citibank handlowy
Bank Handlowy w Warszawie S.A.

REPORT ON ACTIVITIES OF THE CAPITAL GROUP OF BANK HANDLOWY W WARSZAWIE S.A. IN 1H 2006

SEPTEMBER 2006

CONTENTS

I. Poland's Economy in 1H 2006

1. Main Macroeconomic Trends

In the 1st half of 2006 Poland's economy grew at a faster pace, by 5.5% year on year in 2Q 2006 compared to 4.3% in 4Q 2005.

The economic growth was related to the significant increase of individual consumption, caused by both rising employment and growing household incomes. Although the weather conditions were disadvantageous, and thus the building industry slowed down, in 1H 2006 investment expenditure increased by 11.4% year on year. The growth of domestic demand was accompanied by the continued very high export growth rate, exceeding the import growth rate. These trends resulted in sustaining the very low trade deficit, fluctuating around 1.4% of GDP.

As a result of the economic growth staying at a high level, the labor market improved. In the first six months of year 2006, the unemployment rate dropped to 16.0% compared to 17.6% in December 2005. In that period, the registered number of unemployed shrunk to 2.5 million.

Even with the improvement in the labor market and the stronger economic growth, in 1H 2006 the inflationary pressure remained weak. The inflation rate in June reached 0.8% year on year in relation to 0.7% year on year in December. Thus, the CPI growth was significantly below the floor of the inflation target adopted by the Monetary Policy Council (fixed at 2.5% +/-1 percentage point). The price inflation expectations of households were unaffected by the soaring oil and fuel prices in the world markets.

The weak inflationary pressure was the basis for interest rate cuts totaling 0.5 percentage points in the first two months of the year, leading to a decrease of the central bank reference rate to an all time low of 4.00%. Only the first signs of recovery in the following months induced the Council to cease loosening the monetary policy further.

The low interest rates created favorable conditions for a rise in credit demand. In June 2006 loans granted to households increased by more than 28% year on year, mainly due to the quickly rising interest in consumer mortgages. This type of loan was thriving in 2Q 2006, shortly before the planned introduction of restrictions for granting foreign currency loans.

The falling interest on deposits was a factor reducing the willingness of households to keep savings as bank deposits. Therefore, at the end of June 2006 household deposits were only 5.6% higher than in the corresponding period last year.

Although the domestic demand was growing, the trade deficit did not deteriorate significantly. The total trade deficit between January and June 2006 reached only EUR 1.6 billion, which was slightly higher than in the previous year. The positive trends in the balance of payments were caused by the sustained very strong export growth rates.

2. Money Markets and FX Markets

At the end of June 2006, Poland's currency weakened by 4.78% against the euro in comparison with the end of year 2005. In that period, the Polish złoty strengthened by 2.44% against the US dollar. A comparison of the average exchange rates of June 2006 and December 2005 shows that the Polish currency slumped by 4.40% to the euro but gained 2.30% to the US dollar.

The beginning of 2006 turned out to be very positive for the Polish currency, which – along with other emerging market currencies – benefited from the weakening of US dollar, following the more and more frequent speculation that the series of US interest rate rises, since June 2004, might be coming to an end. The significant inflow of foreign capital to the domestic stock and bond markets as well as deferring the threat of early elections led to a drop of the EUR/PLN exchange rate to 3.75 in February 2006 – the lowest since June 2002. The growth trend of the Polish złoty ceased in March 2006, when investors started showing a higher aversion to risk because of high uncertainty about interest rate rises of the leading central banks. This trend was even stronger in May, when the sudden price drops in international stock exchanges made investors flee from the emerging markets. However, the Polish currency was the weakest in June, which was caused by some disadvantageous external factors overlapping with worrying domestic news. The Polish złoty hit its low when the news of the resignation of the Minister of Finance was announced – the EUR/PLN exchange rate reached 4.1350, and the USD/PLN exchange rate – 3.30. However, a quick appointment of the new Minister of Finance managed to calm down the market.

The new year also started well for the Polish bonds, which were driven by the announced positive price inflation data, once again awakening hopes for interest rate cuts in Poland. The large interest of offshore investors in the domestic market caused a significant growth of bond prices. In comparison to the end of year 2005, the 2-year bond yield dropped in that time by 68 basis points, the 5-year bond yield – by 65 basis points and the 10-year bond yield - by 55 basis points. However, the optimism did not last. The very weak market conditions in the international bond markets, together with the weakening of the Polish currency resulted in a visible outflow of foreign capital and large price drops of Polish securities in March 2006. The unstable international situation discouraged investors from buying bonds also in the following months, especially since – after a number of announced positive real economy data – the chances for further interest rate drops in Poland diminished to nil. At the end of June 2006, the 2-year bond yield was 114 basis points higher than at its low at the beginning of March 2006. However, in the corresponding period, the 5-year bond yield increased by 119 basis points, and the 10-year bond yield – by 113 basis points.

3. Capital Market

1H 2006 was successful for the stock market. The blue chip index, WIG20, rose by 8.8% from 2,654 points at the beginning of the year to 2,889 points on 30 June 2006. The basic index, WIG, jumped by 14.2% and reached 40,644 points at the end of June 2006. Returns higher than the basic market indices were generated by medium-size companies, whose index, MIDWIG, increased by over 20% in 1H 2006.

In the analyzed period of time, the indices rose at different paces and fluctuated significantly. At the beginning of the year, after several weeks of consolidation, the market continued the growth trend, started in 2004. Thus, in May 2006, the market indices were at a record high (WIG20 reached 3,327 points and WIG – 45,894 points). From mid-May to mid-June 2006, the market saw a correction of over 24%, which resulted in reversing the entire growth trend since the beginning of 2Q 2006. It should be noted that all emerging market stock exchanges suffered severe drops, which was related to the price cuts of metals in the commodity markets and announced rises of US interest rates, leading to a swift departure from risky assets.

At the end of June 2006 the Warsaw Stock Exchange (WSE) traded 256 companies, including 6 foreign ones. In 1H 2006 eight companies debuted on WSE. These relatively small private companies (the biggest being the restaurant chain Sphinx) generated in total ca. PLN 350 million. New IPOs increased WSE capitalization by almost PLN 1 billion. At the end of June 2006, the capitalization of Polish companies listed on WSE reached PLN 338.8 billion, and – including offshore companies – PLN 434.4 billion. In 1H 2006 the capitalization of Polish companies on WSE rose by PLN 30 billion (i.e. 9.9% growth).

Table 1. Stock exchange indexes as at 30 June 2006 and 30 December 2005

Index	30.06.2006	31.12.2005	Change (%)
WIG	40,644.58	35,600.79	14.2%
WIG_PL	40,544.2	35,277	14.9%
WIG20	2,889.67	2,654.95	8.8%
MIDWIG	2,661.38	2,207.74	20.5%
TECHWIG	985.15	844.41	16.7%
WIRR	8,410.83	5,471.33	53.7%
Sector subindexes			
Telecoms	11,016.92	12,381.95	(11.0%)
IT	13,949.82	13,032.85	7.0%
Food	32,043.6	25,444.13	25.9%
Construction	48,108.64	31,007.31	55.2%
Banks	54,661.13	46,787.8	16.8%
Media	32,681.35	37,432.3	(12.7%)

Source: WSE, Dom Maklerski Banku Handlowego S.A.

The turnover in WSE stock trading was strongly correlated with the growth of WSE indices. In this respect, 1H 2006 was a record high for WSE. Turnover in shares reached PLN 160.9 billion, i.e. an increase of 117% compared to 1H 2005. By comparison, turnover in shares during the entire 2005 was PLN 175.4 billion.

Table 1. Turnover in stocks, bonds and derivatives on the WSE as at 30 June 2006 and 30 June 2005.

	30.06.2006	30.06.2005
Stocks (in millions of PLN)	160,870	73,968
Bonds (in millions of PLN)	2,708	2,289
Total futures (in millions)	3.4	2.2

Source: WSE

The turnover in bonds rose by 18.3% and reached PLN 2.71 billion. In the whole 2005 the turnover in bonds amounted to PLN 5.5 billion.

The increasing indices, indicating a continuance of the bull trend in the stock market, had a positive impact on the turnover in futures. In 1H 2006 the turnover in futures reached 3.4 million contracts and was higher than the turnover in the corresponding period of 2005 by 54%.

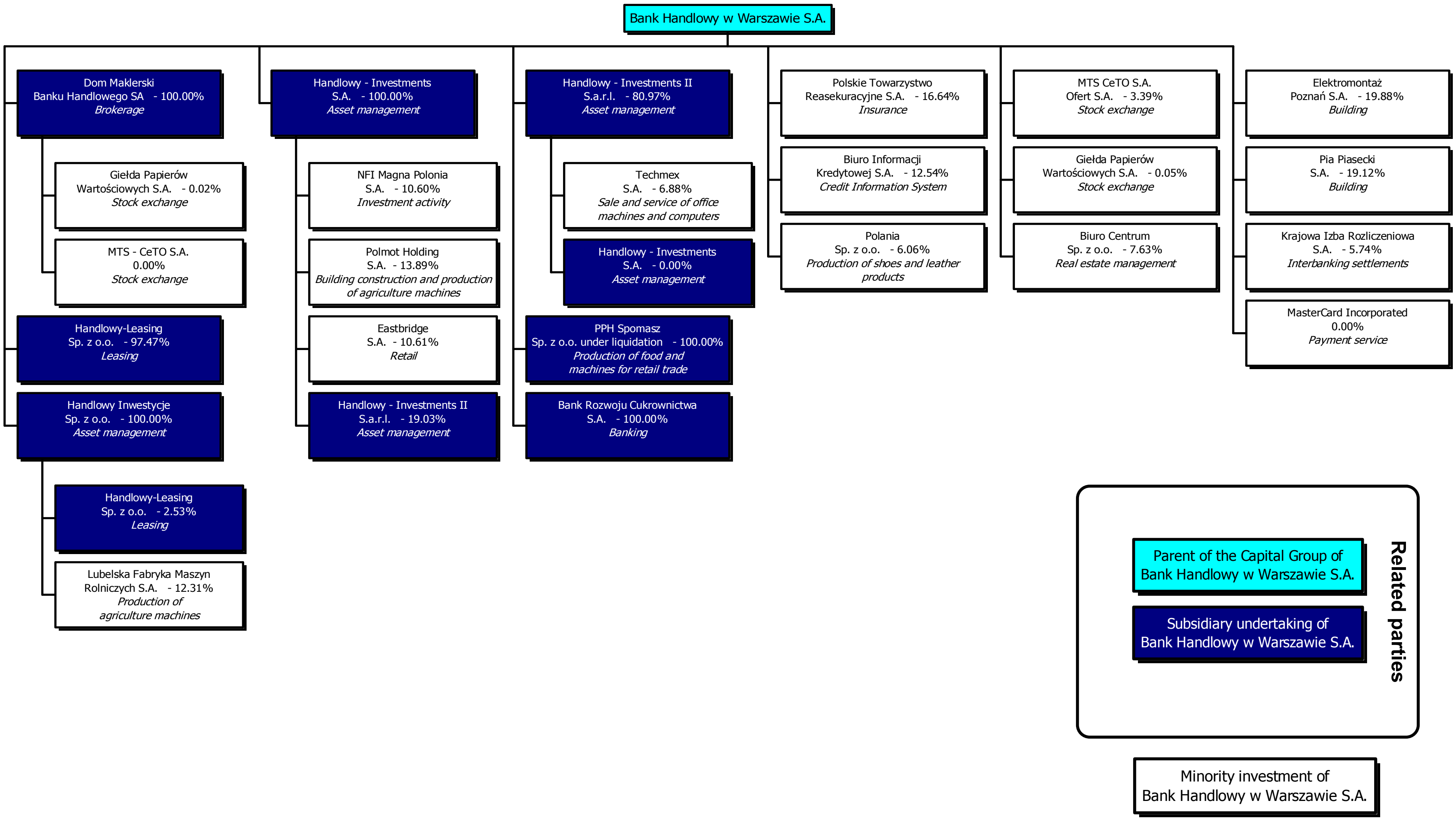
4. Banking Sector

In 1H 2006, the net income of the entire banking sector was ca. PLN 5.8 billion, i.e. 26% higher than in 1H 2005. The excellent result reflects the strength of Poland's economy. The profitability of the sector was mainly influenced by a significant improvement of performance due to interest charges and fees. Revenues on shares, securities and other variable-income financial instruments doubled, but there was a material drop of spread on financial transactions and a small reduction of spread on FX transactions.
In 1H 2006 loans to individual customers increased by 35% year on year, while deposits placed by those customers rose by 3% year on year, which was caused mostly by the growing popularity of investment funds, increasing their asset value by 70% year on year in that period and the cut of reference rates that was described earlier.

The situation in the market for corporate loans improved significantly. The corporate loan portfolio rose by as much as 6% compared to 1H 2005. The good situation continued in the market of corporate deposits, which grew by 21% year on year.

II. Organizational structure of the Capital Group of Bank Handlowy w Warszawie S.A.

The organizational structure of the equity portfolio held by the Bank Handlowy w Warszawie S.A. ("Bank"), according to the percentage of share capital owned as at 30 June 2006, is presented below.


