Annual Report 2006

citi handlowy

Ladies and Gentlemen,

I proudly present the report of Bank Handlowy w Warszawie S.A. Capital Group for 2006 and I am firmly convinced that it confirms that we pursued our goals consistently and effectively, ensuring the growth of selected segments in the corporate and consumer banking sectors, improved cost efficiency and increased shareholder value.

Our Capital Group recorded an increase in net profits for the fifth time since the merger. In 2006, our net income amounted to PLN 657.1 million and was higher by PLN 39.0 million (or 6.3 per cent) as compared to the previous year. At the pre-tax profit level, the Capital Group earned PLN 832.1 million in 2006. Last year, the Capital Group reduced operating and overhead expenses, as well as depreciation and amortization, by a total amount of PLN 34.0 million (i.e. 2.4 per cent) as compared to 2005. The year 2006 was very fruitful for our shareholders – our shares rose by 30 per cent on the stock exchange. The turning point was a gradual increase in the volume of shares in free trade during 4Q 2006. At year-end, nearly 25 per cent of our shares were traded openly in the capital market. As a result the stock exchange turnover in our shares increased considerably.

Management Board

Management Board
From the left:
Michał H. Mrożek, Management Board Member
Witold Zieliński, Vice President of the Management Board
Sławomir S. Sikora, President of the Management Board
Sonia Wędrychowicz-Horbatowska, Vice President of the Management Board
Edward Wess, Vice President of the Management Board
Lidia Jabłonowska-Luba, Management Board Member

In 2006, Bank Handlowy w Warszawie S.A. Capital Group continued the previously adopted policy of capital investments, aimed at achieving the assumed capital structure of the Group, optimizing the financial result on capital transactions and minimizing associated risks. The ownership structure of the Capital Group changed after a series of transactions, such as the sale of 100 per cent of shares in Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A. (mutual funds company, wholly owned by the Group), the sale of 100 per cent of shares in Handlowy Zarządzanie Aktywami S.A. (asset management company, wholly owned by the Group) and the sale of all the shares (50 per cent of share capital) held in Handlowy-Heller S.A. (including shares that were owned indirectly). In addition, 2006 was a year of merger for some subsidiaries of the Bank: Citileasing Sp. z o.o. was amalgamated with Handlowy-Leasing S.A. and a new company emerged under the name Handlowy-Leasing Sp. z o.o.

In 2006, transactions settled by Dom Maklerski Banku Handlowego S.A. (DMBH – brokerage house, wholly owned by the Capital Group) exceeded PLN 35.7 billion, i.e. were higher by 1 per cent as compared to the 2005 turnover. The number of contracts cleared via DMBH rose by 198 per cent in 2006 and reached 182.021. At the end of 2006, DMBH was the animator for 43 companies, i.e. 15.4 per cent of all companies listed on the Warsaw Stock Exchange.

Biggest Transactions

The Bank's staff representatives with the European Power Deal of the Year 2006 Award made by Euromoney's Project Finance Magazine for the financing of BOT Elektrownia Bełchatów S.A.

In 2006, Handlowy-Leasing Sp. z o.o., which emerged from the merger of Handlowy-Leasing S.A. and Citileasing Sp. z o.o., signed new contacts totalling PLN 430.7 million, which means a 37 per cent increase as compared to the previous year. Since the beginning of the year, the Company intensified activities to improve its product range. Cooperation with customers of Bank Handlowy w Warszawie S.A. is still a key operating area of its business. As far as the product range and customer service are concerned, the Company developed and implemented an insurance product offer, which extended the scope of operations by a loss liquidation service. The Company signed a new brokerage agreement with Nord Partner and a new agreement with the main insurance partner – PZU.

The past year was extremely important for the Bank's corporate social responsibility initiatives brought to life via the Leopold Kronenberg Foundation operating at Bank Handlowy w Warszawie S.A. For over 10 years the Foundation has inspired us to great things by supporting programs promoting the public good in the area of financial education and promotion of entrepreneurship – especially those addressed to young people, strongly believing, that it is them who will shape our future and the future of our country. The Kronenberg Foundation also supports local development initiatives by offering grants to foundations and associations operating in the area of healthcare, social policy and entrepreneurship teaching, as well as in the area of culture, and especially cultural heritage. In recognition for its commitment to corporate social responsibility Bank Handlowy w Warszawie S.A., for the second consecutive year, was awarded the main prize in the Colors of Volunteering Competition in the Employee Volunteering Category.

Best Credit Cards

In 2006 Citibank Credit Cards were the most frequently used credit cards in the Polish market.

As one of the top priority goals for 2007, the Group of Bank Handlowy w Warszawie S.A. has adopted the steady growth of shareholder value by ensuring an appropriate return on equity and by increasing the market share of the Bank and its subsidiaries in the key market segments. This year will be a breakthrough year for Bank Handlowy w Warszawie S.A. due to the implementation of the "Single Bank" strategy. We want to make better use of our potential in retail and corporate banking segments and to strengthen synergy effects both in the area of products and common distribution network. Our corporate customers increasingly often play different roles. At any given moment they could be making choices as managers, individual consumers and owners. Our approach is a response to their needs. In 2007 the Bank plans to roll out the "Customer First" Program and in this way to improve customer satisfaction. On the other hand, the brokerage house, Dom Maklerski Banku Handlowego S.A., intends to maintain its share in the institutional customers segment and intensify efforts to attract new individual customers in 2007. As primary development directions for 2007, Handlowy-Leasing assumed an increase in cross-sell with the Bank's customers, continued efforts to support positive trends of sales under various product programs and development of the small transaction segment, which is a complete novelty for the company.

Best Firm

While handing over this report to you, I would like to thank our staff for their commitment and contribution to strengthen our market position. On behalf of the Management Board, I also want to thank the Supervisory Board for fruitful co-operation in the previous year, and our Customers and Shareholders for the trust they placed in our institution.

Sławomir S. Sikora

President of the Management Board

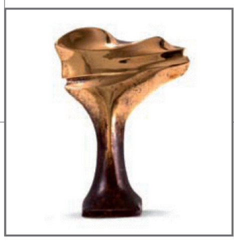
Firm of the Year 2006 Award made by the Jury of the Polish Business Club for the first in Poland comprehensive and individualized offer for small- and medium-sized companies.

