing system where the Treasury Department takes over the risk to the extent in which it may be hedged through transactions on money and capital markets. The interest rate risk, which cannot be directly hedged through market transactions (e.g. the interest margin risk for products with rates managed by a given business unit and not directly related to the level of market interest rates), stays in the unit and is managed there. The risk is referred to as the residual risk. The calculation of the result on banking portfolios is performed using the accruals method - amortized cost - described in Note 2.

The Bank's balance sheet contains the following assets and liabilities:

- Fair value risk (connected with interest rate risk):
    - Debt securities with fixed rate and discount securities;
    - Loans and deposits with fixed rate.
- Cash flow risk (connected with interest rate risk):
    - Debt securities with variable rate;
    - Loans and deposits with variable rate.
- Not subject to interest rate risk:
    - Fixed assets;
    - Equity investments;
    - Intangible assets.

Measurement of the banking portfolios pricing risk

The Group applies two methods for measuring the banking portfolios pricing risk:
- Interest Rate Exposure method
- Value at Close method

The risk limits are imposed on the potential changes in interest income as a result of shifting the interest rate curves by 100 basis points for the main currencies (PLN, USD, EUR), in which the assets and liabilities are denominated in the 1-year and 5-year and 10-year horizon. Utilization of limits is monitored on a daily basis. The changes in the costs of closing the open interest items are also monitored in a daily cycle. The changes are regulated by limits, which when exceeded must be reported to higher management levels and the management must decide upon a further action plan.

The interest rate gaps of balance exposures that belong to the banking portfolio are presented in the tables below. The tables are presented for the main currencies: PLN USD, EUR. These currencies represent over 90% of the Group's balance sheet.

Presentation of interest gap as at 30 June 2006

Presentation of interest rate gap for balance exposures nominated in PLN:

In million PLN	**With revaluation date**					**Non-interest bearing**	**Total**
	Til1 1M	**1M - 3M**	**3M - 1Y**	**1Y – 5Y**	**Over 5Y**		
Cash and balances with central bank	2,171	538	24	243	-	-	2,976
Receivables from other bank's	2,413	20	26	-	-	-	2,459
Receivables from customers – loans	4,836	1,225	589	859	-	-	7,509
Debt securities available-for-sale							
Treasury bills	-	-	41	-	-	-	41
Treasury bonds*	(246)	632	1,094	1,000	1,030	-	3,510
Other assets	-	-		-	-	4,888	4,888
Total assets	**9,174**	**2,415**	**1,774**	**2,102**	**1,030**	**4,888**	**21,383**
Due to banks	1,408	25	1,781	-	-	-	3,214
Due to non – banking customers	11,489	696	829	2,238	3	-	15,255
Own funds	-	-	-	-	-	4,996	4,996
Other liabilities	-	-	-	-	-	3,139	3,139
Total liabilities	**12, 897**	**721**	**2,610**	**2,238**	**3**	**8,135**	**26,604**
Gap	**(3,724)**	**1,694**	**(836)**	**(136)**	**1,027**	**(3,247)**	**(5,222)**

Presentation of interest rate gap for balance exposures nominated in USD:

In million PLN	**With revaluation date**					**Non-interest bearing**	**Total**
	Till 1M	**1M - 3M**	**3M – 1Y**	**1Y – 5Y**	**Over 5Y**		
Cash and balances with central bank	(48)	-	-		-	-	(48)
Receivables from other bank's	1,276	-	1,182	446	35	-	2,939
Receivables from customers – loans	257	8	59	8	-	-	332
Debt securities available-for-sale							
Treasury bonds*	8	321	299	385	143	-	1,156
Other assets	-	-	-	-	-	142	142
Total assets	**1,493**	**329**	**1,540**	**839**	**178**	**142**	**4,521**
Due to banks	24	11	-	-	-	-	35
Due to non – banking customers	970	110	150	608	2	-	1,840
Other liabilities	-	-	-	-	-	175	175
Total liabilities	**994**	**121**	**150**	**608**	**2**	**175**	**2,050**
Gap	**499**	**208**	**1,390**	**231**	**176**	**(33)**	**2,471**

Presentation of interest rate gap for balance exposures nominated in EUR:

In million PLN	**With revaluation date**					**Non-interest bearing**	**Total**
	Till 1M	**1M - 3M**	**3M – 1Y**	**1Y – 5Y**	**Over 5Y**		
Cash and balances with central bank	(124)	-	-	-	-	-	(124)
Receivables from other bank's	844	-	53	287	-	-	1,184
Receivables from customers – loans	1,067	93	9	27	-	-	1,196
Debt securities available-for-sale							
Treasury bonds*	59	315	315	158	441	-	1,288
Other assets	-	-	-	-	-	178	178
Total assets	**1,846**	**408**	**377**	**472**	**441**	**178**	**3,722**
Due to banks	287	30	2	87	1	-	407
Due to non – banking customers	2,061	39	45	618	1	-	2,764
Other liabilities	-	-	-	-	-	119	119
Total liabilities	**2,348**	**69**	**47**	**705**	**2**	**119**	**3,290**
Gap	**(502)**	**339**	**330**	**(233)**	**439**	**59**	**432**

*contains Polish treasury bonds nominated in PLN and foreign currencies and treasury bonds of OECD countries

Presentation of interest rate gap as at 31 December 2005

Presentation of interest rate gap for balance exposures nominated in PLN:

In million PLN	With revaluation date					Non-interest bearing	Total
	Till 1M	1M - 3M	3M – 1Y	1Y – 5Y	Over 5Y		
Cash and balances with central bank	1,851	503	22	240	-	-	2,616
Receivables from other bank's	1,433	17	36	-	-	-	1,486
Receivables from customers – loans	3,678	1,058	641	853	5	-	6,235
Debt securities available-for-sale							
Treasury bills	14	15	11	-	-	-	40
Treasury bonds*	172	994	250	375	1,486	-	3,277
Other assets	-	-	-	-	-	4,577	4,577
Total assets	**7,148**	**2,587**	**960**	**1,468**	**1,491**	**4,577**	**18,231**
Due to banks	1,222	20	1,064	-	-	-	2,306
Due to non – banking customers	11,693	382	661	1,794	5	-	14,535
Own funds	-	-	-	-	-	5,166	5,166
Other liabilities	-	-	-	-	-	1,686	1,686
Total liabilities	**12,915**	**402**	**1,725**	**1,794**	**5**	**6,852**	**23,693**
Gap	**(5,767)**	**2,185**	**(765)**	**(326)**	**1 486**	**(2,275)**	**(5,462)**

Presentation of interest rate gap for balance exposures nominated in USD:

In million PLN	With revaluation date					Non-interest bearing	Total
	Till 1M	1M - 3M	3M – 1Y	1Y – 5Y	Over 5Y		
Cash and balances with central bank	(10)	-	-	-	-	-	(10)
Receivables from other bank's	788	77	1,540	476	47	-	2,928
Receivables from customers – loans	192	72	47	42	16	-	369
Debt securities available-for-sale							
Treasury bonds*	7	-	62	640	369	-	1,078
Other assets	-	-	-	-	-	119	119
Total assets	**977**	**149**	**1 649**	**1 158**	**432**	**119**	**4 484**
Due to banks	24	13	-	-	-	-	37
Due to non – banking customers	1,202	163	196	650	11	-	2,222
Other liabilities	-	-	-	-	-	112	112
Total liabilities	**1,226**	**176**	**196**	**650**	**11**	**112**	**2,371**
Gap	**(249)**	**(27)**	**1,453**	**508**	**421**	**7**	**2,113**

Presentation of interest rate gap for balance exposures nominated in EUR:

In million PLN	**With revaluation date**					**Non-interest bearing**	**Total**
	Till 1M	**1M - 3M**	**3M – 1Y**	**1Y – 5Y**	**Over 5Y**		
Cash and balances with central bank	(106)	-	-	-	-	-	(106)
Receivables from other bank's	1,242	19	50	58	-	-	1,369
Receivables from customers – loans	958	177	18	85	8	-	1,246
Debt securities available-for-sale							
Treasury bonds*	52	-	314	41	529	-	936
Other assets	-	-	-	-	-	104	104
Total assets	**2,146**	**196**	**382**	**184**	**537**	**104**	**3,549**
Due to banks	99	100	3	67	17	-	286
Due to non – banking customers	1,914	45	52	521	2	-	2,534
Other liabilities	-	-	-	-	-	75	75
Total liabilities	**2,013**	**145**	**55**	**588**	**19**	**75**	**2,895**
Gap	**133**	**51**	**327**	**(404)**	**518**	**29**	**654**

*contains Polish treasury bonds nominated in PLN and foreign currencies and treasury bonds of OECD countries