Bank Handlowy w Warszawie S.A.
Dom Maklerski Banku Handlowego SA - 100.00% Brokerage
Giełda Papierów Wartościowych S.A. - 0.02% Stock exchange
MTS - CeTO S.A. 0.00% Stock exchange
Handlowy-Leasing Sp. z o.o. - 97.47% Leasing
Handlowy Inwestycje Sp. z o.o. - 100.00% Asset management
Handlowy-Leasing Sp. z o.o. - 2.53% Leasing
Lubelska Fabryka Maszyn Rolniczych S.A. - 12.31% Production of agriculture machines
Handlowy - Investments S.A. - 100.00% Asset management
NFI Magna Polonia S.A. - 10.60% Investment activity
Polmot Holding S.A. - 13.89% Building construction and production of agriculture machines
Eastbridge S.A. - 10.61% Retail
Handlowy - Investments II S.a.r.l. - 19.03% Asset management
Handlowy - Investments II S.a.r.l. - 80.97% Asset management
Techmex S.A. - 6.88% Sale and service of office machines and computers
Handlowy - Investments S.A. - 0.00% Asset management
PPH Spomasz Sp. z o.o. under liquidation - 100.00% Production of food and machines for retail trade
Bank Rozwoju Cukrownictwa S.A. - 100.00% Banking
Polskie Towarzystwo Reasekuracyjne S.A. - 16.64% Insurance
Biuro Informacji Kredytowej S.A. - 12.54% Credit Information System
Polania Sp. z o.o. - 6.06% Production of shoes and leather products
MTS CeTO S.A. Ofert S.A. - 3.39% Stock exchange
Giełda Papierów Wartościowych S.A. - 0.05% Stock exchange
Biuro Centrum Sp. z o.o. - 7.63% Real estate management
Elektromontaż Poznań S.A. - 19.88% Building
Pia Piasecki S.A. - 19.12% Building
Krajowa Izba Rozliczeniowa S.A. - 5.74% Interbanking settlements
MasterCard Incorporated 0.00% Payment service
Parent of the Capital Group of Bank Handlowy w Warszawie S.A.
Subsidiary undertaking of Bank Handlowy w Warszawie S.A.
Related parties
Minority investment of Bank Handlowy w Warszawie S.A.

III. Changes in the organizational structure of the Capital Group of Bank Handlowy w Warszawie S.A.

The Capital Group of Bank Handlowy w Warszawie S.A. ("Group") consists of the parent company and subsidiaries:

GROUP ENTITIES FULLY CONSOLIDATED

Entity	Business	Capital relationship	% of authorized capital owned	Accounting method	Own equity (in thousands of PLN)
Bank Handlowy w Warszawie S.A.	banking	parent company	-	-	4,901,979*
Dom Maklerski Banku Handlowego S.A. (DMBH)	brokerage	subsidiary	100,00%	full consolidation	96,713
Handlowy-Leasing Sp. z o.o.	leasing	subsidiary	100,00%**	full consolidation	180,638
PPH Spomasz Sp. z o.o. under liquidation	-	subsidiary	100,00%	full consolidation	Company under liquidation

* *The equity of Bank Handlowy w Warszawie S.A. according to its individual financial statements for the first half of 2006.*

** *Taking into account indirect shareholdings.*

GROUP ENTITIES NOT FULLY CONSOLIDATED

Entity	Business	Capital relationship	% of authorized capital owned	Accounting method	Own equity (in thousands of PLN)
Handlowy Inwestycje Sp. z o.o.	investments	subsidiary	100.00%	equity valuation	13,583
Handlowy Investments S.A.	investments	subsidiary	100.00%	equity valuation	(70,540)
Handlowy Investments II S.a.r.l.	investments	subsidiary	100.00%**	equity valuation	6,984
Bank Rozwoju Cukrownictwa S.A.	banking	subsidiary	100.00%	equity valuation	41,240

** *Taking into account indirect shareholdings*

1. Changes in the structure of the Group

In 1H 2006, the Group continued its equity investments strategy aimed at achieving the targeted Group structure while optimizing the financial outcome of capital transactions and minimizing the underlying risks.

In 1H 2006, the group structure changed as a result of the following transactions:

- Sale of entire holding of shares of Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A., representing 100% of shares in the equity of this company
- Sale of entire holding of shares of Handlowy Zarządzanie Aktywami S.A., representing 100% of shares in the equity of this company
- Sale of entire holding of shares of Handlowy-Heller S.A. (since 16 March 2006 under the name of ING Commercial Finance Polska S.A), representing 50.00% (including indirect shareholdings) of shares in the equity of this company.

Additionally, in 1H 2006 there was a merger of two subsidiaries of the Bank: Citileasing Sp. z o.o. ("Acquiring Company") and Handlowy-Leasing S.A. ("Acquired Company"). On the day of the acquisition, the Acquiring Company adopted a new name – Handlowy-Leasing Sp. z o.o.

IV. Selected financial data of the Capital Group of Bank Handlowy w Warszawie S.A.

1. Selected financial data of the Group

In millions of PLN	30.06.2006	31.12.2005
Total assets	34,641.0	32,915.5
Equity*	4,654.2	4,648.4
Loans**	10,068.3	9,607.1
Deposits**	18,181.7	17,261.7
Net profit	343.1	616.4

** Excluding the net profit for the current period.*

*** Due from and to the non-financial and public sectors.*

2. *Financial performance of the Group in 1H 2006*

2.1 Income statement

The Group's net profit in 1H 2006 amounted to PLN 343.1 million, PLN 24.8 million, i.e. 7.8% more than in the corresponding period last year. The increase in net profit was mainly attributable to an increase in the value of fixed assets sold (PLN 118.4 million) due to the sale of assets available-for-sale at the end of 2005, including assets and liabilities of the subsidiaries Towarzystwo Funduszy Inwestycyjnych Banku Handlowego w Warszawie S.A. and Handlowy Zarządzanie Aktywami S.A. as well as stock of the affiliated company Handlowy Heller S.A., a business unit of the Bank dealing with the settlement of card transactions in the Consumer Bank and training and holiday resorts in Dźwirzyno and Skubianka.
Profit growth was reduced due to the decrease in investment securities and FX transactions by PLN 79.1 and 30.9 million, respectively, and, in addition, higher income tax expenses.

Selected income statement items

	1H		**Change**	
In thousands of PLN	**2006**	**2005**	**PLN '000**	**%**
Net interest income	508,071	522,258	(14,187)	(2.7%)
Net commission income	302,431	283,717	18,714	6.6%
Net gains / (losses) on financial instruments valued at fair value through profit or loss	5,937	15,062	(9,125)	(60.6%)
Net gains /(losses) on investment securities	33,166	112,295	(79,129)	(70.5%)
Net profit on foreign exchange	173,873	204,817	(30,944)	(15.1%)
Other operating income	38,807	15,213	23,594	155.1%
Overheads and general administrative expenses	(681,687)	(697,066)	15,379	2.2%
Depreciation	(66,407)	(69,990)	3,583	5.1%
Fixed assets sold	117,289	(1,073)	118,362	11030.9%
Net change in impairment losses	9,634	17,028	(7,394)	(43.4%)
Profit before tax	**443,868**	**401,350**	**42,518**	**10.6%**
Income tax	(100,774)	(83,101)	(17,673)	(21.3%)
Net income	**343,094**	**318,249**	**24,845**	**7.8%**

2.1.1 Income

The 1H 2006 increase in operating income of PLN 25.8 million, i.e. 2.2%, compared with the corresponding period last year, was mainly due to:

- The sale of fixed assets for PLN 118.4 million (see item 2.1);
- An increase in interest and commission income of PLN 810.5 million compared to PLN 806.0 million, which was mainly attributable to commission income from investment and insurance products of the Consumer Bank despite lack of commission income from the subsidiaries HanZA and TFI BH, sold in 1Q 2006. The decrease of interest income by PLN 14.2 million (i.e. 2.7%), was caused by lower interest rates and a reduction of credit cards interest rates in July 2005, partly compensated by a significant interest income growth in CitiFinancial. The interest income was affected adversely also by the material changes in the pricing structure introduced on 14 February 2006, following from the act of 7 July 2005 on the amendment of the act: The Civil Code and some other acts to limit maximum interest rates;
- The net gains on financial instruments (derivatives and debt securities) and net profit on foreign exchange of PLN 213.0 million compared to PLN 332.2 million in 1H 2005, mainly due to a significant decrease in prices of debt securities sales following the increase of interest rates in 2Q 2006, whereas in the corresponding period last year the portfolio sales contributed materially to the financial performance;
- An increase of other operating income expenses and income of PLN 23.6 million due to lower provisions for litigations and higher operating income from services provided by the Bank to other CitiGroup Inc. entities, in particular data processing services, as well as recognizing income from shares granted by MasterCard.

2.1.2 Expenses

EXPENSES

	1H		Change	
In thousands of PLN	**2006**	**2005**	**PLN '000**	**%**
Salaries	263,507	266,595	(3,088)	(1.2%)
Employee benefits	69,267	84,190	(14,923)	(17.7%)
Total personnel expenses	**332,774**	**350,785**	**(18,011)**	**(5.1%)**
Non-personnel expenses	186,390	184,960	1,430	0.8%
Telecommunications	86,616	92,870	(6,254)	(6.7%)
Service expenses	75,907	68,451	7,456	10.9%
Overheads and general administrative expenses	**681,687**	**697,066**	**(15,379)**	**(2.2%)**
Depreciation	66,407	69,990	(3,583)	(5.1%)
Total expenses	**748,094**	**767,056**	**(18,962)**	**(2.5%)**

In 1H 2006 the Group continued to cut costs, by PLN 19 million, i.e. 2.5% lower in comparison to the corresponding period last year. The reduction of operating expenses as well as overheads and general administrative expenses plus depreciation was achieved mainly by lower personnel expenses, resulting from the restructuring and optimization of the branch network of the Corporate and Investment Bank and the Consumer Bank, although the CitiFinancial network was developing quickly and now consists of 86 branches and 9 smaller points of sale, in relation to 56 at the end of June 2005. Operating expenses fell although the marketing costs were significantly higher than in the corresponding period last year.

2.1.3 Write-downs for impairment of financial assets and provisions for off-balance sheet liabilities

Write-downs

	1H		Change	
In thousands of PLN	**2006**	**2005**	**PLN'000**	**%**
Write-downs for losses incurred but not reported (IBNR)	(748)	16,629	(17,377)	(104.5%)
Write-downs for loans and off-balance sheet liabilities	12,116	4,721	7,395	156.6%
individually assessed	22,254	100,673	(78,419)	(77.9%)
collectively assessed (on a portfolio basis)	(10,138)	(95,952)	85,814	89.4%
Other	(1,734)	(4,322)	2,588	59.9%
Total change in impairment losses	**9,634**	**17,028**	**(7,394)**	**(43.4%)**

The small percentage effect of provision expenses on the performance of the Group and the relatively minor change between 1H 2006 and the corresponding period last year reflect the stability of the credit portfolio and thus, reduction of the provisioning rate, effective restructuring and collections as well as favorable macroeconomic conditions and improvement of the credit portfolio quality.

2.2 Balance sheet

As at 30 June 2006 the total assets of the Group amounted to PLN 34,641.0 million, 5.2% more than at the end of 2005.

Balance sheet

In thousands of PLN	30.06.2006	31.12.2005	Change PLN'000	%
ASSETS				
Cash and balances with central bank	834,819	922,649	(87,830)	(9.5%)
Financial assets held for trading	5,341,743	5,883,358	(541,615)	(9.2%)
Debt securities available-for-sale	8,092,338	7,171,157	921,181	12.8%
Equity investments valued by equity method	64,540	61,884	2,656	4.3%
Equity investments	23,909	20,615	3,294	16.0%
Loans and advances	17,447,794	16,074,250	1,373,544	8.5%
to financial sector	7,379,446	6,467,157	912,289	14.1%
to non-financial sector	10,068,348	9,607,093	461,255	4.8%
Property and equipment	674,911	700,212	(25,301)	(3.6%)
land, buildings and equipment	633,252	659,264	(26,012)	(3.9%)
investment property	41,659	40,948	711	1.7%
Intangible assets	1,300,664	1,313,799	(13,135)	(1.0%)
Deferred income tax	320,485	299,290	21,195	7.1%
Other assets	529,250	430,574	98,676	22.9%
Non-current assets available-for-sale	10,580	37,714	(27,134)	(71.9%)
Total assets	**34,641,033**	**32,915,502**	**1,725,531**	**5.2%**
LIABILITIES				
Financial liabilities held for trading	3,105,358	3,420,219	(314,861)	(9.2%)
Financial liabilities valued at amortized cost	24,859,311	23,084,589	1,774,722	7.7%
deposits from	24,099,492	22,485,156	1,614,336	7.2%
financial sector	5,917,773	5,223,503	694,270	13.3%
non-financial sector	18,181,719	17,261,653	920,066	5.3%
other liabilities	759,819	599,433	160,386	26.8%
Provisions	63,526	56,251	7,275	12.9%
Income tax	23,162	163,311	(140,149)	(85.8%)
Other liabilities	1,592,355	918,991	673,364	73.3%
Non-current liabilities available-for-sale	-	7,329	(7,329)	(100.0%)
Total liabilities	**29,643,712**	**27,650,690**	**1,993,022**	**7.2%**
EQUITY				
Issued capital	522,638	522,638	-	0.0%
Share premium	3,027,470	3,010,452	17,018	0.6%
Revaluation reserve	(204,764)	(64,554)	(140,210)	(217.2%)
Other reserves	1,336,878	1,128,860	208,018	18.4%
Retained earnings	315,099	667,416	(352,317)	(52.8%)
Total equity	**4,997,321**	**5,264,812**	**(267,491)**	**(5.1%)**
Total liabilities and equity	**34,641,033**	**32,915,502**	**1,725,531**	**5.2%**

2.2.1 Assets

Gross loan receivables

In thousands of PLN	As at 30.06.2006	31.12.2005	Change PLN'000	%
Banks and other monetary financial inst.	6,952,443	6,021,502	930,941	15.5%
Non–banking financial institutions	562,209	589,956	(27,747)	(4.7%)
Non–financial corporates	8,359,760	8,381,354	(21,594)	(0.3%)
Individuals	3,118,193	2,726,489	391,704	14.4%
Government units	243,991	244,480	(489)	(0.2%)
Other non-financial receivables	7,940	8,291	(351)	(4.2%)
Total	**19,244,536**	**17,972,072**	**1,272,464**	**7,1%**

Despite a decrease of the credit portfolio in the past years, due to the Group's prudent lending policy, it still remains the largest component of total assets. In the non-financial sector, gross loan receivables were at a similar level as at the end of 2005 and amounted to PLN 8,359.8 million (decrease by 0.3%).