Awards won in 2006

Benefactor of the Year

The title "Patron of the Year 2006" awarded by the National Philharmonic in Warsaw.

Firm of the Year



The Firm of the Year 2006 Award for the first in Poland comprehensive and individualized offer for small- and medium-sized companies.

Best Transaction

The European Power Deal of the Year 2006 awarded by Euromoney's Project Finance Magazine.

Europroduct Award

Europroduct Award for Micropayments, investment loan for SME as well as Comprehensive Cash Service and eTrade electronic platform.

Best Employee Volunteer Program

The Best Employee Volunteer Program in Poland in the Colors of Volunteering competition 2006.

Best Internet Bank

The Best Corporate/ Institutional Internet Bank in Poland in 2006 in the Global Finance magazine survey of the World's Best Internet Banks.

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Until June 15, 2007 the logo of Bank Handlowy w Warszawie S.A. was citibank handlowy.

citi handlowy

Bank Handlowy w Warszawie S.A. Group

Opinion and Report of the Independent Auditor

Financial Year ended 31 December 2006

citi handlowy

OPINION OF THE INDEPENDENT AUDITOR

To the General Meeting of Bank Handlowy w Warszawie S.A.

We have audited the accompanying consolidated financial statements of Bank Handlowy w Warszawie S.A. Group seated in Warszawa, 16 Senatorska Street ("Group"), which comprise the consolidated balance sheet as at 31 December 2006, with total assets and total liabilities and equity of PLN 35 990 735 thousand, the consolidated profit and loss account for the year then ended with a net profit of PLN 657 056 thousand, the consolidated statement of changes in equity for the year then ended with an increase in equity of PLN 169 204 thousand, the consolidated cash flow statement for the year then ended with an increase in cash amounting to PLN 315 822 thousand and notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory notes.

Management of the parent bank is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by European Union and with other applicable regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility, based on our audit, is to express an opinion on these consolidated financial statements. We conducted our audit in accordance with section 7 of the Accounting Act dated 29 September 1994 (Official Journal from 2002, No. 76, item 694 with amendments) ("the Accounting Act"), the professional standards established by the Polish National Council of Certified Auditors and International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the accompanying consolidated financial statements of Bank Handlowy w Warszawie S.A. Group have been prepared and present fairly, in all material respects, the financial position of the Group as at 31 December 2006 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union, and are in compliance with the respective regulations that apply to the consolidated financial statements, applicable to the Group.

As required under the Accounting Act we also report that the Report of the Management Board on the Group's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 October 2005 on current and periodic information provided by issuers of securities (Official Journal from 2005, No. 209, item 1744) and the information is consistent with the consolidated financial statements.

Signed on the Polish original

....
Certified Auditor No. 9941/7390
Bożena Graczyk

Signed on the Polish original

....
For KPMG Audyt Sp. z o.o.
ul. Chłodna 51; 00-867 Warsaw
Certified Auditor No. 9941/7390
Bożena Graczyk
Member of the Management Board

Signed on the Polish original

....
For KPMG Audyt Sp. z o.o.
ul. Chłodna 51; 00-867 Warsaw
Robert J. Widdowson
Partner

Warsaw, 16 March 2007

Bank Handlowy w Warszawie S.A. Group

Report supplementing the auditor's opinion on the consolidated financial statements

Financial Year ended 31 December 2006

1 General

1.1 Identification of the Group

1.1.1 Name of the Group

Bank Handlowy w Warszawie S.A. Group

1.1.2 Registered office of the Parent Bank of the Group

16 Senatorska Street
00-923 Warszawa
Poland

1.1.3 Registration of the Parent Bank in the National Court Register

Seat of the court:	District Court in Warszawa, XII Commercial Department of the National Court Register
Data:	22 February 2001
Registration number:	KRS 0000001538

1.1.4 Registration of the Parent Bank in the Tax Office and Statistical Office

NIP: 526-030-02-91
REGON: 000013037

1.2 Information about entities comprising the Group

1.2.1 Entities included in the consolidated financial statements

As at 31 December 2006, the following entities were consolidated by the Group:

Parent Bank:

- Bank Handlowy w Warszawie S.A.

Subsidiaries consolidated on the full consolidation basis:

- Dom Maklerski Banku Handlowego S.A.
- Handlowy-Leasing Sp. z o.o.
- Handlowy Investments S.A.
- PPH Spomasz Sp. z o.o. in liquidation

Handlowy Investments S.A., the Bank's subsidiary, was subject to consolidation for the first time in the financial year ended on 31 December 2006.

1.2.2 Entities excluded from consolidation

As at 31 December 2006, the following subsidiaries of the Group were not consolidated:

- Bank Rozwoju Cukrownictwa S.A.
- Handlowy Investments II S.a.r.l.
- Handlowy Inwestycje Sp. z o.o.

The entities are immaterial in relation to the consolidated financial statement taken as a whole and represent 0.3% of the Group's total assets and 0.5% of the Group's net income without elimination of intercompany transactions.

1.3 Auditor information

Name: KPMG Audyt Sp. z o.o.
Registered office: Warsaw
Address: ul. Chłodna 51, 00-867 Warsaw
KRS number: 0000104753
Registration court: District Court for the Capital City Warsaw in Warsaw, XII Commercial Department of the National Court Register
Share capital: PLN 125,000
NIP number: 526-10-24-841

KPMG Audyt Sp. z o.o. is entered in the register of entities authorised to audit financial statements under number 458.

1.4 Legal status

1.4.1 Share capital

The Parent Bank was established under the Notarial Deed dated 13 April 1870.

The share capital of the Parent Bank amounted to PLN 522 638 400 as at 31 December 2006 divided into 130 659 600 ordinary shares with a nominal value of PLN 4 each.

As at 31 December 2006, the shareholder structure was as follows:

Name of the Shareholder	Number of shares	Voting rights (%)	Nominal value of shares PLN'000	Percentage of share capital (%)
Citibank Overseas Investment Corporation, USA	97 994 700	75.0	391 979	75.0
Other shareholders	32 664 900	25.0	130 659	25.0
Total	**130 659 600**	**100.0**	**522 638**	**100.0**

During 2006 the subsidiary of COIC – International Finance Associates B.V., decreased its investment in the Bank's shares below 5%.