Measurement of the trading portfolios pricing risk

The ratio of sensitivity of the financial result to changes in market risk factors for the Group (interest rates, foreign exchange rates, share prices, credit risk margins for trading debt securities) is the basic operational measure of the pricing risk of the trading portfolios at the level of both operational units and the whole Group. On the basis of the sensitivity ratios, assuming the unit value of the risk factor change (change in the general level of interest rates and credit risk margin by 1 basis point, change in foreign exchange rates and share prices by 1 percent), the risk limits are determined by currency and for each business unit separately. In the case of interest rate risk, critical values are additionally adopted for the risk items on individual segments of the interest rate curves. Risk limits are determined for individual items at the end of each day and monitored on a daily basis.

The Value at Risk (VAR) is the measure of the pricing risk of the trading portfolios which links the effect of the items in various risk factors and takes account of the correlation between the volatility of the individual factors.

On the Bank level, VAR is measured, with the assumed time horizon for closing the items equal to 1 day and the confidence ratio of 99%. The VAR limits are determined both for foreign exchange risk and interest risk separately and for the sum of these risks.

In the daily cycle the stress tests are performed assuming higher changes of risk factors than those adopted in the measurement of VAR and disregarding the historical correlations between these factors.

The Bank performs stress testing of risk in three main scenarios:
- the most probable, based on historical volatility of risk factors;
- local financial crisis;
- global financial crisis.

The risk monitoring methods described above are supplemented by restrictions regarding:
- critical cumulative monthly loss on the portfolio;
- aggregate contracts limit;
- maximum tenor;
- concentration limits in the case of debt securities and owner securities.

The level of risk determined using VAR, categorized by foreign exchange risk and interest rate risk items during 2005 is shown in the table below:

	30.06.2006	31.12.2005	In the period 01.01.06 – 30.06.06		
			Average	Maximum	Minimum
Foreign exchange risk	722	209	1,152	5,373	91
Interest rate risk	2,828	4,634	4,607	7,362	2,291
Total risk	2,882	4,611	4,803	7,423	2,373

Exposures on FX risk, interest rate risk and debt securities issue risk in DMBH may be taken in exceptional situations, which should be justified by specific requirements related to principal activity.

Equity instruments risk

The main entity that manages risk of equity instruments in the Group is DMBH. According to its operational activity DMBH is entitled to take pricing risk of trade portfolio of shares, subscription rights which are listed on the Warsaw Stock Exchange or Central Table of Offers (CTO – Centralna Tabela Ofert) as well as WIG 20 future contracts and Index Shareholders' Units and shares of companies whose shares are listed both on the polish stock exchange and foreign stock exchanges.

Effective interest rate

The amounts below present the weighted averages of effective interest rate for receivables and liabilities of each segment of the Group.

As at 30 June 2006:

	Corporate and Investment Bank			Consumer Bank			CitiFinancial		
	PLN	EUR	USD	PLN	EUR	USD	PLN	EUR	USD
ASSETS									
Receivables from financial and non-financial sector									
- term	5.71	4.31	5.03	19.75	-	-	28.72	-	-
Debt securities									
	4.62	3.01	3.46	-	-	-	-	-	-
LIABILITIES									
Liabilities to financial and non-financial sector									
- term	4.03	2.61	4.59	3.22	1.55	2.98	-	-	-

As at 31 December 2005:

	Corporate and Investment Bank			Consumer Bank			CitiFinancial		
	PLN	EUR	USD	PLN	EUR	USD	PLN	EUR	USD
ASSETS									
Receivables from financial and non-financial sector									
- term	5.9	4.21	4.13	21.59	-	-	30.80	-	-
Debt securities	4.83	2.87	3.26	-	-	-	-	-	-
LIABILITIES									
Liabilities to financial and non-financial sector									
- term	4.33	2.05	4.19	3.17	1.30	2.16	-	-	-

Currency structure

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

In thousands of PLN	**30.06.2006**	**31.12.2005**
Assets:		
PLN	26,104,703	24,282,617
EUR	3,499,132	3,666,436
USD	4,431,565	4,474,889
GBP	248,857	136,257
CHF	229,122	312,461
Other currencies	127,654	42,842
	34,641,033	**32,915,502**
Liabilities:		
PLN	29,192,675	27,307,943
EUR	3,132,369	3,025,688
USD	1,892,228	2,316,092
GBP	298,661	182,900
CHF	86,964	47,665
Other currencies	38,136	35,214
	34,641,033	**32,915,502**

Credit risk management

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

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

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

Corporate & Investment Banking risk management include the following elements:

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

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

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

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

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

- The Group manages risk concentration within its portfolio with approved limits as well as capital requirements for the portfolio. Credit risk limits are set for individual obligors,
- The Group defined principles for periodic monitoring of customers' results from their activities and identification of negative changes in their standing which require immediate communication to upper level management. This also includes opinions of specialized restructuring units,

The Group defines credit risk guidelines related to products offered to Consumer Banking and Citifinancial 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.