At the same time, there was an increase in lending to individuals, by almost PLN 392 million, i.e. 14.4%. At the end of June 2006, the portfolio of amounts due from individuals reached PLN 3,118.2 million.

The debt securities portfolio, representing 29.5% of total assets as at 30 June 2006 compared to 28.8% as at the end of 2005, was the second most significant component of assets. In the first half of 2006 the value of securities portfolio was at a similar level as at the end of last year.

Debt securities portfolio

In thousands of PLN	As at 30.06.2006	31.12.2005	Change PLN '000	%
Treasury bonds	7,297,714	7,076,515	221,199	3.1%
NBP bonds	369,710	386,934	(17,224)	(4.5%)
Treasury bills	39,693	40,002	(309)	(0.8%)
Certificates of deposit and banks' bonds	157,944	30,136	127,808	424.1%
Issued by non-financial entities	110,564	30,803	79,761	258.9%
Issued by financial entities	47,609	35,604	12,005	33.7%
NBP bills	2,213,039	1,871,225	341,814	18.3%
T O T A L	**10,236,273**	**9,471,219**	**765,054**	**8.1%**

2.2.2 Liabilities

Financial liabilities valued at amortized cost

	As at		Change	
In thousands of PLN	**30.06.2006**	**31.12.2005**	**PLN'000**	**%**
Due to financial sector	**5,886,194**	**5,197,217**	**688,977**	**13.3%**
Banking accounts and other monetary financial institutions	3,454,605	2,349,939	1,104,666	47.0%
Due from non-banking financial sector	2,431,589	2,847,278	(415,689)	(14.6%)
Due to non – financial sector including:	**18,165,897**	**17,242,639**	**923,258**	**5.4%**
Corporate customers	12,032,129	11,343,805	688,324	6.1%
Individuals	4,677,549	4,534,587	142,962	3.2%
Other liabilities including accrued interest:	**807,220**	**644,733**	**162,487**	**25.2%**
Total	**24,859,311**	**23,084,589**	**1,774,722**	**7.7%**

There were no significant changes in the composition of the Group's liabilities in 1H 2006, which was to a large extent attributable to the stability of the Bank's deposit base.

Liabilities to customers from the non-financial sector were the major source of financing for the Group's assets. In comparison with the end of 2005, this item increased by PLN 923.3 millions, i.e. 5.4%. Another significant increase was seen in liabilities to the financial sector – by PLN 689 million, i.e. 13.3%.

Liabilities to banks, accounting for the majority of liabilities to the financial sector, grew in the period from PLN 2,349.9 million to PLN 3,454.6 million, i.e. by PLN 1,104.7 million (47.0%). The fact that unrealized gains/losses on derivative transactions accounted for a considerable proportion of assets and liabilities is also significant and reflects the scale of the Group's off-balance sheet transactions on financial derivatives. The carrying amount of these instruments is presented as *Financial assets available-for-trading* and *Financial liabilities available-for-trading*.

2.2.3 Sources and uses of funds

Source of Funds	**30.06.2006**	**31.12.2005**
Banks' and other monetary financial institutions' funds	3,890,006	2,506,054
Customers and government unit funds	20,969,305	20,578,535
Own funds with net income	4,997,321	5,264,812
Other funds	4,784,401	4,566,101
Total source of funds	**34,641,033**	**32,915,502**
Use of funds		
Receivables from banks and other monetary financial institutions	6,941,391	6,010,170
Receivables from customers and government units	10,506,403	10,064,080
Securities, shares and other financial assets	13,522,530	13,137,014
Other use of funds	3,670,709	3,704,238
Total use of funds	**34,641,033**	**32,915,502**

2.3 Equity and capital adequacy ratio

In comparison to December 2005, equity remained at a similar level, amounting to PLN 4,654.2 million as at 30 June 2006.

EQUITY

In thousands of PLN	As at		Change	
	30.06.2006	**31.12.2005**	**PLN '000**	**%**
Share capital	522,638	522,638	-	0.0%
Supplementary (additional) capital	3,027,470	3,010,452	17,018	0.6%
Other reserves	946,878	738,860	208,018	28.2%
Revaluation reserve	(204,764)	(64,554)	(140,210)	(217.2%)
General risk reserve	390,000	390,000	-	0.0%
Other equity	(27,995)	51,032	(79,027)	(154.9%)
Total equity	**4,654,227**	**4,648,428**	**5,799**	**0.1%**
Tier 1 capital	4,886,986	4,661,950	225,036	4.8%
Tier 2 capital	(204,764)	(64,554)	(140,210)	(217.2%)
Other equity	(27,995)	51,032	(79,027)	(154.9%)

The Group's equity is fully sufficient to ensure the financial safety of the institution and the deposits held within it.

As at 30 June 2006 the capital adequacy ratio was 14.78%, which is almost the same as at the end of year 2005. This is explained by the virtually unchanged equity and minor changes in specific capital requirements.

CAPITAL ADEQUACY RATIO

In thousands of PLN	30.06.2006	31.12.2005
Own funds, as stated on the balance sheet	**4,654,227**	**4,648,428**
Less:	1,443,040	1,456,493
- goodwill	1,245,976	1,245,976
- other intangible assets	54,688	67,823
- interests in subordinated financial entities	142,376	142,694
Own funds for the calculation of the capital adequacy ratio	**3,211,187**	**3,191,935**
Risk-weighted assets and off-balance sheet liabilities (banking portfolio)	**14,010,530**	**13,755,101**
Total capital requirement, including:	**1,738,276**	**1,744,910**
- capital requirement to cover credit risk	1,120,842	1,100,408
- capital requirement to cover the exceeding of the exposure concentration and large exposure limits	315,023	328,897
- total capital requirements to cover market risk	212,083	219,001
- other capital requirements	90,328	96,604
Capital adequacy ratio	**14.78%**	**14.63%**

V. Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in 1H 2006

1. Lending and other risk exposures

1.1 Lending

The Group's lending policy is based on active portfolio management and precisely specified target markets, designed to facilitate exposure and credit risk analysis within the framework of a given industry of the customer. In addition, individual borrowers are continuously monitored so that signs of deterioration in creditworthiness can be detected promptly and appropriate corrective steps can be taken.

The portfolio of receivables from individuals is managed on the basis of a model that calculates risk and return on the loan portfolio. In 2005 the lending policy was enhanced by implementation and use of scoring models. The new tools were implemented to strengthen control over the loan portfolio and to enable an efficient and optimal credit decision process.

CitiFinancial, that sells its product through its branches as well as credit agents, uses a different lending policy mainly due to different levels of risk generated by each distribution channel. The customer acceptance policy is based on the scoring card, demographic data and client history received from the Credit Information Office. The detailed requirements that the customers must fulfill are described in this policy. The main credit criteria are: the kind of job, source of income, age, job seniority and amount of income.
Conducted continuous observation of sales trends and portfolio quality trends using standard management information reports and advanced analytical models enables a quick response to every trend variance.

Lending to non-bank customers (gross)

	As at		Change	
In thousands of PLN	**30.06.2006**	**31.12.2005**	**PLN'000**	**%**
Loans in PLN	10,442,724	9,875,224	567,500	5.7%
Loans in foreign currency	1,849,369	2,075,346	(225,977)	(10.9%)
Total	**12,292,093**	**11,950,570**	**341,523**	**2.9%**
Loans to non-financial sector	11,485,893	11,116,134	369,759	3.3%
Loans to financial sector	562,209	589,956	(27,747)	(4.7%)
Loans to public sector	243,991	244,480	(489)	(0.2%)
Total	**12,292,093**	**11,950,570**	**341,523**	**2.9%**

Non-financial corporates	8,359,760	8,381,354	(21,594)	(0.3%)
Individuals	3,118,193	2,726,489	391,704	14.4%
Non-bank financial entities	562,209	589,956	(27,747)	(4.7%)
Public entities	243,991	244,480	(489)	(0.2%)
Other non-financial receivables	7,940	8,291	(351)	(4.2%)
Total	**12,292,093**	**11,950,570**	**341,523**	**2.9%**

As at 30 June 2006, the credit exposure to the non-financial sector amounted to PLN 12,292.1 million, representing an increase of 2.9% as compared with 31 December 2005. The largest part of the non-financial sector credit portfolio, which is loans to non-financial corporates (68%) decreased by 0.3% in 1H 2006. Loans to individuals grew in comparison with the end of 2005 by 14.4% to PLN 3,118.2 million.

At the end of June 2006 the currency structure changed slightly as compared with the end of 2005. The share of foreign currency loans, which in December 2005 was 17.4%, decreased to 15.0% in 1H 2006. It should be stressed that the Group grants foreign currency loans to customers who have foreign currency cash flows or to those who, in the Group's opinion, are able to predict or absorb the currency risk without significant deterioration of their financial position.

Exposure concentration by non - banking customers

In thousands of PLN	**30.06.2006**			**31.12.2005**		
	Direct exposure*	**Off-balance sheet exposure**	**Total exposure**	**Direct exposure***	**Off-balance sheet exposure**	**Total exposure**
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
Group 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
Customer 10	10,843	219,178	230,021	15	55,211	55,226
Total 10	**1,550,187**	**1,760,029**	**3,310,216**	**1,396,878**	**1,673,141**	**3,070,019**

**) Excluding shares and other securities.*

1.2 Quality of the credit portfolio

With effect from 1 January 2005 the Group estimates impairment losses in accordance with IAS 39.

All receivables of the Group are attributed to two portfolios depending on the existing risk of impairment of the receivables: the portfolio of receivables not at risk of impairment and the portfolio of receivables at risk of impairment. Depending on the materiality of the receivables, the portfolio at risk of impairment is then classified into assets accounted for individually and collectively.

At the end of June 2006, the share of loans at risk of impairment was 18.5% of the total portfolio and was lower as compared with the share as at 31 December by 1.9%. The decrease was related to the classifiable portfolio and was related to the repayment of outstandings in this customer group.

Loans to non-financial sector (gross) by quality of exposure

	As at			
In thousands of PLN	**30.06.2006**		**31.12.2005**	
Loans to non-banking sector (gross)	**PLN'000**	**% Share**	**PLN'000**	**% Share**
Not at risk of impairment	10,016,634	81.5%	9,513,132	79.6%
At risk of impairment	2,275,459	18.5%	2,437,438	20.4%
accounted for individually	1,641,473	13.3%	1,801,414	15.1%
accounted for collectively	633,986	5.2%	636,024	5.3%
Total non-banking sector	**12,292,093**	**100.0%**	**11,950,570**	**100.0%**

In opinion of the Management Board current level of provisions for receivables is the best estimation for portfolio impairment loss, taking into account the discounted forecast of future cash flows associated with the repayment of receivables. Moreover, the provisions are estimated for each receivable irrespective of their portfolio attribution and for probable but as yet unidentified losses.

As at 30 June 2006 the impairment of the portfolio was PLN 1,785.7 million, PLN 72.9 million of which was attributable to receivables not at risk of impairment.

Impairment of non-bank loan portfolio

	As at		Change	
In thousands of PLN	**30.06.2006**	**31.12.2005**	**PLN '000**	**%**
Impairment due to incurred but not reported (IBNR) losses	72,927	67,702	5,225	7.7%
Impairment of receivables	1,712,764	1,818,788	(106,024)	(5.8%)
accounted for individually	1,260,581	1,356,356	(95,775)	(7.1%)
accounted for collectively	452,183	462,432	(10,249)	(2.2%)
Total impairment	**1,785,691**	**1,886,490**	**(100,799)**	**(5.3%)**
Coverage by general provisions	14.5%	15,8%		
Coverage by provisions for impaired assets	75.3%	74,6%		

1.3 Off-balance sheet exposure

As at 30 June 2006 off-balance sweet exposure amounted to PLN 10,981.4 million, representing a decrease of 5.9% in comparison with 31 December 2005. The biggest change related to guarantees, which represented 20.1% of off-balance sheet assets, which decreased by PLN 568.8 million (20.5%). Unused credit commitments dropped by PLN 342.5 million (3.9%), but they still remain a major portion of off-balance sheet exposure (76.3%). Forward placements rose by PLN 207.4 million up to PLN 222.8 million. Fluctuations of the unused credit commitments resulted both from the adjustment of credit lines to customer needs and from usage of granted limits by the customers.