1.4.2 Management of the Parent Bank

The Management Board is responsible for management of the Parent Bank.

At 31 December 2006, the Management Board of the Parent Bank was comprised of the following members:

- Sławomir S. Sikora – President of the Management Board
- Edward Wess – Vice-president of the Management Board
- Sonia Wędrychowicz-Horbatowska – Vice-president of the Management Board
- Witold Zieliński – Vice-president of the Management Board
- Lidia Jabłonowska-Luba – Member of the Management Board
- Michał H. Mrożek – Member of the Management Board

During 2006 the following changes in composition of the Bank's Management Board took place:

- on 1 January 2006 Witold Zieliński was appointed a Vice-president of the Bank's Management Board;
- on 22 February 2006 Reza Ghaffari, Vice-president of the Bank's Management Board, resigned from his position;
- on 28 March 2006 Edward Wess was appointed a Vice-president of the Bank's Management Board;
- on 21 September 2006 Sanjeeb Chaudhuri resigned from the position of Vice-president of the Bank's Management Board;
- on 1 October 2006 Sonia Wędrychowicz-Horbatowska was appointed a Vice-president of the Bank's Management Board.

There were no changes in the composition of the Bank's Management Board during 2007 up to the date of the audit opinion on the Bank's financial statements for the year ended 31 December 2006

1.4.3 Scope of activities

The business activities listed in the Parent Bank's Statute include the following:

- accepting call and term deposits as well as maintaining deposit accounts,
- maintaining other bank accounts,
- domestic and international cash settlements,
- granting credits and cash loans,
- accepting cheques, bills of exchange and warrants,
- granting and confirming sureties,
- issuing and confirming bank guarantees and letters of credit,
- purchasing and selling foreign currencies,
- intermediation in money transfers and foreign exchange settlements,
- issuing bank's securities,
- providing services relating to securities issue,
- safe-keeping of valuables and securities and providing bank safes,
- issuing and processing credit cards and performing the related operations,
- acquiring and selling receivables,
- performing term financial operations and other.

The business activities of subsidiaries include the following:

• Dom Maklerski Banku Handlowego S.A. – brokerage activities

• Handlowy-Leasing Sp. z o.o. – leasing activities

• Handlowy Investments S.A. – investment activities

• PPH Spomasz Sp. z o.o. in liquidation – production of machinery and equipment

1.5 Prior period consolidated financial statements

The consolidated financial statements for the financial year ended 31 December 2005 were audited by KPMG Audyt Sp. z o.o. and received an unqualified opinion.

The consolidated financial statements were approved at the General Meeting on 22 June 2006.

The closing balances as at 31 December 2005 have been properly recorded as the opening balances of the audited year.

The consolidated financial statements were submitted to the Registry Court on 7 July 2006 and were submitted for publishing in Monitor Polski B on 28 June 2006.

1.6 Audit scope and responsibilities

This report was prepared for the General Meeting of Bank Handlowy w Warszawie S.A. seated in Warszawa, 16 Senatorska Street, and relates to the consolidated financial statements comprising: the consolidated balance sheet as at 31 December 2006, with total assets and total liabilities and equity of PLN 35 990 735 thousand, the consolidated profit and loss account for the year then ended with a net profit of PLN 657 056 thousand, the consolidated statement of changes in equity for the year then ended with an increase in equity of PLN 169 204 thousand, the consolidated cash flow statement for the year then ended with an increase in cash amounting to PLN 315 822 thousand, and the notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory notes.

The Group prepares its financial statements in accordance with International Financial Reporting Standards as adopted by the European Union on the basis of the decision of Extraordinary General Meeting dated 7 December 2004.

The consolidated financial statements have been audited in accordance with the contract dated 16 November 2006, concluded on the basis of the resolution of Supervisory Board dated 28 March 2006 on the appointment of the auditor.

We conducted the audit in accordance with section 7 of the Accounting Act, the professional standards established by the Polish National Council of Certified Auditors and International Standards on Auditing.

We audited the consolidated financial statements in the Parent Bank's head office and branches during the period from 16 November 2006 to 12 March 2007.

Management of the Parent Bank is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations.

Our responsibility is to express an opinion, and to prepare a supplementing report, on the financial statements.

The Management Board of the Parent Bank submitted a statement, dated the same date as this report, as to the true and fair presentation of the consolidated financial statements presented for audit, which confirmed that there were no undisclosed matters which could significantly influence the information presented in the consolidated financial statements.

All our requests for additional documents and information necessary for expressing our opinion and preparing the report have been fulfilled.

KPMG Audyt Sp. z o.o., the members of its Management Board and Supervisory Board and other persons involved in the audit of the consolidated financial statements fulfil independence requirements from the companies included in the Group. The scope of the work planned and performed has not been limited in any way. The method and scope of our audit is detailed in working papers prepared by us and retained in the offices of KPMG Audyt Sp. z o.o.

1.7 Information on audits of the financial statements of the consolidated entities

1.7.1 Parent Bank

The financial statements of the Parent Bank for the year ended 31 December 2006 were audited by KPMG Audyt Sp. z o.o., certified auditor number 458, and received an unqualified opinion.

1.7.2 Other consolidated entities

Entity's name	Authorised auditor	Financial year end	Type of auditor's opinion
Dom Maklerski Banku Handlowego S.A.	KPMG Audyt Sp. z o.o.	31.12.2006	audit in progress
Handlowy-Leasing Sp. z o.o.	KPMG Audyt Sp. z o.o.	31.12.2006	audit in progress
Handlowy Investments S.A.	KPMG Audit S.a.r.l.	28.02.2006	audit not started yet
PPH Spomasz Sp. z o.o. in liquidation	Was not a subject to audit for the year ended 31 December 2006		

The financial statements of Handlowy Investments S.A. are audited by certified auditors other than KPMG Audyt Sp. z o.o. The total assets presented in the financial statements of this entity as at 31 December 2006 amount to 0.1% of the total consolidated assets of the Group before consolidation eliminations and the revenues of this entity for the financial year ended 31 December 2006 amount to 3.7% of the consolidated revenues of the Group, before eliminations of intercompany transactions.