Concentration of exposure - Exposure limits

The Banking Act of 29 August 1997 (Journal of Laws of 2002 No. 72, item 665, as later amended) and its executive regulations issued by the Commission for Banking Supervision define maximum exposure limits for a Group. Under article 71 paragraph 1 of the Act, which came into force as of 1 January 2002, total balance sheet and off-balance sheet exposure from one or more capital and organizationally related entities cannot exceed 20% of the Group's equity when one of the entities is a parent entity or subsidiary undertaking of the Group or is a subsidiary undertaking to a parent entity of the Bank or cannot exceed 25% of the Bank's equity when there is no such relationship between the Bank and the borrower. Pursuant to provisions of the Resolution No. 4/2004 of the Commission for Banking Supervision dated 8 September 2004 regarding specific rules for calculating capital requirements for banking risk categories (…) (NBP Official Journal No. 15, item 25) 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. 5/2004 of the Commission for Banking Supervision dated 8 September 2004 regarding specific rules for calculating equity for banks (…) (NBP Official Journal No. 15, item 26).

As at 30 June 2006, 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 2005.

The Group sets out to limit its exposure to a group of customers. As at 30 June 2006, the Group's exposure in banking portfolio transactions with customers, which all-in exceeded 10 % of the Group's equity, amounted to PLN 1,646,520 thousand i.e. 51 % of these funds (31 December 2005: PLN 2,542,206 thousand i.e. 79 %).

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

In M PLN	30.06.2006			31.12.2005		
	Balance Outstanding*	**Off-Balance Outstanding**	**Total Outstanding**	**Balance Outstanding***	**Off-Balance Outstanding**	**Total Outstanding**
Group 1	323,191	148,944	472,135	234,461	113,661	348,122
Group 2	269,582	177,246	446,828	257,342	286,903	544,245
Customer 3	240,848	160,108	400,956	241,396	160,000	401,396
Customer 4	37,330	289,271	326,601	6	211,303	211,309
Group 5	229,481	77,588	307,069	135,396	96,127	231,523
Group 6	181,120	119,107	300,227	209,183	261,334	470,517
Group 7	80,335	199,417	279,752	80,181	203,465	283,646
Group 8	145,099	128,350	273,449	200,050	72,682	272,732
Group 9	32,358	240,820	273,178	38,848	212,455	251,303
Group 10	10,843	219,178	230,021	15	55,211	55,226
Total	**1,550,187**	**1,760,029**	**3,310,216**	**1,396,878**	**1,673,141**	**3,070,019**

*Excluding outstanding on commercial papers and subsidiaries.

Concentration of exposure in individual industries

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

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

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

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

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

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

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

Sector of the economy according to Polish Classification of Economic Activity (PKD)	**30.06.2006 %**	**31.12.2005 %**
Wholesale and sale on commission basis, except for trade with vehicles and motorcycles	17.0	16.6
Provision of power, gas, steam and hot water	8.9	9.2
Production of food and beverages	7.4	6.6
Financial intermediation, except for insurance and retirement fund business	6.1	7.4
Production of chemicals	5.9	5.3
Retail sale, except for sale of vehicles and motorcycles; repairs	4.0	3.7
Postal services and telecommunications	4.0	2.0
Construction	3.6	3.3
Production of rubber and plastic goods	3.2	2.4
Production of equipment, otherwise unclassified	2.9	2.5
Top 10 business sectors	**63.0**	**59.0**
Production of other transportation equipment	2.6	2.2
Production of vehicles, trailers and semi-trailers	2.5	2.7
Other business services	2.5	2.0
Non-life insurance and pension funding	2.4	2.2
Sale, servicing and repair of vehicles and motorcycles, retail sale of car fuel	2.4	2.7
Production of radio, television and telecommunications equipment	1.6	1.6
Transportation and sanitary services	1.6	1.7
Production of metallic goods, except for machines and equipment	1.5	1.3
Production of coke, oil refinery and fuel	1.5	2.1
Production of metals	1.4	1.4
Top 20 business sectors	**20.0**	**19.9**
Other sectors	**17.0**	**21.1**
	100.0	***100.0***

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

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events.