Off-balance sheet exposure

	As at		Change	
In thousands of PLN	**30.06.2006**	**31.12.2005**	**PLN ’000**	**%**
Guarantees	2,209,823	2,778,598	(568,775)	(20.5%)
Letters of credit issued	149,320	132,216	17,104	12.9%
Third-party confirmed letters of credit	20,856	17,465	3,391	19.4%
Committed loans	8,378,488	8,720,951	(342,463)	(3.9%)
Forward placements	222,872	15,439	207,433	1343.6%
Total	**10,981,359**	**11,664,669**	**(683,310)**	**(5.9%)**
Provisions for off-balance sheet liabilities	41,663	36,578	5,085	13.9%
Provision coverage index	0.38%	0.31%		

As at the end of June 2006, the total amount of collateral held on accounts (or assets) of the Group’s borrowers amounted to PLN 4,424 million compared to PLN 4,631 million at the end of year 2005.

In 1H 2006 the Group issued 2,085 enforcement titles for the total amount of PLN 67.0 million compared to 2,096 enforcement titles for the total amount of PLN 98.6 million in 1H 2005.

2. External Funding

At the end of 1H 2006, the total value of external funding of the Group was PLN 24,859.3 million, i.e. PLN 1,774.7 million (7.7%) higher than at the end of year 2005. Liabilities to the non-financial sector, which rose by PLN 920.1 million, i.e. 5.3%, had the largest impact on changes of the external funding of the Group’s activity – their increase resulted mostly from the growth of term deposits.

External funding

	As at		Change	
In thousands of PLN	**30.06.2006**	**31.12.2005**	**PLN’000**	**%**
Due to financial sector	**5,917,773**	**5,223,503**	**694,270**	**13.3%**
Funds on current accounts, including:	1,330,528	946,076	384,452	40.6%
- funds on current accounts of banks and other monetary	*1,115,444*	*725,453*	*389,991*	*53.8%*
Deposits, including	4,555,666	4,251,141	304,525	7.2%
- deposits of banks and other monetary financial institutions	*2,339,161*	*1,624,486*	*714,675*	*44.0%*
Accrued interest	31,579	26,286	5,293	20.1%

Funds on current accounts, including	5,856,585	5,487,025	369,560	6.7%
- corporate customers	*3,581,424*	*3,412,132*	*169,292*	*5.0%*
- individuals	*1,744,442*	*1,499,724*	*244,718*	*16.3%*
Deposits, including	12,309,312	11,755,614	553,698	4.7%
- corporate customers	*8,450,705*	*7,931,673*	*519,032*	*6.5%*
- individuals	*2,933,107*	*3,034,863*	*(101,756)*	*(3.4%)*
Accrued interest	15,822	19,014	(3,192)	(16.8%)
Other liabilities	**759,819**	**599,433**	**160,386**	**26.8%**
Sell-Buy-Backs	65,225	8,174	57,051	698.0%
Accrued interest	3,115	3,163	(48)	(1.5%)
Total external funding	**24,859,311**	**23,084,589**	**1,774,722**	**7.7%**

Looking at all sectors as a whole, the largest growth in 1H 2006, by PLN 662.8 million compared to the end of year 2005 (5.5%), was recorded for non-financial entities, while the biggest decrease, by PLN 415.9 million, i.e. 14.6%, occurred in the case of non-bank financial institutions. In 1H 2006 term deposits of individual customers increased by 2.7% up to PLN 4,752.9 million.

Liabilities to non-bank customers*

In thousands of PLN	As at 30.06.2006	31.12.2005	Change PLN'000	%
Liabilities to:				
Individuals	4,752,897	4,626,064	126,833	2.7%
Non-financial economic entities	12,620,109	11,957,306	662,803	5.5%
Non-profit institutions	500,243	471,383	28,860	6.1%
Non-bank financial institutions	2,433,923	2,849,820	(415,897)	(14.6%)
Public sector	504,731	430,854	73,877	17.1%
Suspense account liabilities	63,622	57,177	6,445	11.3%
Total	**20,875,525**	**20,392,604**	**482,921**	**2.4%**
PLN	15,835,247	15,356,489	478,758	3.1%
Foreign currencies	5,040,278	5,036,115	4,163	0.1%
Total	**20,875,525**	**20,392,604**	**482,921**	**2.4%**

*Excluding interest payable

As at 30 June 2006 the Group had drawn down loans, which amounted to PLN 413.3 million, including PLN 130.7 million of loans drawn by the Bank, whereas at the end of 2005 the Group used loans totaling PLN 285.4 million, including PLN 142.6 million drawn by the Bank.

3. Corporate and Investment Bank

3.1 Transaction Services

The Bank offers comprehensive, differentiated and modern products in the area of trade and transaction services to corporate customers. In parallel with traditional banking services, such as bank accounts, domestic and international money transfers, deposits and overdrafts – the Bank has extensively broadened its product offer and carried out the acquisition of customers in the scope of more sophisticated transaction services including electronic and web-based banking.
The modern and diversified transaction banking offer is the result of continuous efforts to provide services that meet the needs of the Bank's customers. Economic growth and new business ideas of customers stimulate the implementation of new practical solutions.

3.1.1 Payments and Transfers

In May 2006 a new innovative and extremely important solution for mass payments was launched. The new product, called "Intraday SpeedCollect", provides the customers with data about mass payments during the day. This solution signifies a new quality of receivables management products and widens the offer for the Bank's strategic customers.

In May 2006, the Bank introduced a lump-sum fee for customers to cover costs related to the execution of cross-border payments. Owing to the above change, revenues obtained from foreign payments grew by over 20% in comparison with the corresponding period of the previous year.

3.1.2 Card Products

The number of corporate cards issued in 1H 2006 grew by 22% compared to the number of cards issued in the corresponding period last year.

The number of prepaid cards issued in 1H 2006 was 28% higher than the number of prepaid cards issued in 1H 2005. At the end of June 2006, the number of prepaid cards exceeded 160,000.

In 2Q 2006 the prepaid benefit and scholarship cards received the prestigious award of the international magazine *The Banker* in the category Investment Banking Projects. This is the second award granted this year for the benefit and scholarship cards. In 1Q 2006 the product won the second-degree award for the most innovative product of 2005 in the European corporate sector, granted by the European Payments Consulting Association (EPCA) and European Card Review (ECR).

The number of Citibank Business debit cards issued in 1H 2006 increased in comparison to the number of debit cards issued at the end of December 2005 by over 19%.

3.1.3 Cash Management Products

A key component of the Bank's product offer is cash management. The Bank offers many solutions, from standard bank accounts and cash and cashless transactions to electronic banking and mass payments to advanced consolidated accounts (which are used to administer liquidity between various units of the customer's business) and receivables management (using leading edge solutions on the SpeedCollect platform).

In 1H 2006 training sessions, available to the staff of the Bank's customers, called "Cash signs and fraud", developed the cash offer. The training is designed to the security of cash transactions at the customers.

The purpose of the training is to share knowledge about how to recognize authentic bank notes and coins. The course is intended for cashiers in service stations and trading outlets as well as other employees of the Bank's customers, which, as part of their professional duties, accept cash from contractors.
Bank Handlowy w Warszawie S.A. is the first bank in the Polish market to offer such services to the customers.

3.1.4 Trade Finance Products

The key achievements in 1H 2006 in the area of trade finance were the following:

a) Concluded another insurance policy with the Polish export credit insurer Korporacja Ubezpieczeń Kredytów Eksportowych S.A. and negotiated new insurance prices in order to continue providing the solution based on financing domestic and foreign receivables with limited recourse to the Bank's customers;

b) Launched a series of workshops in the regions by Bank experts, intended to expand the customers' awareness and knowledge about trade finance products, in particular the latest trade finance offer of the Bank;

c) Continued marketing activities, including the launch of a wide product campaign in the media (e.g. by means of sponsored press articles and internet advertising); activated a temporary promotion campaign for the purpose of encouraging a wider group of customers to use the Bank's trade finance offer;

d) Further development of different supplier finance solutions based on receivables documented by invoices (factoring);

e) Launched cooperation with the Millennium Bank with respect to services regarding export/import LCs and export/import collections;

g) Negotiated new credit terms for Commercial Bank customers interested in financing supported by the assignment of receivables and the assignment of receivables insurance policies.

The major transactions and programs completed or implemented in 1H 2006 are as follows:

-Extension of one of the larger finance programs based on the PayLink card for one of the bigger builders' market chains;

-Launched a supplier finance program for a key construction investor involved in the development of roads and highways in Poland;

-Issued a customs guarantee for over PLN 50 million for one of the larger tobacco companies in Poland;

-Launched a financing program for the construction of two vessels for a Polish shipyard producing for a Norwegian contractor, with the option to issue advance and payment guarantees.

3.1.5 EU Products

In January 2006, as part of the efforts to develop the Bank's target customer base, a customized EU offer was prepared for the Commercial Bank customers. In February 2006 a conference was organized for local authorities, discussing the subject of "Investment project financing by local authorities – how to obtain funds for 'own contribution' in projects co-financed by the EU".

By the decision of the Bank's Management Board of 16 May 2006, a new service was introduced, consisting of comprehensive EU advice both for companies and local authorities.

In order to respond to customer needs and having analyzed the possibilities of diversifying the business, the Bank enhanced its banking product offer by EU advisory services for customers, including the preparation of subsidy applications, project management and settlement of accounts as well as technical help for EU institutions with respect to pre-financing of EU investments.

3.1.6 Custody Services

The Bank operates custody services pursuant to applicable laws of Poland and international standards. As a result, its services meet the requirements of the largest and most demanding institutional customers.

The Bank is the leader in the segment of bank depositaries in Poland. It offers both custody services to foreign institutional investors and depository services to Polish financial institutions, pension funds, investment funds and investment funds with insurance options.

As a part of its statutory activities, pursuant to the relevant license of the Polish Securities and Exchange Commission (SEC), the Custody Department operates securities accounts, settles securities transactions, handles dividend and interest payments, portfolio valuations, individual reports, and arranges for customer representation at general meetings of shareholders of listed companies. It also maintains registers of foreign securities, which also involves intermediation in the settlement of transactions for domestic customers on offshore markets.

In addition, the Bank settles transactions concluded by institutional customers on a new electronic platform for trade in debt securities, MTS-POLAND, organized by MTS-CeTO S.A., as well as settlements of securities transactions for remote members of the Warsaw Stock Exchange and MTS-CeTO S.A
In June 2006 the specialist magazine *Global Investor,* assessing the quality of settlement services in Europe within the annual *European Clearing Survey*, awarded the Bank the title "*Best Bank for Settlement*" for the year 2006 in two categories: *Equities* and *Fixed Income*. The title was awarded on the basis of opinions expressed by institutional customers.

As at 30 June 2006 the Bank maintained 9,664 securities accounts. The Bank was the depositary for the following seven Open Pension Funds:

- AIG OFE,
- Commercial Union OFE BPH CU WBK,
- Generali OFE,
- ING Nationale Nederlanden Polska OFE,
- OFE Pocztylion,
- Pekao OFE, and
- Nordea OFE.

The Bank also acted as the depositary of 23 investment funds, managed by the following fund managers:

- BZ WBK AIB TFI S.A.,
- PIONEER PEKAO TFI S.A.,
- PKO TFI S.A., and
- SEB TFI S.A.

3.2 Treasury

The beginning of 2006 was very successful for the domestic financial market. The inflowing foreign capital strengthened the Polish currency as well as the stock exchange. The good market conditions were reinforced by the forecast low inflation and the expected further reductions of interest rates. This situation changed at the turn of 1Q and 2Q of 2006. The rising interest rates in the leading international economies resulted in apprehension about the lower profitability of investments in the emerging markets. Thus, the growth trend of the Polish złoty ceased. Along with the more and more frequent signs of ending the moderation of the monetary policy after the February interest rate cuts, bond prices also dropped. At the end of 1Q 2006 this process overlapped with the domestic political events, deepening the sell off of Polish securities. The reversal of the trend of outflow of offshore investors was particularly visible in the Central and Eastern European countries. By mid-April 2006, the Polish currency was the fastest growing one in the entire region, which was also the result of very good macroeconomic data and a clear stabilization of the political scene.

In May 2006, prices in the world stock markets plummeted, which started a renewed outflow of capital from the emerging markets. The domestic market was the weakest in June, which was caused by negative external factors and investors' concerns about the state of public finance after the dismissal of the head of the Ministry of Finance.

The condition of the domestic bond market was different. Due to the very weak international bond markets in 2Q 2006, Polish bonds did not manage to recover their strength. The unstable international situation discouraged investors to purchase debt securities.

In comparison to the corresponding period last year, the Bank improved its derivative position in all products and segments. FX transactions still form a stable base with respect to profits and volumes for the more advanced treasury products. Additionally, the Bank introduced an Internet platform enabling customers to enter into FX derivative transactions through the Internet.

In the market of more advanced derivative products, the Bank played the leading role, providing commodities and interest rate hedging to corporate customers. The Bank offers a wide range of option products. It also provides interest rate swaps, cross currency interest rate swaps and FRA products. The structured products offer reinforced the Bank's position in the market. The Bank provided structured interest rate derivatives based on the USD yield curve to institutional investors in Poland. The offer also included the issuance of PLN structured bonds. The Bank also achieved a good result on sales of Market Linked Deposits (MLDs), which was boosted by additional features of MLDs introduced in 1Q 2005.

The Bank holds the leading position as the issue agent of short-term debt securities, with a market share of over 19%.

The Bank maintained its position as the market maker of the Polish trading markets. The high transaction volumes in the Polish bonds and interest rate derivatives, along with the very significant activity as the market maker of the Polish FX market, confirmed the Bank's influence on the liquidity of the market and stability of the financial system.