2 Financial analysis of the Group

2.1 Summary of the consolidated financial statements

2.1.1 Consolidated balance sheet

ASSETS	31.12.2006 PLN'000	% of total	31.12.2005 PLN'000	% of total
Cash and balances with Central Bank	535 623	1.49%	922 649	2.81%
Financial assets held for trading	4 556 471	12.66%	5 883 358	17.89%
Debt securities available for sale	8 247 313	22.92%	7 171 157	21.81%
Equity investments accounted for under the equity method	67 910	0.19%	61 884	0.19%
Other equity investments	54 618	0.15%	66 419	0.20%
Loans and advances	19 516 218	54.23%	16 006 146	48.68%
to financial sektor	*9 319 272*	*25.89%*	*6 399 053*	*19.46%*
to non-financial sektor	*10 196 946*	*28.34%*	*9 607 093*	*29.22%*
Property and equipment	638 246	1.77%	700 212	2.13%
land, buildings and equipment	*628 860*	*1.74%*	*659 264*	*2.01%*
investment property	*9 386*	*0.03%*	*40 948*	*0.12%*
Intangible assets	1 285 753	3.57%	1 313 799	4.00%
Deferred tax assets	274 124	0.76%	283 044	0.86%
Other assets	801 920	2.23%	431 182	1.32%
Non-current assets held for sale	12 539	0.03%	37 714	0.11%
TOTAL ASSETS	**35 990 735**	**100.00%**	**32 877 564**	**100.00%**

EQUITY AND LIABILITIES	31.12.2006 PLN'000	% of total	31.12.2005 PLN'000	% of total
Liabilities				
Due to Central Bank	250 113	0.69%	-	-
Financial liabilities held for trading	3 316 847	9.22%	3 420 219	10.40%
Financial liabilities valued at amortized cost	25 991 136	72.22%	23 062 763	70.15%
Deposits from	*25 036 782*	*69.57%*	*22 463 330*	*68.32%*
financial sector	*6 156 605*	*17.11%*	*5 201 677*	*15.82%*
non-financial sector	*18 880 177*	*52.46%*	*17 261 653*	*52.50%*
Other liabilities	*954 354*	*2.65%*	*599 433*	*1.83%*
Provisions	44 378	0.12%	56 251	0.17%
Income tax liabilities	5 687	0.02%	163 311	0.50%
Other liabilities	964 771	2.68%	919 092	2.80%
Liabilities held for sale	-	-	7 329	0.02%
Total Liabilities	**30 572 932**	**84.95%**	**27 628 965**	**84.04%**
Equity				
Share capital	522 638	1.45%	522 638	1.59%
Share Premium	3 027 470	8.41%	3 010 452	9.16%
Revaluation reserve	(81 501)	-0.23%	(64 554)	-0.20%
Other reserves	1 407 081	3.91%	1 196 052	3.64%
Retained earnings	542 115	1.51%	584 011	1.77%
Total equity	**5 417 803**	**15.05%**	**5 248 599**	**15.96%**
TOTAL EQUITY AND LIABILITIES	**35 990 735**	**100.00%**	**32 877 564**	**100.00%**

2.1.2 Consolidated profit and loss account

	01.01.2006 - 31.12.2006 PLN'000	01.01.2005 - 31.12.2005 PLN'000
Interest and similar income	1 632 218	1 676 797
Interest expense and similar charges	(605 817)	(648 503)
Net interest income	**1 026 401**	**1 028 294**
Fee and commission income	782 735	714 996
Fee and commission expense	(164 833)	(118 675)
Net fee and commission income	**617 902**	**596 321**
Dividend income	3 659	2 095
Net trading income and revaluation	315 906	474 896
Net gain on investment debt securities	36 571	121 841
Net gain on investment equity instruments	95 846	15 544
Other operating income	128 373	136 336
Other operating expenses	(39 617)	(61 246)
Net other operating income	**88 756**	**75 090**
General administrative expenses	(1 371 372)	(1 405 330)
Depreciation expense	(130 186)	(140 296)
Profit/(loss) on sale of assets	118 316	3 324
Net impairment charge	22 535	30 185
Net operating profit	**824 334**	**801 964**
Share in profits/(losses) of undertakings accounted for under the equity method	7 780	(5 686)
Profit before tax	**832 114**	**796 278**
Income tax expense	(175 058)	(178 177)
Net profit	**657 056**	**618 101**
Weighted average number of ordinary shares	130 659 600	130 659 600
Earnings per ordinary share (in PLN)	5.03	4.73
Diluted earnings per ordinary share (in PLN)	5.03	4.73

2.2 Selected financial ratios

	31.12.2006	31.12.2005
Total assets (PLN'000)	35 990 735	32 877 564
Gross profit (PLN'000)	832 114	796 278
Net profit (PLN'000)	657 056	618 101
Shareholders' equity* (PLN'000)	4 760 747	4 630 498
Return on equity*	13.80%	13.35%
Capital adequacy ratio	14.10%	14.78%
Receivables to total assets	54.23%	48.68%
Income generating assets to total assets	90.14%	88.78%
Interest bearing liabilities to total liabilities	82.13%	80.55%

**excluding current year net profit*

2.3 Interpretation of selected financial ratio

Changes in the most significant items of the balance sheet and the profit and loss account are described below.

The total assets of the Group increased by PLN 3 113 171 thousand (or 9.5%). The increase in assets resulted mainly from increase in loans and advances of PLN 3 510 072 thousand (or 21.9%) and in debt securities available for sale of PLN 1 076 156 thousand (or 15.0%), partially off-set by a decrease in financial assets held for trading of PLN 1 326 887 thousand (or 22.6%).

The increase in liabilities results mainly from an increase in financial liabilities valued at amortized cost which increased by PLN 2 928 373 thousand (or 12.7%).
The Group profit before tax for the year ended 31 December 2006 amounted to PLN 832 114 thousand and increased by PLN 35 836 thousand (or 4.5%) compared to the year ended 31 December 2005. The increase in gross profit results mainly from gain on disposal of assets which increased by PLN 114 992 thousand (or 3459.4%), net gain on investment equity instruments of PLN 80 302 thousand (or 516.6%), net fee and commission income of PLN 21 581 thousand (or 3.6%), an increase of net other operating income of PLN 13 666 thousand (or 18.2%) and decrease in general administrative expenses of PLN 33 958 thousand (or 2.4%) partially off-set by decrease in net trading income and revaluation of PLN 158 990 thousand (or 33.5%) and decrease in net gain of investments debt securities of PLN 85 270 thousand (or 70.0%).