In recent years the Group has been using various tools and techniques to manage operational risk (primarily through self assessment, checklists, limits, continuity of business plans). Following developments of the Basel Committee recommendations as well as issuance of Recommendation M by Banking Supervisory Commission it has strengthened qualitative as well as quantitative measures over operational risk.

Key operational risk management principles as well as roles and responsibilities of different management levels have been formalized in the "Operational Risk Policy". The Business Risk, Control and Compliance Committee are responsible for ongoing monitoring of the Group's operational risk. Issues, events and indicators pertaining to operational risk are being regularly reported to this Committee. At the same time the management of risks (including the self assessment process) within the Group's organizational units are subject to rated internal audit review.
As part of operating losses analysis the following categories are captured:
- losses resulting from employees' mistakes (transaction capture, execution and maintenance),
- losses resulting from external fraud and theft,
- losses resulting from systems and technology flaws.

In Management's opinion the overall risk level is assessed as medium, which is consistent with the scale of the Group's operations.

45. Capital adequacy

The capital adequacy ratio was calculated according to the rules stated in the Resolution No. 4/2004 of the Commission for Banking Supervision of 8 September 2004 on the scope and detailed rules of stating capital requirements with respect to particular types of risk (...) (NBP Official Gazette No. 15, item 25 as amended).

	30.06.2006	**31.12.2005**
Total capital requirement	1,738,276	1,744,910
Funds held by the entity, including:	3,211,187	3,191,935
Primary funds (including deductions)	3,558,327	3,399,183
Counterpart funds	(204,764)	(64,554)
Reductions of the total primary and counterpart funds	142,376	142,694
Capital adequacy ratio (%)	14.78	14.63

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 for the first half of the year 2006 and the comparative data presented in the "Semi-Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie SA for the period from 1 January 2006 to 30 June 2006" were prepared consistently with the accounting standards in force and reflect the accurate, true and fair view of assets and financial position as well as the financial profit or loss of the Bank. The Semi-Annual Report on Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in the first half of 2006 contained in this document is a true representation of the development, achievements and situation (together with a description of the main risks) of the Group in the first half of the year 2006.

Selection of the entity authorized to examine financial statements

The entity authorized to examine financial statements, reviewing the "Semi-Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie SA for the period from 1 January to 30 June 2006", 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.

Abbreviated financial statements of the Bank

Income statement

in thousands of PLN	**01.01. – 30.06. 2006**	**01.01. - 30.06. 2005**
Interest and similar income	767,125	858,593
Interest expense and similar charges	(276,283)	(357,263)
Net interest income	**490,842**	**501,330**
Fee and commission income	334,048	289,915
Fee and commission expense	(61,090)	(44,797)
Net fee and commission income	**272,958**	**245,118**
Dividend income	29,061	2,146
Net income on financial instruments valued at fair value through profit and loss account	4,872	14,459
Net gain on investment (deposit) securities	33,166	112,295
Net profit on foreign exchange	173,423	202,379
Other operating income	57,811	47,264
Other operating expenses	(16,736)	(30,869)
Net other operating income	**41,075**	**16,395**
General administrative expenses	(664,465)	(673,525)
Depreciation expense	(65,913)	(69,637)
Profit / (loss) on sale of tangible fixed assets	115,037	(1,272)
Net impairment changes	4,891	11,140
Profit before tax	**434,947**	**360,828**
Income tax expenses	**(93,877)**	**(79,362)**
Net profit	**341,070**	**281,466**
Weighted average number of ordinary shares	130,659,600	130,659,600
Net profit per ordinary share (in PLN)	2.61	2.15
Diluted net profit per ordinary share (in PLN)	2.61	2.15