3.3 Corporate and Investment Bank

The Corporate and Investment Bank (CIB) provides comprehensive services for more than 140 largest customers, which, in addition to the basic product range, require financial engineering advice. Individual departments of the CIB coordinate treasury and financial management products and prepare offers that embrace lending, debt and equity financing, as well as mergers and acquisitions.

The Bank actively supports the development of the largest companies in Poland by providing funding, on its own account or as a member of syndicates, as well as by arranging capital market funding. The list of the strategic transactions completed in 1H 2006 includes:

- In May 2006 Citigroup Global Markets Limited (CGML) concluded an advisory agreement with one of the leading power companies. Bank Handlowy w Warszawie S.A. is the main executor of the agreement;
- In May 2006 the Bank issued 20-year public bonds for the European Investment Bank (EIB), for PLN 215 million. This was the biggest non-treasury bond issue in the Polish market this year. It is the only issue of non-treasury public bonds traded on the stock exchange. The EIB bonds listed on WSE have the longest tenor and are the only foreign bonds;
- The Treasury Structured Products Team conducted various transactions to hedge the interest rates and long foreign currency positions due to financing the biggest corporate companies. The team continued and developed its cooperation with companies with respect to risk management in the commodity markets, e.g. power and metals;
- The Bank in cooperation with CGML is the financial advisor of ComputerLand in the takeover of a controlling stake in Emax group and the subsequent consolidation of these companies. In recent years, this has been one of the larger acquisitions in the public market, and also one of the most important in the IT sector, leading to the creation of the second-biggest company in this industry;
- In 1H 2006 the Bank also issued revenue bonds for the water and sewage company of the city of Bydgoszcz for PLN 100 million, the first such municipality bonds in Central Europe.

3.4 Commercial Banking

In 1H 2006 the Bank communicated actively with the public sector, for which it organized two conferences. The first one, in February, presented the possibilities of obtaining EU funds by local authorities. This was an opportunity to make closer business contacts and develop the Bank's image with representatives of the local authorities. The second event was a conference in June, where the Bank presented a modern electronic tool – the prepaid card, which may facilitate payments by the social security centers.

The Bank has a long tradition of cooperating with the public sector. Continuing this tradition, as the first bank in Poland, an agreement was concluded with Kreditanstalt für Wiederaufbau (KfW), an institution that facilitates financing projects up to EUR 5 million, in the area of municipal infrastructure. By 30 June 2006 the Bank won bids for six credit agreements qualifying as supportable by KfW, for the total of PLN 30.8 million.

The Bank is also active in the market for medium and small enterprises. The Bank prepared educational meetings “Professionals for Professionals – Growth Strategies” for management board members and higher management of the medium and small enterprises, organized in the seven largest Polish cities.

In 2Q 2006 the Bank carried out the second edition of the marketing campaign entitled “Add the Bank to your selling tools – trade with us”, initiated in 2005. This year’s edition, called “Invest with us”, was aimed at 1,500 prospects – both manufacturers and trade companies – and based on direct communication. The offer focused on trade finance products, the electronic platform for the implementation of foreign currency transactions and leasing. The campaign was supported with attractive cooperation conditions.

3.5 Brokerage

3.5.1 Secondary Brokerage Market

In 2H 2005 there was a trend towards the 5 biggest brokerages having equal market shares and the growing market shares of brokerages providing various services to consumers. These developments are related closely to the new structure of stock exchange investors and the increasing share of consumer deals in the total trading volume. This trend is natural and follows the sustained very good market conditions, thus, it continued in 1H 2006, leading to the appearance of a new market leader (brokerage with the highest number of consumer accounts and the biggest distribution network; Dom Maklerski Banku Handlowego S.A. (DMBH) is one of the top 3 brokerages) and a reduction of the DMBH market share in 2006. However, the total transaction value of DMBH is similar to the DMBH transaction value in 2005 (giving us the leadership position in 2005, and now only a place in the top 3).

In 2H 2005 we also noted the market pressure to drop the spread. This trend, continuing in 2006, was caused by the material volume growth of all investment companies and the popularity of the Internet as an instrument for stock exchange instructions. DMBH expects that this trend will continue not only due to the above-mentioned factors but also because of legal changes and new forms of providing services, in particular the direct transactions (introduced by the *Decree of the Ministry of Finance dated 28 December 2005 on the conduct of investment companies and custody banks*), and in consequence – a reduction of transaction costs.

3.5.2 Over-the-counter market

DMBH is an intermediary in tender offers of share swaps. In 1H 2006 two transactions were completed as a result of calls announced by DMBH. On 19 January 2006 shares of Fortum Wrocław S.A. were transacted on WSE, which followed the call made by DMBH in 2005. The transaction value amounted to PLN 160 million. On 27 January 2006 DMBH called for the sale of shares in Fortum Wrocław S.A.

3.5.3 DM BH as Market Maker

DMBH commenced its independent operations on the Warsaw Stock Exchange (WSE) in 1994, firstly as a Stock Exchange Member – Specialist, and subsequently as a Market Maker. Since the beginning of the futures market on the WSE, DMBH has acted as Market Maker in the area of futures contracts for the WIG 20 index. Furthermore, for 8 years DMBH has also been the Market Organizer on the Central Table of Offers (CTO), whose operating principles are similar to those of the function of Market Maker.

The responsibilities of the Market Maker and Organizer include placing and keeping the buy and sell tickets for the same amount in order sheets for specific companies. This gives the investors the guarantee that their order will be completed, which is especially important for companies with low liquidity.

As at the end of 1H 2006 DMBH acted as Market Maker for 42 company shares, i.e. 11.5% of all shares listed on the WSE. The Market Maker function was also used for futures contracts for the WIG20 index. It is noteworthy that among companies managed by Market Makers, there were three offshore companies quoted at the same time on their parent markets. As Market Organizer on the CTO, DMBH performed operations for the USD CitiBonds investment certificate of the Mixed Investment Fund.

In 1H 2006 the share in this market segment reached 9.11% of the total turnover managed by all brokerage houses acting as market makers for the equity market.

Selected income statement and balance sheet items

Company	Headquarters	Bank's stake in company's equity	Total assets 30.06.2006	Equity 30.06.2006	Net profit/loss 1H 2006
		%			PLN thousand
Dom Maklerski Banku Handlowego S.A.	Warsaw	100,00	541,695	96,713	17,716

3.6 Leasing

On 10 January 2006 the two leasing companies belonging to the Capital Group of Bank Handlowy w Warszawie S.A., Handlowy-Leasing S.A. and Citileasing Sp. z o.o., merged. As a result of the merger, all assets of Handlowy-Leasing S.A. were transferred to Citileasing Sp.z o.o. ("Acquirer"). The acquirer changed its name from Citileasing Sp. z o.o. to Handlowy-Leasing Sp. z o.o.

Handlowy-Leasing Sp. z o.o. finances fixed assets through various leasing products. The target customer groups are small and medium enterprises as well as large corporations. Leasing services provided to the customers include a large range of transactions from small ticket (cars) to big ticket agreements (product lines).

Non-bank customers are offered asset financing within the product programs. In 2006 the financing offer, including the transport program, the machine tools program, the printing program and the plastics program, was extended by the following fixed assets:

- construction machines,
- packaging equipment, and
- machine tools for wood.

With respect to sales, special attention was given to existing bank customers. In order to increase the transaction volume, new approval principles for leasing transactions were drafted and implemented. These principles were intended to simplify and speed up the transaction approval process and cross-sell to customers of the Bank and Handlowy-Leasing Sp. z o. o. New rules of cooperation with CitiBusiness for the acquisition of prospective customers were implemented and the sales teams were strengthened.

At the end of 1H 2006, together with a professional telemarketing company, for the first time on such a large scale, a telemarketing campaign was conducted for several thousand prospective customers in order to inform them about the offer of Handlowy-Leasing Sp. z o.o. and acquire new business partners.

In 1H 2006 the company continued working on the after-sale offer. A new insurance broker was selected and, in coordination with the latter, at the beginning of June the damages service center for the customers of Handlowy-Leasing was opened.

The following table shows the value of leased assets and their structure:

Asset Type	Net value of assets leased in 1H 2006 PLN million	Change 1H06/1H05 (%)
Vehicles	125.3	35.3%
Industrial machines	36.4	10.2%
Computers and office equipment	0.7	73.7%
TOTAL	**162.4**	**28.9%**

Selected income statement and balance sheet items

Company	Headquarters	Bank's stake in company's equity %	Total assets 30.06.2006	Equity 30.06.2006	Net profit/loss 1H 2006
			PLN thousand		
Handlowy-Leasing Sp. z.o.o.	Warsaw	100,00	797,644	180,638	6,705

4. Consumer Bank

4.1 Credit Cards

As at 30 June 2006 the credit card portfolio reached 613,000. This represents a 12% increase in comparison with the corresponding period last year.

In 1H 2006 the Bank took a variety of steps to grow the number and value of transactions conducted by means of credit cards. The Bank maintained its leadership position with respect to the transaction value. The Citibank Credit Cards remain the most frequently used cards in the market.

To broaden the credit card product range, in May the Bank launched the MasterCard FIFA 2006 Credit Card to celebrate the FIFA World Cup 2006. In 2Q 2006 the Bank achieved excellent sales results with this card.

From 4 March 2006, the Bank has been offering the CitiAlerts service. It replaced the former CitiGSM service. CitiAlerts enables the customers to receive messages (SMS or email – as the customer chooses) about transactions, the available limit, the repayment date, etc. The customer can select the Standard or Premium package, priced differently and with the Premium package including additionally the online alert service.

1H 2006 was successful for the "Komfort" Installment Plan in terms of number of transactions converted into the scheme. The Bank's offer to increase the credit limit for one-off cash transactions from the card account split into repayment installments (i.e. cash loan linked to credit card) was also a success.

As part of the customer focus strategy, the Bank introduced a material change in the credit card Safety Package. With effect from 1 January 2006 the Safety Package is optional. Three new insurances were added to the package.

In April 2006 the Bank received the Golden Rock Award from MasterCard for the achievements and input in the development of the prestige card market in 2005. The award was given at the annual MasterCard Gala on 19 April 2006. The prize proves that the Bank has maintained its leadership position in the prestige card market and shows an innovative approach to the identification and satisfaction of customer needs in various segments.

4.2 Retail Banking

4.2.1 Bank accounts

In 1H 2006 the Bank conducted several marketing activities focused on acquisition of new active customers, both in the affluent segment (CitiGold offer) and the mass-affluent segment (CitiOne offer). They resulted in a significant number of new customers and, therefore, the number of customers in both segments remained stable, despite the comprehensive action of closing inactive personal accounts in 1Q 2006.

In view of the continued reduction of interest rates, the Bank continued to promote alternative distribution channels, mainly investment products and joint offers, consisting of a deposit and an investment portion, which resulted in a significant increase of the customers' savings balance.

As in previous years, customers were encouraged to use non-cash debit cards. The safety of the online access channel to the personal account (Citibank Online) was also enhanced, which made this service more popular.

4.2.2 Credit Products

The Citibank Credit Limit offer was made more attractive by reducing its interest rate. The interest rate was also differentiated depending on the type of the personal account, which led to additional advantages for CitiOne and CitiGold customers.

Also, in 1H 2006 the interest rate on Citibank Loans was adjusted to the legal provisions of the act introduced on 14 February 2006, following from the act of 7 July 2005 on the amendment of the act: The Civil Code and some other acts to limit maximum interest rates.

4.2.3 Investment Products

Since the beginning of 2006 the Bank organized 14 subscriptions to investment deposits in PLN, USD and EUR. With regard to the structured notes, there were 32 subscriptions related to various market variables, and 14 of them were prepared at the special request of CitiGold customers (G3 Segment – customers of the Investment Center).

In April 2006 the offshore funds offer was developed by addition of the Merrill Lynch International Investments Funds (MLIIF) managed by Merrill Lynch Investment Managers (Luxembourg) S.A. Nine sub-funds, available in two currencies, EUR and USD, extended the unique bank offer with respect to the offshore investment products.

The insurance and investment program with offshore funds, introduced in March 2006, contains the funds Franklin Templeton and Credit Suisse.

Until the end of January 2006 the Bank continued the media campaign of the Targeted Savings Plans with Citifunds. In May 2006, a new version of the Capital Accumulation System of Union Investment TFI S.A. was introduced.

In 1H 2006 the Bank conducted six sales events to enhance cross-sell, targeted at almost 24,000 of existing customers (letter or telephone call to a customer who had been sent a letter).

Additionally, in 1H 2006 the Bank organized a number of investment seminars for CitiGold and CitiBlue customers as well as investment workshops for the best CitiGold relationship managers (in cooperation with Union Investment TFI S.A.) and CitiBlue RMs (in cooperation with ING TFI S.A.).

4.2.4 Insurance products

In March 2006 the Bank introduced to its offer a new insurance and investment product with offshore funds – Offshore Funds Portfolio. This product was prepared in cooperation with AEGON TU na Życie S.A. (former Nationwide TU na Życie S.A.). It is offered in two currencies: EUR and USD. The Offshore Funds Portfolio enables the customer to invest in insurance capital funds, carrying diversified investment risks and potential profits. The Euro Offshore Funds Portfolio covers 5 insurance capital funds, the USD Offshore Funds Portfolio – 7 insurance capital funds. These are the Franklin Templeton and Credit Suisse funds.