The Group's net profit for the year ended 31 December 2006 amounted to PLN 657 056 thousand and increased by PLN 38 955 thousand (or 6.3%) compared to the year ended 31 December 2005.

3 Detailed report

3.1 Accounting principles

The Parent Bank maintains current documentation describing the accounting principles applied by the Group and adopted by the Management Board of the Parent Bank.

The accounting principles are described in the notes to the consolidated financial statements to the extent required by International Financial Reporting Standards as adopted by the European Union.

Entities included in the Group apply common accounting principles consistent with the accounting principles applied by the Parent Bank.

Except for Handlowy Investments S.A., the financial statements of the entities included in the consolidated financial statements were prepared at the same balance sheet date as the financial statements of the Parent Bank. With respect to Handlowy Investments S.A., the requirements of International Financial Reporting Standards as adopted by the European Union were followed.

3.2 Basis of preparation of the consolidated financial statements

The consolidated financial statements of The Bank Handlowy w Warszawie S.A. Group were prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations.

The consolidated financial statements were prepared on the basis of the consolidation documentation prepared in accordance with the requirements of the Decree of the Ministry of Finance dated 12 December 2001 regarding the consolidated financial statements of banks and consolidated financial statements of financial holding companies (Official Journal from 2001, No. 152, item 1728).

3.3 Method of consolidation

The method of consolidation is described in note 2 of the notes to the consolidated financial statements.

3.4 Consolidation of equity

The share capital of the Group is equal to the share capital of the Parent Bank.

Other equity items of the Group are determined by adding the equity balances of subsidiaries included in the consolidated financial statements in the proportion reflecting the Parent Bank's share in the subsidiaries' equity as at the balance sheet date to the corresponding positions of the equity of the Parent Bank.

Only equity of subsidiaries arising after the Parent Bank obtained control of the subsidiary is included in the equity of the Group.

3.5 Consolidation eliminations

Intercompany balances within the Group were eliminated on consolidation.

Transactions between entities and other intercompany operating incomes and expenses and financial incomes and expenses were eliminated on consolidation.

The consolidation eliminations were based on the accounting records of Bank Handlowy w Warszawie S.A. and agreed with information received from the subsidiaries.

3.6 Compliance with banking regulations

Based on our audit we have not identified any significant deviations in the Parent Bank's compliance with the banking regulatory norm pertaining among others to loan concentration, obligatory reserve and capital adequacy ratio.

3.7 Audit materiality

We have planned and applied an appropriate level of precision in conducting our audit procedures in order to obtain reasonable assurance about whether the consolidated financial statements taken as a whole are free of material misstatements.

3.8 Notes to the consolidated financial statements

All information included in the notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory notes, is, in all material respects, presented accurately and completely. This information should be read in conjunction with the consolidated financial statements taken as a whole.

3.9 Report of the Management Board of the Parent Bank on the Group's activities

The Report of the Management Board of the Parent Bank on the Group's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 October 2005 on current and periodic information provided by issuers of securities (Official Journal from 2005, No. 209, item 1744) and the information is consistent with the consolidated financial statements.

3.10 Information on the opinion of the independent auditor

Based on our audit of the consolidated financial statements of the Group as at and for the year ended 31 December 2006, we have issued an unqualified opinion.

Signed on the Polish original

....
Certified Auditor No. 9941/7390
Bożena Graczyk

Signed on the Polish original

....
For KPMG Audyt Sp. z o.o.
ul. Chłodna 51, 00-867 Warsaw
Certified Auditor No. 9941/7390
Bożena Graczyk
Member of the Management Board

Signed on the Polish original

....
For KPMG Audyt Sp. z o.o.
ul. Chłodna 51, 00-867 Warsaw
Robert J. Widdowson
Partner

Warsaw, 16 March 2007

The Annual Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. as at 31 December 2006

Selected financial data

	In PLN'000		In EUR'000**	
	2006	2005	2006	2005
Interest income	1,632,218	1,676,797	418,614	416,772
Fee and commission income	782,735	714,996	200,748	177,714
Profit before tax	832,114	796,278	213,412	197,917
Net profit	657,056	618,101	168,515	153,630
Increase/decrease of net cash	315,822	33,184	82,434	8,214
Total assets	35,990,735	32,877,564	9,394,115	8,517,945
Due to Central Bank	250,113	-	65,283	-
Financial liabilities valued at amortized cost	25,991,136	23,062,763	6,784,072	5,975,119
Shareholders' equity	5,417,803	5,248,599	1,414,127	1,299,126
Share capital	522,638	522,638	136,416	129,363
Number of shares	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN/EUR)	41.47	40.17	10.82	9.94
Capital adequacy ratio (%)	14.10	14.78	14.10	14.78
Earnings per ordinary share (PLN/EUR)	5.03	4.73	1.29	1.18
Diluted net profit per ordinary share (in PLN)	5.03	4.73	1.29	1.18
Declared or distributed dividends per ordinary share (PLN/EUR)*	4.10	3.60	1.07	0.93

**The presented ratios are related to, respectively: declared dividends from the appropriation of the 2006 profit as well as from dividends distributed in 2006 from the appropriation of the 2005 profit and from retained earnings.*
***The following foreign exchange rates were applied to transfer PLN into EUR: for the balance sheet – NBP mid exchange rate as at 31 December 2006 of PLN 3.8312 (as at 31 December 2005: PLN 3.8598); for the income statement – the arithmetic average of month – end NBP exchange rates in 2006 – PLN 3.8991 (in 2005: PLN 4.0233).*