Balance sheet

In thousands of PLN	**30.06.2006**	**31.12.2005**
ASSETS		
Cash and balances with central bank	834,819	922,649
Financial assets held for trading	5,341,402	5,878,624
Debt securities available-for-sale	8,092,338	7,171,157
Equity investments	285,818	284,304
Loans and advances	17,016,990	15,839,648
to financial sector	*7,639,001*	*6,898,665*
to non-financial sector	*9,377,989*	*8,940,983*
Property and equipment	662,996	687,894
land, buildings and equipment	*621,337*	*646,946*
investment property	*41,659*	*40,948*
Intangible assets	1,300,330	1,313,418
Deferred income tax assets	322 572	300,162
Other assets	250,951	199,221
Non-current assets held-for-sale	10,580	72,348
Total assets	**34,118,796**	**32,669,425**
LIABILITIES		
Financial liabilities held for trading	3,105,358	3,420,219
Financial liabilities valued at amortized cost	24,759,711	23,223,955
deposits from	*24,282,775*	*22,768,006*
financial sector	*6,194,654*	*5,808,791*
non-financial sector	*18,088,121*	*16,959,215*
other liabilities	*476,936*	*455,949*
Provisions	66,390	57,245
Income tax liabilities	22,384	162,788
Other liabilities	1,262,974	629,354
Liabilities held-for-sale	-	4,370
Total liabilities	**29,216,817**	**27,497,931**
EQUITY		
Issued capital	522,638	522,638
Share premium	2,944,585	2,944,585
Revaluation reserve	(204,764)	(64,554)
Other reserves	1,297,175	1,101,418
Retained earnings	342,345	667,407
Total equity	**4,901,979**	**5,171,494**
Total liabilities and equity	**34,118,796**	**32,669,425**

Statement of changes in equity

In thousands of PLN	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total equity
Balance as at 1 January 2005	**522,638**	**3,044,585**	**(9,371)**	**2,116,063**	**468,069**	**6,141,984**
Effects of transition to IFRS*	-	-	2,479	-	59,443	61,922
Balance as at 1 January 2005 – after restatement	**522,638**	**3,044,585**	**(6,892)**	**2,116,063**	**527,512**	**6,203,906**
Valuation of financial assets available-for-sale	-	-	124,026	-	-	124,026
Transfer of valuation of sold financial assets available-for-sale to profit and loss account	-	-	(112,295)	-	-	(112,295)
Deferred income tax on valuation of financial assets available-for-sale	-	-	(2,229)	-	-	(2,229)
Net profit	-	-	-	-	281,466	281,466
Dividends paid	-	(100,000)	-	(1,049,804)	(414,191)	(1,563,995)
Transfers to capital	-		-	35,159	(35,159)	0
Closing balance as at 30 June 2005	**522,638**	**2,944,585**	**2,610**	**1,101,418**	**359,628**	**4,930,879**

** in respect of IAS 32 and IAS 39*

Statement of changes in equity

In thousands of PLN	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total equity
Balance as at 1 January 2006	**522,638**	**2,944,585**	**(64,554)**	**1,101,418**	**667,407**	**5,171,494**
Valuation of financial assets available-for-sale	-	-	(139,933)	-	-	(139,933)
Transfer of valuation of sold financial assets available-for-sale to profit and loss account	-	-	(33,166)	-	-	(33,166)
Deferred income tax on valuation of financial assets available-for-sale	-	-	32,889	-	-	32,889
Net profit	-	-	-	-	341,070	341,070
Dividends paid	-	-	-	-	(470,375)	(470,375)
Transfers to capital	-	-	-	195,757	(195,757)	-
Closing balance as at 30 June 2006	**522,638**	**2,944,585**	**(204,764)**	**1,297,175**	**342,345**	**4,901,979**