In April 2006 the insurance product offer was developed by the pension insurance SuperEmerytura. This is a unique solution in the Polish market, securing life-long cash payment when the customer reaches the age of 65. After the payment of insurance premiums, the accumulated capital and generated profits can be disbursed on the monthly basis or as a single payment. The insurance coverage is provided by Sopockie Towarzystwo Ubezpieczeń na Życie Ergo Hestia SA.

In May 2006 the investment fund offer was developed within the insurance investment portfolio (AEGON). Five funds of Arka BZ WBK were added to the existing funds, in every class of assets. Also in May 2006 the Bank introduced to its offer the foreign currency option for life insurance – Guarantee Policy. The premium is paid in USD for a tenor of 3 years. The insurance bases on US bonds and offers competitive but guaranteed profits. The insurance coverage is provided by MetLife TUnŻ S.A.

4.2.5 Internet

At the end of 1H 2006 the number of customers that logged on to Citibank Online at least once exceeded 397,000, i.e. grew by 41% in comparison to the corresponding period last year. In June the number of transactions by means of Citibank Online represented over 80% of all financial transactions in the Consumer Bank. The expansion of the distribution channel is driven by an appropriate pricing policy and special offers, also for the Bank's consumer products.

The Bank also actively promotes the online electronic statement service, and registers a regular growth of users, generating, in this way, significant savings. At the end of 1H 2006 the number of users exceeded 44,000. The Bank also introduced a new service, CitiAlerts, which replaced the existing one, CitiGSM. The new service is more advanced, it offers, among other elements, online SMS notification about the account balance. At the end of June 2006 the number of users reached 67,000, i.e. it increased by 13% in comparison to the corresponding period in 2005.

4.3 CitiBusiness

Since 2004 the Bank has offered CitiBusiness services designed for small and medium-sized enterprises. The target market of CitiBusiness are business entities, regardless of their legal status, with annual sales turnover not exceeding PLN 8 million, and whose business activity has not been excluded from the Bank's target market.

The CitiBusiness offer is based on the concept of selling products and services in the form of three Product Packages. Thanks to their variety they meet all the needs of the enterprises from the target market. Packages currently available include the following: CitiBusiness Premium, for enterprises expecting prestige services and a comprehensive product offer, and CitiBusiness Rozwój, for enterprises expecting a comprehensive product offer.

Every CitiBusiness customer has its own Relationship Manager (RM). The current offer is being distributed through Consumer Banking distribution channels, such as CitiPhone 24 hours, Citibank Online electronic banking and the network of Consumer Banking branch offices and Citibank Online ATMs.

Customers can link their personal accounts and company accounts. This solution is designed for customers who conduct business activities as private individuals or who are professionals. The solution enables them to manage their company finances through their personal account. Additionally, it allows for cost reduction due to free transfers between the related accounts.

The Bank's experience, knowledge of financial services and modern technologies translate into a comprehensible, customer-friendly offer in the form of Packages, available through various channels. The CitiBusiness offering should be perceived as competitive in terms of price and should be identified with all widely known advantages of the Bank: high quality, modern services and professionalism.

The CitiBusiness offering is aimed at building the Bank's image as a partner for entrepreneurs and sole proprietors. In 1H 2006 the product team was extended to provide a basis for further development of the business.

5. CitiFinancial

CitiFinancial has been operating in Poland since September 2002 and constitutes a separate segment of the Bank specializing in the sale and maintenance of credit facilities for customers with lower income.

CitiFinancial's target market covers 15.5 million of individuals representing more than 7 million households. This is a significant market, with access guaranteed by the appealing credit offer of CitiFinancial. The majority of the target customers are employed, with regular jobs or stable sources of income. These are mostly persons that appreciate the convenient access to CitiFinancial outlets. Therefore, CitiFinancial has been dynamically developing its network of branches, located in places where the CitiFinancial target market is well represented.

CitiFinancial plans to extend the availability of its products to customers outside of large agglomerations; thus, it develops its branch network also in smaller cities.
The CitiFinancial product offer includes unsecured cash loans with an insurance option and cash loans. Granted loans are, for the Bank, an important element in building relationships with customers and offering them other products from the already existing offer, which is growing and being adjusted to their needs.

CitiFinancial, as the first company in the Polish market, introduced the debt consolidation loan. This is the most popular product among customers, and the acquisition continues to rise. The consolidation loan enables the customers to simplify their personal finances. CitiFinancial repays the customer's liabilities, and the customer – instead of having to make a number of high payments – makes just one, lower payment, and does not have to remember about the payment deadlines for all loans. The customer may also receive additional cash for any purpose.

Currently the expansion plans provide for 200 branches and authorized outlets by the end of 2008. Additionally, there are plans to invest in technology, develop systems and add card products to the offer.

6. Branch Network

In 1H 2006 the Bank continued efforts to reorganize its branch network in order to optimize operating costs and accessibility for both retail and corporate customers.
The number of corporate outlets increased by 13 in comparison to 1Q 2006 and 23 in relation to the end of year 2005, reaching, at the end of June 2006, 211 outlets, including:

1. 40 Commercial Bank branches and sub-branches, with 23 outlets serving retail customers.
2. 85 Consumer Bank branches, including 1 Investment Center, 12 branches for CitiGold Wealth Management and 72 multipurpose outlets. 13 retail outlets serve Commercial Bank customers.
3. 86 CitiFinancial branches, located in city centers and close to residential areas.

In addition, CitiFinancial opened 9 new points of sale, which are smaller and cheaper branches located in smaller towns.

In 1H 2006 the number of corporate outlets decreased to 40 (by one branch) due to the closure of the unprofitable outlet in Żywiec in 2Q 2006. The number of retail outlets serving corporate customers did not change in that time and equals 13. Corporate customers are served in 53 outlets (one less in comparison to 1Q 2006 and the end of year 2005).

In 1H 2006 the branch network of the Consumer Bank decreased by one and, and as at 30 June 2006, consisted of 85 outlets. One Citibanking branch in Warsaw was closed temporarily. Also, 22 corporate outlets also serve retail customers.

The CitiFinancial network, in 1H 2006, continued to grow dynamically, and at the end of June consisted of 95 outlets (15 more in comparison to 1Q 2006 and 9 newly opened small points of sale).

7. Changes in Information Technology

The objective of IT development is to provide optimal processes while ensuring data security and continuity, and implementation of new solutions reflecting technological progress, product needs and the regulatory environment.

In 1H 2006 the following solutions influenced the development of a leading-edge product range, improvement of its quality and efficiency, and reduction of its cost:

- Implementation of a new, more efficient way of forwarding information about transactions of the Bank’s corporate customers to the electronic banking system CitiDirect. The new solution enables faster update of customer data and facilitates the reconciliation process for transactions initiated in Citidirect;
- Introduction of a more efficient server infrastructure and implementation of a new version of the core Treasury system Kondor+;
- Automation of preparing the monthly account statements for the customers of the Dom Maklerski Banku Handlowego S.A.;
- Automation of settling transactions entered by the Treasury customers to the system CitiTreasury Online Trading;
- Implementation of a new version of the anti-money laundering software AML Dimon;
- Implementation of a model for the verification of customers by means of an eight-digit card number, which significantly simplifies the customer’s access to the Customer Service system IVR;
- Implementation of the functionality Intraday DCH in CitiGateway – a new solution for providing to customers information about accepted mass transfers (SCOL) during the day (the first such functionality in the market);
- Implementation of the functionality Transaction Prioritization & File Splitting in CitiGateway, increasing transaction processing security;
- Implementation of the partial automation of transaction processing and MIFT validation, using the available systems and integrating the Adobe Forms technologies;
- Changes in the safety of the CBOL system – introduction of payee check, which ensures that Internet banking fraud risk is minimized by introducing disposable passwords for authorization of new recipients;
- Implementation of a new system, COB-DB (Continuity of Business DataBase) to support the process of recovering the work environments in the case of failure of the primary location;

- Introduction of an automated call center for the prestigious customers of Bank Handlowy served through the SKY Branch (CitiGold Relationship Department), by means of the IVR systems;
- Migration of CitiGSM customers to CitiAlerts, enabling them to receive up-to-date information about their transactions and the Online Activation Codes for payment instructions as well as more advanced SMS services.

Another ongoing critical development, which will soon play a major role for the Group, is the adjustment of the Bank's financial reporting to the requirements of the New Capital Accord (the Basel II project) and work on the implementation of a new FlexCube version in the Bank in order to, among other factors, improve the service quality, reduce the transaction processing risk.

The total investment in IT incurred in 1H 2006 amounted to PLN 26 million in the Corporate and Investment Bank and PLN 4 million in the Consumer Bank.

8. Other Information about the Bank

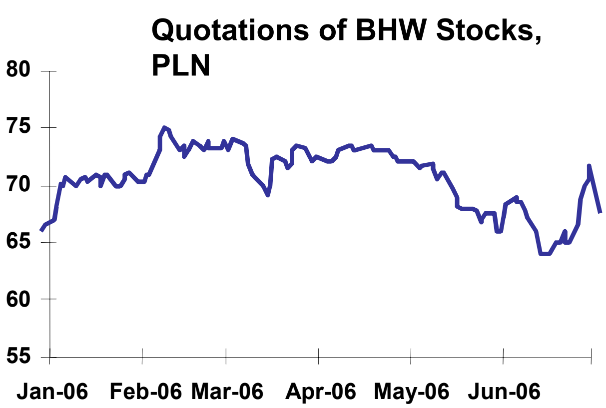
8.1 Rating

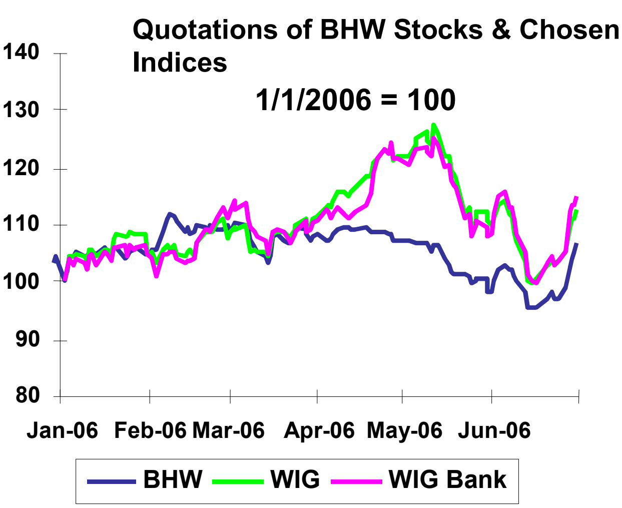
The Bank has a full rating from the international rating agency Moody's Investors Service.

Since January 2003 Moody's has maintained an A2 rating for long-term deposits (investment grade 6 on the 21 point rating scale) and Prime-1 for short-term deposits (1st on the 4 point rating scale). The Bank's ratings are at the highest level available for entities domiciled in Poland. Additionally, the Bank has a positive financial strength rating, D+.

8.2 The Bank's Performance on the Warsaw Stock Exchange

In 1H 2006 the price of the Bank's shares on the Warsaw Stock Exchange (WSE) rose from PLN 66.50 (30 December 2005) to PLN 71.60 (30 June 2006) by PLN 5.1, i.e. by 7.67%.





8.3 Interest Rates

The average interest rate used by the Bank for deposits and loans in 1H 2006 is disclosed in the explanatory notes to the Financial Statements.

8.4 Awards and Honors

In 1H 2006 the Group received the following awards and honors:

- For the second time running, the Bank won first place in the financial institutions category, in the National Ranking of Employers "Kompas", co-organized by the Students Scientific Consulting Group of the Warsaw School of Economics, SMG KRC Millward Brown Company and Radio PIN;
- The Bank was awarded the title "Company in your style" in a competition organized by the monthly magazine Twój Styl for the program Citigroup Women Poland and a training session for women;
- The Bank was honored as the Patron of the Year 2006 by the National Philharmonic in Warsaw;
- The Bank was honored by the financial monthly magazine the Bank as the best corporate bank in the ranking "50 biggest banks in Poland 2006", in the best financial performance category;
- The Bank's branch in Bydgoszcz was, for the sixth time, honored as the best bank of the Kujawsko-Pomorskie Province in the ranking "The Golden 100 of the Pomorze and Kujawy Region", organized by the newspaper Gazeta Pomorska with the honorary patronage of the President of the National Bank of Poland, the Local Authorities Head of the Kujawsko-Pomorskie Province, the Kujawsko-Pomorskie Province Head, the President of the Confederation of Polish Employers and with the media patronage of the Rzeczpospolita daily;
- The Bank was awarded the Golden Rock Award by MasterCard for excellent achievements in the development of the prestigious cards sector in 2005 in Poland;
- The Prepaid Benefit and Scholarship Cards issued by the Bank won the second-degree award for the most innovative product of 2005 in the European corporate sector, granted by the European Payments Consulting Association (EPCA) and European Card Review (ECR);
- The Bank's brokerage house DMBH was honored for the third time running by the President of the Warsaw Stock Exchange for the largest share in the equity market turnover on the WSE;
- Katarzyna Zajdel - Kurowska, the Chief Economist of Citibank Handlowy, won the 12th edition of a competition organized by the stock exchange newspaper Parkiet in the category: Economist of the year 2005;
- The team of macroeconomic analysts of the Bank, headed by Katarzyna Zajdel-Kurowska, won the first prize in the ranking of the best macroeconomic analysts in 2005, prepared by the newspaper Gazeta Giełdy Parkiet.