Consolidated income statement

In thousands of PLN	Note	2006	2005
Interest and similar income	4	1,632,218	1,676,797
Interest expense and similar charges	4	(605,817)	(648,503)
Net interest income	4	**1,026,401**	**1,028,294**
Fee and commission income	5	782,735	714,996
Fee and commission expense	5	(164,833)	(118,675)
Net fee and commission income	5	**617,902**	**596,321**
Dividend income	6	3,659	2,095
Net trading income and revaluation	7	315,906	474,896
Net gain on investment (deposit) securities	8	36,571	121,841
Net gain on investment (capital) instruments	9	95,846	15,544
Other operating income		128,373	136,336
Other operating expenses		(39,617)	(61,246)
Net other operating income	10	**88,756**	**75,090**
General administrative expenses	11	(1,371,372)	(1,405,330)
Depreciation expense	12	(130,186)	(140,296)
Profit/(loss) on sale of tangible fixed assets	13	118,316	3,324
Net impairment charges	14	22,535	30,185
Operating income		**824,334**	**801,964**
Share in profits/(losses) of undertakings accounted for under the equity method		7,780	(5,686)
Profit before tax		**832,114**	**796,278**
Income tax expenses	15	(175,058)	(178,177)
Net profit		**657,056**	**618,101**
Weighted average number of ordinary shares	16	130,659,600	130,659,600
Net profit per ordinary share (in PLN)	16	5.03	4.73
Diluted net profit per ordinary share (in PLN)	16	5.03	4.73

Consolidated balance sheet

In thousands of PLN	Note	31.12.2006	31.12.2005
ASSETS			
Cash and balances with Central Bank	17	535,623	922,649
Financial assets held-for-trading	18	4,556,471	5,883,358
Debt securities available-for-sale	19	8,247,313	7,171,157
Equity investments accounted for under the equity method	20	67,910	61,884
Other equity investments	21	54,618	66,419
Loans and advances	22	19,516,218	16,006,146
to financial sector		*9,319,272*	*6,399,053*
to non-financial sector		*10,196,946*	*9,607,093*
Property and equipment	24	638,246	700,212
land, buildings and equipment		*628,860*	*659,264*
investment property		*9,386*	*40,948*
Intangible assets	25	1,285,753	1,313,799
Deferred income tax assets	27	274,124	283,044
Other assets	28	801,920	431,182
Non-current assets held-for-sale	29	12,539	37,714
Total assets		**35,990,735**	**32,877,564**
LIABILITIES			
Due to Central Bank		250,113	-
Financial liabilities held-for-trading	18	3,316,847	3,420,219
Financial liabilities valued at amortized cost	30	25,991,136	23,062,763
deposits from		*25,036,782*	*22,463,330*
financial sector		*6,156,605*	*5,201,677*
non-financial sector		*18,880,177*	*17,261,653*
other liabilities		*954,354*	*599,433*
Provisions	31	44,378	56,251
Income tax liabilities	27	5,687	163,311
Other liabilities	32	964,771	919,092
Liabilities held-for-sale	29	-	7,329
Total liabilities		**30,572,932**	**27,628,965**
EQUITY			
Issued capital	33	522,638	522,638
Share premium	33	3,027,470	3,010,452
Revaluation reserve	33	(81,501)	(64,554)
Other reserves	33	1,407,081	1,196,052
Retained earnings		542,115	584,011
Total equity		**5,417,803**	**5,248,599**
Total liabilities and equity		**35,990,735**	**32,877,564**

Consolidated statement of changes in equity

In thousands of PLN	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total equity
Balance as at 1 January 2005	**522,638**	**3,077,176**	**(9,371)**	**2,130,962**	**517,286**	**6,238,691**
Effects of transition to IFRS*	-	-	2,479	-	28,915	31,394
Balance as at 1 January 2005	**522,638**	**3,077,176**	**(6,892)**	**2,130,962**	**546,201**	**6,270,085**
Impact of expanded consolidation scope	-	-	-	111,289	(126,375)	(15,086)
Balance as at 1 January 2005 - after restatement	**522,638**	**3,077,176**	**(6,892)**	**2,242,251**	**419,826**	**6,254,999**
Valuation of financial assets available-for-sale	-	-	50,653	-	-	50,653
Transfer of valuation of sold financial assets available-for-sale to profit and loss account	-	-	(121,841)	-	-	(121,841)
Deferred income tax on valuation of financial assets available-for-sale	-	-	13,526	-	-	13,526
Foreign exchange gains and losses	-	-	-	(2,773)	(71)	(2,844)
Net profit	-	-	-	-	618,101	618,101
Dividends to be paid	-	(100,000)	-	(1,049,804)	(414,191)	(1,563,995)
Transfers to capital	-	33,276	-	6,378	(39,654)	-
Closing balance as at 31 December 2005	**522,638**	**3,010,452**	**(64,554)**	**1,196,052**	**584,011**	**5,248,599**

**in respect of IAS 32, IAS 39 and IAS 40*

In thousands of PLN	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total equity
Balance as at 1 January 2006	**522,638**	**3,010,452**	**(64,554)**	**1,196,052**	**584,011**	**5,248,599**
Valuation of financial assets available-for-sale	-	-	15,649	-	-	15,649
Transfer of valuation of sold financial assets available-for-sale to profit and loss account	-	-	(36,571)	-	-	(36,571)
Deferred income tax on valuation of financial assets available-for-sale	-	-	3,975	-	-	3,975
Foreign exchange gains and losses	-	-	-	(881)	351	(530)
Net profit	-	-	-	-	657,056	657,056
Dividends to be paid	-	-	-	-	(470,375)	(470,375)
Transfers to capital	-	17,018	-	211,910	(228,928)	-
Closing balance as at 31 December 2006	**522,638**	**3,027,470**	**(81,501)**	**1,407,081**	**542,115**	**5,417,803**