Statement of cash flows

For a period *In thousands of PLN*	**01.01. – 30.06. 2006**	**01.01. – 30.06. 2005**
A. Cash flows from operating activities		
I. Net profit (loss)	**341,070**	**281,466**
II. Adjustments to reconcile net profit or loss to net cash provided by operating activities:	**(376,131)**	**88,051**
Current and deferred tax income, recognized in income statement	93,877	79,362
Amortization	65,913	69,637
Impairment	(11,846)	(2,568)
Net provisions (recoveries)	6,955	(8,572)
Income on sale of investments	(117,433)	4,308
Received interest	640,590	833,364
Retained interest	(274,805)	(362,908)
Other adjustments	(1,045,658)	(1,628,778)
Cash flows from operating profits before changes in operating assets and liabilities	**(642,407)**	**(1,016,155)**
Increase / decrease in operating assets (excl. cash and cash equivalents)	**(1,439,570)**	**(1,265,575)**
Increase / decrease in loans and receivables	(1,097,827)	(807,875)
Increase / decrease in assets available-for-sale	(809,575)	978,741
Increase / decrease in equity investments	(1,514)	(1,932)
Increase / decrease in financial assets held-for-trading	556,159	(1,892,749)
Increase / decrease in other assets	(86,813)	458,240
Increase / decrease in operating liabilities (excl. cash and cash equivalents)	**1,705,846**	**2,369,781**
Increase / decrease in advances from central bank	-	(354)
Increase / decrease in financial liabilities valued at amortized cost	1,549,875	699,532
Increase / decrease in liabilities held for trading	(314,861)	176,467
Increase / decrease in other liabilities	470,832	1,494,136
Cash flows from operating activities	**(35,061)**	**369,517**
Income taxes (paid) refunded	**(58,821)**	**(16,791)**
III. Net cash flows from operating activities	**(93,882)**	**352,726**
B. Cash flows from investing activities		
Cash payments to acquire tangible assets	(24,936)	(51,534)
Cash receipts from the sale of tangible assets	5,534	2,989
Cash payments to acquire intangible assets	(4,268)	(33,062)
Cash receipts from the sale of intangible assets	139	-
Cash receipts from the disposal of investments in subordinated entities	-	6,157
Cash receipts from the sale of tangible assets available-for-sale	174,927	-
Dividends received	-	2,146
Net cash flows from investing activities	**151,396**	**(73,304)**
C. Cash flows from financing activities		
Inflows from long-term loans from financial sector	19	19,292
Repayment of long-term loans from financial sector	(17,845)	(236,142)
Net cash flows from financing activities	**(17,826)**	**(216,850)**
D. Effect of exchange rate changes on cash and cash equivalent	**1,293**	**3,907**
E. Increase in net cash	**39,688**	**62,572**
F. Cash at the beginning of reporting period	**1,005,263**	**972,013**
G. Cash at the end of reporting period	**1,044,951**	**1,034,585**

Supplementary notes

1. Basis of preparation of the abbreviated semi-annual financial statements

Abbreviated semi-annual financial statements have been prepared for the period from 1 January 2006 to 30 June 2006 in accordance with requirements of the Decree of the Ministry of Finance dated 19 October 2005 (Official Journal from 2005, No. 209, item 1744) on current and periodic information provided by issuers of securities. On the strength of that act the issuer, which is also a parent entity, is not obliged to provide the semi-annual financial statements, on condition that it includes the abbreviated semi-annual financial statements consisting of balance sheet, profit and loss account, statement of changes in equity, cash flow statement and abbreviated supplementary notes, comprising of information and data significant for the assessment of the financial position of the Capital Group and its profit or loss, with the semi-annual consolidated financial statements. In addition, it's required to prepare the semi-annual financial statements in accordance with accounting principles adopted in the process of preparation of the annual financial statements.

Principles adopted in the process of preparation of these abbreviated semi-annual financial statements are consistent with the principles, described in the note 2, except for the principles of recognition and measurement of equity investments in subordinated and associated entities, stated below.

Subordinated and associated entities – recognition and measurement

Investments in subsidiaries and associates in the Bank's financial statements are accounted for using the cost method in accordance with IAS 27 ("Consolidated and separate financial statements") with consideration of write-down for impairment. When there are impairment losses of equity investments in subordinated and associated entities, IAS 36 ("Impairment of assets") is applied.

The additional information to these semi-annual consolidated financial statements contains all material information and explanatory data also relevant to these Bank's abbreviated semi-annual financial statements.

2. 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 from the first half of the year 2006 and the comparative data presented in the "Abbreviated Semi-Annual Financial Statements of the Bank Handlowy w Warszawie SA for the period from 1 January 2006 to 30 June 2006" were prepared consistently with the accounting standards in force and reflect the accurate, true and fair view of assets and financial position as well as the financial profit or loss of the Bank.

Selection of the entity authorized to examine financial statements

The entity authorized to examine financial statements, reviewing the "Abbreviated Semi-Annual Financial Statements of the Bank Handlowy w Warszawie SA for the period from 1 January to 30 June 2006", 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
25.09.2006	Sławomir Sikora	President of the Management Board	....
25.09.2006	Witold Zieliński	Vice- President of the Management Board	....
25.09.2006	Edward Wess	Vice-President of the Management Board	....
25.09.2006	Lidia Jabłonowska-Luba	Member of the Management Board	....
25.09.2006	Michał H. Mrożek	Member of the Management Board	....