8.5 Sponsoring Activity and Cultural Patronage

In May 2006 the Bank sponsored a concert by the Warsaw Philharmonic Orchestra and Choir, conducted by Jerzy Semkow, and soloists: Bożena Harasimowicz - soprano, Ewa Marciniec - alto, Dariusz Stachura - tenor and Romuald Tesarowicz - bass. The cooperation with the National Philharmonic in Warsaw resulted in another Patron of the Year title for the Bank. This honor is especially important as the social activity affects the image of the Group.

9. Special purpose investment companies

In 1H 2006 the Group performed capital operations through three special purpose investment companies. The activity of these entities was financed by the Bank by contributions to equity, subordinated loans and by financial results. As a result of reducing this activity, the investment companies will be sold or liquidated in the future. According to the information available on the day of drafting these financial statements, the summary financial information of the special purpose investment companies, as at 30 June 2006, were as follows:

Company	Headquarters	Bank's stake in company's equity (%)	Total assets	Equity	Net profit/loss
				PLN thousand	
Handlowy Inwestycje Sp. z o.o.	Warsaw	100.00	18,799	13,583	7,940
Handlowy Investments S.A	Luxembourg	100.00	92,316	(70,540)	8,566
Handlowy Investments II S.a.r.l	Luxembourg	80.97	31,704	6,984	(11)

VI. Significant Risk Factors relating to the Operations of the Capital Group of Bank Handlowy w Warszawie S.A.

1. Major risk factors and threats to the Group's operating environment

1.1 Economy

Economic forecasts prepared by the Bank assume that Poland's economy should accelerate. The GDP growth rate should increase to 4.8%, as compared with 3.4% in 2005. The key driver of growth should be domestic demand – both consumption and capital expenditure should recover. The economic recovery should not contribute to inflationary pressures, thus, enabling the Monetary Policy Council to maintain the interest rate at 4.00% until the end of 2006.

The key risk in that scenario is the possible growth of employee demands, much faster than predicted and leading to a significant increase of prices as well as lower competitiveness of the Polish enterprises. An excessive rise of wages could convince the Monetary Policy Council to start tightening the monetary policy, which, in consequence, would result in a material growth of interest rates.

The persistent uncertainty about the political situation and the uncertainty about the direction of the Government's fiscal policy increase the risk of fluctuations in the financial markets. Changes in public finance may affect the way foreign investors perceive Poland's economy and, as a result, influence the exchange rate of the Polish currency. An adverse FX trend could have a negative impact on financial results and general financial standing of the Bank. Simultaneously, a possible increase in political uncertainty could hinder investment recovery, which could lead to a lower demand for the Bank's products.

1.2 Regulatory Risk

Any changes in economic policy and the legal system may significantly affect the financial situation of the Bank. Regulations of the banking sector, including regulations issued by the Finance Minister, resolutions of the Management Board of the National Bank of Poland (“NBP”), orders issued by the President of the NBP and resolutions of the Commission for Banking Supervision (“KNB”), are of utmost importance.

The most relevant regulations cover:
- acceptable concentration of loans and total receivables (Banking Act);
- maximum limit of equity that may be invested in the capital market (Banking Act);
- solvency and credit risk standards (resolutions of the KNB);
- mandatory reserves (establishment and transfers) (NBP Act, Banking Act, resolutions of the KNB and resolutions of the NBP Management Board);
- taxes and similar charges;
- the act of 7 July 2005 on the amendment of the act: The Civil Code and some other acts to limit maximum interest rates and maximum payments relating to this credit;
- restrictions in granting foreign currency loans, following Recommendation S of the KNB.

1.3 Competition within the Banking Sector

Competition between banks in different segments of the Polish banking sector seems to be strong. Companies will increasingly utilize financial alternatives to bank loans, such as issuance of short-term debt securities, bonds and shares, leasing or factoring, and will fund their operations from earnings. The pressure imposed by companies in good financial condition to reduce credit and non-credit margins will not come to an end in the near future.

After Poland’s accession to the European Union, foreign banks have shown more interest in the Polish market of banking services. Banks from the EU have now an advantage as they do not have to start from scratch or acquire a bank. An institution based in any member state of the EU has only to notify its intent to operate in another market to the European supervisory authorities. Foreign banks may operate cross-border activities in Poland, i.e. without their actual presence. By the end of 2005, the Commission for Banking Supervision received more than 100 notifications. At present, representative offices are carrying out such operations, i.e. banking institutions are opened without a registered office in Poland.

Despite the large number of institutions that have notified their intent to open operations in Poland, we do not expect significant changes in the structure of the banking sector. Those institutions that are really interested in the Polish market, and that deem it attractive, have already been developing their presence here for several years. As a result, banks operating in Poland offer products comparable with those that are distributed in other EU countries. Competition will focus on the quality of services and the efficiency and speed of customer service. The factor that could potentially reduce competition is the continued consolidation of the banking sector.

The Bank is well prepared to face European rivals, there is, however, a risk that the increasing competition could affect its earnings.

2. Major risk factors and threats to the Group's operations

2.1 Liquidity risk

As a typical feature of banking activity, maturity mismatches between loans and the funding of deposits are also experienced at the Bank. They may give rise to potential problems for current liquidity, were there to be a build-up of large payments to customers. The management of the Bank's assets and liabilities, including the regulation and control of liquidity risk, is the responsibility of the Assets and Liabilities Committee, which defines the strategy that is implemented by the Treasury Department.

The key objective of the Bank's Assets and Liabilities Committee is to manage the balance sheet structure in order to maximize profits, determine acceptable business risks, set the principles of the pricing policy and take decisions regarding the Bank's system of transfer pricing.

The Bank's Assets and Liabilities Committee is responsible for drafting and implementing a coherent policy for managing the Bank's liquidity risk, approving the annual liquidity plans and asset financing plans as well as the Bank's liquidity limits and the liquidity aspects of the COB plan. The Committee also sets triggers for specific sources of financing and conducts periodic liquidity risk reviews.

The Bank's deposit base is stable and diversified. In addition, the Bank has good access to interbank funding and a high equity. The level of liquidity risk is thus low.

2.2 Foreign Exchange Risk

The Bank performs foreign exchange operations both on behalf of its customers and on its own account, and holds open foreign exchange positions within established limits. As a result, the Bank is exposed to exchange rate risk, and there is no certainty that future movements in exchange rates will not have an adverse effect on the Bank's financial standing. The control of foreign exchange risk is the responsibility of the Market Risk Department, which cooperates with the Treasury Department, managing the foreign exchange position. The market risk is moderate, and the limit of value at risk (VaR) arising from open foreign exchange positions is established at a level below 1% of the Bank's equity.

2.3 Interest Rate Risk

As is the case with other Polish banks, the Bank is exposed to a mismatch risk regarding the interest rate changes on its assets and the underlying liabilities. The interest rate risk can arise when it is impossible to offset the fall in income caused by lower rates of interest on loans through a corresponding reduction in the rates of interest paid to depositors. This risk also applies to situations where a rise in deposit rates cannot be offset by a corresponding rise in lending rates. The management of interest rate risk is one of the functions of the Bank's Assets and Liabilities Committee, which, among other factors, develops the Bank's pricing policy in terms of interest rate risk. In opinion of the Management Board present level of interest rate risk is low.

2.4 Credit Risk

The lending and guarantee business is inherently linked with the risk of payment delinquency (in terms of both loan principal and interest), and also with the risk that the asset represented by an outstanding loan or granted guarantee will prove impossible to recover. The Group monitors its risk assets on an ongoing basis, classifies them in accordance with the relevant regulations and establishes all the requisite specific provisions against loans classified as irregular. The Bank's Management Board believes that the present level of provisions is adequate. In connection with the possibility of changes in the external environment that could have a negative impact on the financial situation of the Bank's customers, there is no certainty that in the future the need to provision adequately against the existing asset portfolio will not have an adverse effect on the Bank's financial condition, or that the provisions and collateral in place will prove sufficient to absorb the losses possibly arising on lending activity.

2.5 Equity Investment Risk

Equity investments can be divided into two categories: strategic and restructuring. The strategic portfolio includes the Bank's shares in Polish financial institutions of a strategic significance to the Bank due to their operations. The restructuring investment exposure arises from debt to equity conversion. Investments are owned directly by the Bank or indirectly via the Bank's wholly-owned special purpose investment vehicles. For some equity investments, pricing is based on the assumption of finding a strategic investor for the company, in which the Bank holds shares. Therefore, a continuous high level of foreign investment may be crucial to the valuation of such investments. Moreover, due to a number of macroeconomic effects, the situation in equity markets and other factors having an impact on activities of the companies in which the Bank is a shareholder may mean that the selling price of owned shares may turn out to be lower than expected, or even lower than their value in the Bank's books. The Bank has already created substantial provisions related to its equity investments and, hence, the risk level connected with a further drop in the value of the Bank's investment portfolio is moderate.

2.6 Contributions to the Bank Guarantee Fund

Pursuant to the Act on the Bank Guarantee Fund, the Bank is included in a mandatory deposit protection scheme for personal deposits. Banks included in this scheme are required to make specific contributions to the Fund.

Due to a general deterioration in the banking sector, or a bankruptcy or financial distress of one of the participating institutions, the Bank and other participants in the Bank Guarantee Fund may be required to make large payments to the Fund, in proportion to the individual deposit protection fund of a given entity. This could adversely affect the Bank's earnings.

VII. Development prospects of the Capital Group of Bank Handlowy w Warszawie S.A.

1. General objectives of the Group's development

The Group's objective is to systematically increase shareholder value by ensuring an appropriate return on equity and increasing the Bank's share in key market segments.

In the past year, the Bank increased its Commercial Bank customer base significantly. In the coming years, the Bank's intention will be to continue active acquisition of new customers – both consumer and corporate, with a particular emphasis on consumer banking.

Over the next few years, the Bank intends to achieve a double-digit market share, as measured by its share in the net income from banking activity generated by the banking sector. In 1H 2006 this share amounted to 6%. The market share increase is to be attained by maintaining the Bank's leading position in corporate banking and services for high net worth individuals as well as growth of consumer banking. Business areas with a high growth potential, in particular loans to private individuals (CitiFinancial) will be significantly developed.

The Bank will also place a special emphasis on its cost management policy. In 1H 2006 the Bank's share of general expenses of the banking sector was 7.4%. In the coming years, the Bank will focus on a strict cost discipline, so as to ensure a sustainable income/cost ratio above 2.0. The Bank's share in the net financial result of the banking sector in 1H 2006 exceeded 5%.

One of the Bank's priorities for the coming years is further development of the Regional Processing Center in Olsztyn, which provides settlement services for the Bank and foreign banks within Citigroup.

1.1 Commercial Banking

The Bank is a corporate banking leader in Poland. At the end of 1H 2006 its share of the corporate lending market equaled 4.7%, as compared to 6.0% at the end of 1H 2005, whereas the share in the corporate deposits market amounted to 9.1%, as compared to 9.8% in 1H 2005. The Bank's share of the short-term debt origination market, measured by outstandings, was 19.4% at the end of 1H 2006 compared to 23.0% at the end of 1H 2005.

Since 2004 the Bank has been operating on the basis of a new Customer Coverage Model. As a consequence of introducing this model, the product offering for large and medium-size domestic enterprises was expanded. The largest customers of the Bank were provided with a fully customized service.

The Bank's potential corporate banking customer base includes all companies operating in Poland, except for those belonging to sectors permanently excluded from the Bank's target market due to the Bank's policy or blacklisted as a result of sanctions imposed either by international organizations or the US government.

The Bank's position is particularly strong in servicing international corporations and the largest Polish companies. Moreover, it is the leading institution in handling money market and foreign exchange transactions. The Bank's goal is to retain its present market share in these segments. In developing relationships with the largest customers, the Bank has the significant advantage of belonging to Citigroup. The Bank is in a position to offer to these customers unique services that blend its own knowledge of the domestic business environment with the international experience and global reach of Citigroup.

Cash management, trade and treasury products will generate the majority of the Corporate Bank's revenue. The solutions and innovations in these product groups will be the key factors determining the competitive advantages of the Bank, in particular in cooperation with the most demanding international and leading domestic companies. The Bank will also aim to use the possibilities of selling these products to the large and medium-sized domestic enterprises segment to a much greater extent.

Investment banking services will continue to be offered in close cooperation between the Bank and Citigroup Global Markets. This will make it possible to offer servicing of large-scale international transactions as well as provide services to domestic companies.

1.2 Brokerage

The major customers of DMBH in terms of revenue generation are institutional investors. DMBH aims at maintaining its market share in this customer segment and seeks new institutional customers. Access to retail customers and cost efficiency of serving them will be achieved by closer cooperation of DMBH and the Consumer Bank.

1.3 Leasing

On 10 January 2006 Citileasing Spółka z o.o. merged with Handlowy-Leasing S.A., in line with resolutions adopted by the Extraordinary General Meeting of Shareholders of Citileasing Sp. z o.o. and the Extraordinary General Meeting of Shareholders of Handlowy-Leasing S.A. on 2 December 2005. Since the merger date, the leasing business is operated under the name Handlowy-Leasing Sp z o.o. The shareholders of this company are the Bank (97.47% of shares, 6,000 votes in the Partners' Meeting) and Handlowy-Inwestycje Sp. z o.o. (2.53% of shares, 156 votes in the Partners' Meeting), a company wholly-owned by the Bank.

1.4 Consumer Banking

The Bank considers that services for customers of the consumer banking sector provide the highest growth potential in the medium term.

At the end of 1H 2006 the Bank's share in lending to private individuals totaled 2.4%, that is the same as in 1H 2005, whereas at the end of 1H 2006 the market share of deposits totaled 2.2% in comparison with 2.5% at the end of 1H 2005.