Consolidated statement of cash flows

In thousands of PLN	2006	2005
A. Cash flows from operating activities		
I. Net profit (loss)	**657,056**	**618,101**
II. Adjustments to reconcile net profit or loss to net cash provided by operating activities:	**46,322**	**1,623,198**
Current and deferred tax income, recognized in income statement	175,058	178,177
Share in profits/(losses) of undertakings accounted for under the equity method	(6,028)	5,686
Amortization	130,186	140,296
Impairment	(10,215)	(20,346)
Net provisions (recoveries)	(12,320)	(9,839)
Income on sale of investments	(117,701)	(8,283)
Received interest	1,549,683	1,545,975
Retained interest	(587,351)	(657,021)
Other adjustments	(864,053)	(1,032,830)
Cash flows from operating profits before changes in operating assets and liabilities	**257,259**	**141,815**
Increase/decrease in operating assets (excl. cash and cash equivalents)	**(2,982,537)**	**1,024,557**
Increase/decrease in loans and receivables	(2,896,249)	2,456,046
Increase/decrease in securities available-for-sale	(1,005,578)	(1,100,132)
Increase/decrease in equity investments	9,611	34,535
Increase/decrease in assets held-for-trading	1,307,261	(529,460)
Increase/decrease in assets held-for-sale	(4,179)	(67,978)
Increase/decrease in other assets	(393,403)	231,546
Increase/decrease in operating liabilities (excl. cash and cash equivalents)	**2,771,600**	**456,826**
Increase/decrease in advances from Central Bank	250,000	(718)
Increase/decrease in financial liabilities valued at amortized cost	2,732,088	1,846,152
Increase/decrease in liabilities held-for-trading	(103,372)	(774,071)
Increase/decrease in other liabilities	(107,116)	(614,537)
Cash flows from operating activities	**703,378**	**2,241,299**
Income taxes (paid) refunded	**(149,794)**	**(54,329)**
III. Net cash flows from operating activities	**553,584**	**2,186,970**
B. Cash flows from investing activities		
Cash payments to acquire tangible assets	(55,196)	(82,921)
Cash receipts from the sale of tangible assets	6,923	16,286
Cash payments to acquire intangible assets	(9,165)	(42,486)
Cash receipts from the sale of intangible assets	139	-
Cash receipts from the disposal of investments in subordinated entities	-	13,954
Cash receipts from the disposal of tangible assets available-for-sale	174,395	-
Dividends received	5,411	4,294
Other inflows from investing activities	-	15
Net cash flows from investing activities	**122,507**	**(90,858)**
C. Cash flows from financing activities		
Dividends paid	(470,375)	(1,563,995)
Inflows from long-term loans from financial sector	231,304	83,818
Repayment of long-term loans from financial sector	(121,198)	(582,751)
Net cash flows from financing activities	**(360,269)**	**(2,062,928)**
D. Effect of exchange rate changes on cash and cash equivalent	**(3,596)**	**(1,367)**
E. Increase in net cash	**315,822**	**33,184**
F. Cash at the beginning of reporting period	**1,005,340**	**972,156**
G. Cash at the end of reporting period	**1,321,162**	**1,005,340**

Explanatory notes to the consolidated financial statements

1. General information about the Issuer

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

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

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

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

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

The Group consists of the following subordinated entities:

Subsidiaries	Registered office	% of votes at the General Meeting of Shareholders	
		31.12.2006	31.12.2005
Entities fully consolidated			
Dom Maklerski Banku Handlowego S.A.	Warsaw	100.00	100.00
Handlowy-Leasing Sp. z o.o.*	Warsaw	100.00	100.00
Handlowy Investments S.A.	Luxembourg	100.00	100.00
Citileasing Sp. z o.o.	Warsaw	-	100.00
Handlowy Zarządzanie Aktywami S.A.	Warsaw	-	100.00
Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A.	Warsaw	-	100.00
PPH Spomasz Sp. z o.o. in liquidation	Warsaw	100.00	100.00
Entities accounted for under the equity method			
Handlowy Inwestycje Sp. z o.o.	Warsaw	100.00	100.00
Handlowy Investments II S.a.r.l.	Luxembourg	100.00	100.00
Bank Rozwoju Cukrownictwa S.A.	Poznań	100.00	100.00

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

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

Shares in associates accounted for under the equity method:

Associates	Registered office	Share in the total number of votes at the General Meeting of Shareholders	
		31.12.2006	31.12.2005
Entities accounted for under the equity method			
Handlowy Heller S.A.	Warsaw	-	50.00

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

2. Significant accounting policies

Statement of compliance

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

Basis of preparation

These consolidated annual financial statements have been prepared for the period from 1 January 2006 to 31 December 2006. The comparable financial data is presented for the period from 1 January 2005 to 31 December 2005.

The financial statements are presented in PLN, rounded to the nearest thousand.

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

IFRS 7 (Financial Instruments: Disclosures) is not effective until 1 January 2007 with an early adoption encouraged. The Group has not adopted IFRS 7 early because management believes that the disclosures under IFRS 7 would not be very different from the requirements of IAS 32 and IAS 30.
IFRIC 11 interpretation published on the 2 November 2006 concerning payments in own shares, is waiting for approval of European Union. Currently, equity compensation programs offered by the Bank are deemed to be cash-settled programs. In accordance with IFRIC 11 interpretation, these programs should be deemed as shares payments settled in capital instruments. The Group is estimating what will be the impact of the change on the financial statement.

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

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

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

The estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.
In order to retain comparability of financial data, relevant changes to the presentation of financial data of 2005 in comparison to the previously published one in the consolidated financial statements of the Capital Group for 2005, have been made. The changes concerned the way of grouping and presentation of selected economic operations and influence neither the total assets nor the income statement. The changes result also from the fact that list of entities fully consolidated has been expanded as at 1 January 2005. Note 45 presents the impact on particular items in the balance sheet and in the own equity resulting from the change in consolidation scope in comparison to the already published consolidated financial statements.

Basis of consolidation

Subordinated entities comprise subsidiaries and associates.

Subsidiaries

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

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

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

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

Associates

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

The Group's share in its associates' post-acquisition profits or losses is recognized in the income statement, and its share in post-acquisition movements in other reserves is recognized in other reserves.

When the Group's share in losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

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

Foreign currency translation

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

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

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

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

in PLN	31 December 2006	31 December 2005
1 USD	2.9105	3.2613
1 CHF	2.3842	2.4788
1 EUR	3.8312	3.8598

Financial assets and financial liabilities

Classification

The Group classifies its financial instruments into the following categories:

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

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

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

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

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

(b) Loans and receivables

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

(c) Available-for-sale financial assets

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

(d) Other financial liabilities

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

Recognition and exclusions

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

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

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

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

Measurement

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

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

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

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

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

Finance lease receivables

The Group enters into lease agreements, on the basis of which the Group transfers to the lessee in return for a payment or series of payments the right to use an asset for an agreed period.
Leases where the Group transfers substantially all the risk and rewards incidental to ownership of the leased assets are not included in the balance sheet. A receivable representing an amount equal to the net investment in the lease is recognized.
The recognition of finance lease receivables is based on an effective interest method reflecting a constant periodic rate of return on the Group's net investment in the finance lease.