The Consumer Bank is interested in cooperation with all customer segments. This is reflected in tailored product offers, taking into consideration a variety of customer needs from different market segments.

It is of key importance for the Bank to maintain the strong position in credit cards – the market in which Citigroup is the world leader. New card types as well as loyalty-building programs will be offered. The target group of customers to whom the Bank will offer its cards will be expanded.

The Bank has a very strong position in the high net worth customer segment. Our competitive advantage is that these customers are offered worldwide services.

The Bank gradually strengthens its position in this market segment thanks to CitiGold Wealth Management. The key highlight of the wealth management service is the savings and investment plan, comprising investment, insurance and banking products. The products available in the Wealth Management package include bank accounts, term deposits, investment deposits and dual-currency deposits, investment funds, treasury bills, domestic and international bonds, brokerage services, credit facilities, credit cards and insurance products. Customer funds are managed in personalized investment portfolios based on the customers' individual needs and preferences. Poland is the first European country where Citigroup introduced its CitiGold Wealth Management service.

The Bank is expanding its offer to medium-income customers with CitiOne or CitiKonto accounts. In addition to developing traditional deposit services and increasing the transactional functionality of the accounts, special emphasis will be placed on extending the investment and insurance offer. Along with the increasing customer demand for new methods of investing their savings, the Bank will expand its investment fund offer.

The Bank also continues with cash loans to low-income customers. This business is treated separately and conducted under the CitiFinancial brand, a Citigroup business specialized in lending to private individuals. The strategic goal of CitiFinancial is to be the fastest growing and most profitable venture in Poland's retail loan market, which is being implemented on the basis of stable and strong relationships with customers. Customer needs and control of product profitability are the main pillars of its plan. The main advantage is an individual approach toward every single customer to build mutually beneficial long-term cooperation. The Bank expects a dynamic growth in this area. Additionally, initiatives that help customers better manage their private finance will be continued. The Bank is aiming to expand the product offer.

1.5 Distribution Network

The Bank operates under two brands: citibank handlowy for the consumer, corporate and investment banking businesses, and citi financial for the CitiFinancial distribution channels. The priority is to build brand awareness among current and future customers targeted by these businesses.

The Bank's customer service is based on the network of outlets, relationship managers, third party direct sales agents and remotely operated distribution channels such as internet banking, call centers, IVR (interactive automatic telephone service) and multi-functional ATMs.

The Bank is streamlining the branch network by optimizing the available space, closing the least profitable outlets and merging corporate and consumer branches. In case of corporate and CitiGold customers, the crucial element of the distribution network will be the relationship managers. The network of CitiFinancial branches will be enlarged. CitiFinancial introduced a new type of outlet – smaller and cheaper, located in towns smaller than the location of the existing standard branches. This will improve the availability of CitiFinancial products to customers living outside of large agglomerations. The development plans of CitiFinancial provide for 200 branches and authorized outlets by the end of 2008.

The use of the Bank's distribution network takes into account plans of increasing the scope of activities in consumer banking and achieving synergies with the corporate bank. In the coming years, the Bank will aim to minimize operational activities in branches and completely transform them into service centers. The priority is to increase the functionality and availability of remote distribution channels and to further enhance the qualifications of relationship managers, in particular those handling large companies, demanding more sophisticated financial products. In the case of consumer banking, substantial emphasis will be placed on further growth of Internet usage (Citibank Online). As a target, the Internet is to become the basic source of conducting transactions by individuals.

The high functionality and quality of access to call centers will be maintained, through CitiPhone for Commercial Bank customers and CitiService/Customer Service for large and medium-sized companies.

2. Synergies

Wide-ranging experience and diverse operations constitute the Bank's competitive advantages, which allow it to offer to its customers comprehensive solutions by taking advantage of opportunities created by synergies between the corporate and consumer bank, between banking and brokerage services, etc.

Packages of deposit and loan products are offered to the staff of the largest corporate customers. A typical package includes personal current accounts (e.g. CitiKonto) together with payroll support facilities, credit cards and credit facilities. In addition to pricing incentives, the Bank is prepared to conduct financial educational seminars for the employees.

The Bank will also continue to sell corporate products to its consumer customers from the CitiGold segment. Specialized treasury products and brokerage services will be offered. All groups of consumer customers will be offered investment products.

VIII. Corporate Governance

1. Good Corporate Practices and Principles of Management at the Bank

As declared by the Bank's Management adopted by the resolution of 16 May 2006 and included in current report no. 30/2006 of 22 June 2006, the Bank has undertaken to follow the corporate governance practices determined in the "Good Practice for Public Companies."
The Supervisory Board issued a positive opinion on that statement (the Supervisory Board's resolution of 24 May) and, subsequently, it was approved by the General Meeting of Shareholders of 22 June 2005 (Resolution 13).

The Bank's aim is to be the most respected financial services company in Poland, with a strong sense of business and social responsibility. Since 2003 the Bank respects the corporate governance rules adopted by the Warsaw Stock Exchange in the form of the "Best Practices in Public Companies". The main purpose for adoption of the corporate governance rules as the standard in the Bank is to build transparent relationships between all entities involved in the Company and to ensure proper and diligent management of the Company and its business and ensure fairness to all shareholders.

In order to ensure transparency in Bank Handlowy w Warszawie S.A., including in particular relationships and processes between statutory bodies of the Company, the following Best Practices have been introduced in the Bank.

1.1 Investor Relations

An integrated part of the Bank's information policy, which aims to provide information to all individuals and institutions that need information about the company, are investment relations that provide the information for present and potential investors and capital market analysts. The Bank's information policy is implemented, among other things by:

- Organizing regular meetings with investors and analysts in the form of briefings and conference calls, also in the Bank's headquarters, with participation of the Management Board.
- Support from the Investment Relations Office during the quarterly press conferences for media that are organized after the publication of reports.

- Publishing on the Bank's website current information about the Bank and its businesses, and also all current and periodical reports; the website facilitates contact with the Investor Relations office, which provides information about the Group.
- Enabling media representatives to participate in General Meetings.

1.2 Transparency

The Bank permanently undertakes actions to improve transparency in the Bank's organization, division of powers and functioning of particular bodies and their mutual relations as follows:

- The Bank presents its financial statements in accordance with International Financial Reporting Standards (IFRS) since 1 January 2005.
- One half of the Supervisory Board members are independent members, including the Chairman of the Board.
- Within the Supervisory Board is the Audit Committee composed of two independent members, including the independent Chairman of the Committee.
- According to the corporate governance rules, the total value of remuneration for all members of the Management Board is included in the annual report. Remuneration of particular Management Board members reflects their scope of duties and liability.
- All significant internal regulations, information and documents related to the Company's Shareholders Meetings are available in the Company's headquarters and on its website.

1.3 Minority shareholders protection

The Bank ensures due protection of minority shareholders' rights within the limits defined by the nature of the company and primacy of the majority rule related to it. In particular, in order to ensure equal treatment of all shareholders the Bank adheres, among others, to the following rules:

- General Meetings always take place in the Company's seat in Warsaw.
- According to the practice adopted in the Company, all important materials for the General Meeting, including draft resolutions with justification and opinion of the Supervisory Board, are made available to Shareholders not later than 7 days before the date of the General Meeting, at the Company's seat and on the Bank's website.
- General Meeting has stable regulations defining detailed principles of debate management and the passing of resolutions.
- Members of the Management Board and Supervisory Board take part in General Meetings and provide explanations and information about the Bank to participants in the meeting within the limits of their competencies.
- Participants in the General Meeting objecting to a resolution are given an opportunity to provide a brief justification of their objections. Moreover, each participant in the General Meeting is given an opportunity to submit written statements to the meeting's minutes.

2. Bank's authorities and other Corporate Governance Rules

In 1H 2006, the principles of management used by the Bank were not amended. These principles are presented in Note 3 of the Bank's Financial Statements.

2.1 Changes in the Composition of the Management Board and Supervisory Board of the Bank in 1H 2006

2.1.1 Changes in the Composition of the Management Board in 1H 2006

On 1 January 2006 Mr. Witold Zieliński was appointed Vice-President of the Management Board. On 22 February 2006 Mr. Reza Ghaffari, Vice-President of the Management Board, resigned. On 28 March 2006 Mr. Edward Wess was appointed Vice-President of the Management Board.
On 21 September 2006 Mr. Sanjeeb Chaudhuri tendered his resignation from the position of Vice-President of the Management Board to the President of the Management Board.

2.1.2 Changes in the Composition of the Supervisory Board in 1H 2006

On 23 January 2006 Mr. Edward Kuczera tendered his resignation from the position of Member of the Supervisory Board to the Chairman of the Supervisory Board and ceased to be a member of the Supervisory Board as of 31 January 2005.
On 27 February 2005 the Supervisory Board appointed Mr. Krzysztof Opolski to the position of Member of the Supervisory Board.
On 19 June 2006 Mr. Frederic F. Seegers tendered his resignation from the position of Member of the Supervisory Board to the Chairman of the Supervisory Board.

In 22 June 2006 the General Meeting appointed Mr. Todd Gravino to the Supervisory Board, and the following members of the Supervisory Board were appointed for the subsequent term of office:

Mr. Stanisław Sołtysiński
Mr. Shirish Apte
Mr. Andrzej Olechowski
Mr. Goran Collert
Mr. Mirosław Gryszka
On 13 September 2006 Mr. Todd Gravino tendered his resignation from the position of Member of the Supervisory Board to the Chairman of the Supervisory Board.

2.2 Appointments and Discharges of Members of the Management Board and Powers of Members of the Management Board of the Bank

The Management Board consists of five members. The Supervisory Board appoints members of the Management Board for a 3-year term. At least half of the members of the Management Board should have Polish citizenship. Their mandate expires:

- on the date of a General Meeting that approved the Management Board's report on the Bank's operations and the financial statements for the last full financial year during which a member sat on the Management Board;
- upon death of a member of the Management Board;
- upon the discharge of a member of the Management Board;
- upon the submission of a written resignation to the Chairman of the Supervisory Board.

2.3 Powers of Members of the Management Board of the Bank

The Management Board makes decisions, by way of resolution, concerning matters that are not entrusted by law or the Articles of Association to other governing bodies of the Bank, and in particular the Management Board:

1) formulates the Bank's strategy;
2) creates and liquidates committees and determines their powers and responsibilities;
3) determines and submits to the Supervisory Board for approval its regulations;
4) determines and submits to the Supervisory Board for approval regulations of managing special funds created from net income;
5) determines dividend payment dates, on the basis of limits voted by the General Meeting;
6) appoints commercial proxies, general authorized representatives and general authorized representatives entitled to substitution;
7) decides on matters defined in the regulations of the Management Board;
8) decides on matters proposed by the President of the Management Board, a Vice-President or Member of the Management Board;
9) decides at its own discretion on the sale of purchase of real estate, perpetual usufruct or participation in a real estate;
10) adopts annual financial plans, investment plans and reports on their performance;
11) approves reports on the Bank's operations and financial statements;
12) recommends the appropriation of profits or coverage of losses,
13) approves HR and credit policy, as well as legal principles of the Bank's operations;
14) approves the capital management policy of the Bank;
15) approves the employment structure;
16) determines the basic organizational structure of the Bank, appoints and discharges heads of Sectors and Divisions, and defines their powers and responsibilities;
17) determines audit and control plans for the Bank and approves audit and control reports;
18) decides on other matters that, according to the Articles of Association, are to be submitted to the Supervisory Board or the General Meeting;
19) decides on accepting obligations or managing assets, exceeding in total value for one entity 5% of the Bank's equity or authorizes designated persons to take such decisions, however, in case of issues in the competence of Committees appointed for the Bank, such decisions are taken after consultation with the respective Committee.

2.4 Total Volume and Nominal Value of the Bank's Shares and Shares in Affiliated Companies of the Bank that are held by Members of the Management Board and the Supervisory Board of the Bank

No member of the Management Board is a shareholder of the Bank or any affiliated company of the Bank. One member of the Supervisory Board owns 1,200 shares of Bank Handlowy w Warszawie S.A.

2.5 Agreements between the Bank and Members of the Management Board of the Bank that provide for compensation in case of their resignation or discharge without appropriate justification or as a result of the Bank's takeover

There is one agreement between the Bank and a member of the Management Board that includes a provision for cash compensation in case of termination.

The provision states that when the member of the Management Board is discharged during the term of the agreement (i.e. during the term of office) and when the agreement is terminated upon 3-month notice, the member of the Management Board will be entitled to compensation in an amount equal to annual basic remuneration. Compensation will be paid within 14 days from the termination date. Compensation for the same amount will also be due in case of termination of the agreement without notice due to a serious illness pursuant to Article 53 of the Labor Code.

3. Other rules

3.1 Holders of Securities with Attached Special Control Powers towards the Bank

All the shares issued by the Bank are ordinary bearer shares and give no special control powers towards the Bank.

3.2 Limitations related to the Transfers of Ownership Title to the Bank's Securities and Limitations in the scope of Voting Rights connected with the Banks' Shares

In addition to the limitations set forth by the Banking Act (Article 25) – a person who takes or acquires more than 10%, 20%, 25%, 33%, 50%, 66% or 75% of the Bank's total shares must obtain a permit from the Commission for Banking Supervision. A permit is also required to dispose of shares, if the holder exceeded the above limits previously. The Articles of Association impose no other restrictions on transfers of the Bank's shares.

Additional information required by 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 were included in the financial statements of the Capital Group of Bank Handlowy w Warszawie S.A.

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	