Equity investments – stocks and shares in other entities

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

Derivative instruments

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

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

Hedge accounting

The Group does not apply hedge accounting.

Offsetting financial instruments

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

Cash pooling

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

Sale and repurchase agreements

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

Impairment of assets measured at amortized cost

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

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

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

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

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

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

Write-downs for impairment of individually significant assets

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

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

Write-downs for impairment of not individually significant assets

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

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

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

Impairment of financial assets available-for-sale

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

Impairment of financial assets valued at cost

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

Impairment of assets other than financial assets

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

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

Calculation of recoverable amount

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

Reversal of impairment losses

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

Goodwill

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

Property and equipment and intangible assets (excluding goodwill)

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

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

Depreciation and amortization are calculated using the straight-line method over the expected useful life of an asset on the basis of rates that are approved in the depreciation and amortization plan for 2006.

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

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

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

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

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

Investment properties

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

Employee benefits

Short-term employee benefits

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

Share-based payments

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

Long-term employee benefits

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

Defined contribution plans

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

Provisions

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

Restructuring provision

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

Equity

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

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

Calculating net income

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

Accruals and prepayments

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

Interest income and interest expenses

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

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

Fee and commission income and expenses

Fee and commission income is generated when the Bank renders financial services to its customers. The Group classifies its commission into the following categories:

- commissions that are an integral part of the effective interest rate;
- commissions for services rendered;
- commissions for executing significant transactions.

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

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

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

Other operating income and expenses

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

Income tax

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

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

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

Segmental reporting

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

Non-current assets held-for-sale

Assets or groups of assets together with liabilities directly associated with those assets shall be classified as non-current assets held-for--sale, if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. For this to be the case the assets or group of assets must be available for immediate sale in their present condition and the sale is highly probable, which means that there is a commitment to a plan to sell the assets and an active program to locate a buyer and complete the plan was initiated. Further, the assets or group of assets must be actively marketed for the sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held-for-sale are measured at the lower of their carrying amount and fair value less costs to sell and are not subject to depreciation.

Accounting estimates and judgments

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

Fair value of derivatives

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

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

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

Impairment of loans

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

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

Impairment of available-for-sale assets

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

Impairment of financial assets valued at cost

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

Impairment of goodwill

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

Employee benefits

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

3. Segmental reporting

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

- *Corporate and Investment Bank*

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

- *Consumer Bank*

  Within the Consumer Bank segment the Group provides products and financial services to individuals and also to micro enterprises and individual entrepreneurs though the Citibusiness offer. Apart from maintaining bank accounts and providing an extensive lending and deposit offer, it also offers credit cards to customers, provides asset management services, and acts as agent in the sale of investment and insurance products. Customers of the Consumer Bank have the branch network, ATMs, telephone services, and electronic banking services at their disposal and a network of financial agents offering products of this segment.
  Within CitiFinancial segment the Group offers products for individuals with medium and low income. Primary offer includes cash loans, consolidated loans and mortgage loans. The segment's products are offered via the dynamically developing network of small outlets conveniently located next to housing estates and shopping centers as well as financial agents.

  During 2006 CitiFinancial was reported as a third, separate, business segment. Following the progressive integration of Consumer Bank's and CitiFinancial's products offer, the integration of these segments was made. They both represent the second segment among the fundamental Group' activities, that identifies separate level of risk and profitability of its activity.

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

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

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

Consolidated income statement by business segment for 2006

In thousands of PLN	Corporate and Investment Bank	Consumer Bank	Total
Net interest income	447,055	579,346	1,026,401
Net fee and commission income	298,316	319,586	617,902
Dividend income	3,659	-	3,659
Net income on traded financial instruments and revaluation	280,186	35,720	315,906
Net gain on investment (deposit) instruments	36,571	-	36,571
Net gain on investment (capital) securities	95,846	-	95,846
Other operating income	71,483	17,273	88,756
General administrative expenses	(675,152)	(696,220)	(1,371,372)
Depreciation expense	(95,300)	(34,886)	(130,186)
Profit/(loss) on sale of tangible fixed assets	105,236	13,080	118,316
Net impairment losses	61,066	(38,531)	22,535
Operating income	**628,966**	**195,368**	**824,334**
Share in profits/(losses) of undertakings accounted for under the equity method	7,780	-	7,780
Profit before tax	**636,746**	**195,368**	**832,114**
Income tax expenses			(175,058)
Net profit			**657,056**

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

In thousands of PLN	Corporate and Investment Bank	Consumer Bank	Total
Assets including:	32,161,847	3,828,888	**35,990,735**
Non-current assets held-for-sale	*12,539*	-	*12,539*
Liabilities	29,824,930	6,165,805	**35,990,735**

Consolidated income statement by business segment for 2005

In thousands of PLN	Corporate and Investment Bank	Consumer Bank	Total
Net interest income	471,080	557,214	1,028,294
Net fee and commission income	352,380	243,941	596,321
Dividend income	2,095	-	2,095
Net income on traded financial instruments and revaluation	432,790	42,106	474,896
Net gain on investment (deposit) instruments	121,841	-	121,841
Net gain on investment (capital) securities	15,544	-	15,544
Other operating income	73,753	1,337	75,090
General administrative expenses	(729,818)	(675,512)	(1,405,330)
Depreciation expense	(100,234)	(40,062)	(140,296)
Profit/ (loss) on sale of tangible fixed assets	4,475	(1,151)	3,324
Net impairment losses	75,553	(45,368)	30,185
Operating income	**719,459**	**82,505**	**801,964**
Share in profits/(losses) of undertakings accounted for under the equity method	(5,686)	-	(5,686)
Profit before tax	**713,773**	**82,505**	**796,278**
Income tax expenses			(178,177)
Net profit			**618,101**

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

In thousands of PLN	Corporate and Investment Bank	Consumer Bank	Total
Assets, including:	29,877,389	3,000,175	**32,877,564**
non-current assets held-for-sale	*27,858*	*9,856*	*37,714*
Liabilities, including:	26,848,346	6,029,218	**32,877,564**
liabilities related to non-current assets held-for-sale	*2,959*	*4,370*	*7,329*

4. Interest income

In thousands of PLN	2006	2005
Interest and similar income from:		
Central Bank	14,220	14,704
Placements in banks	249,291	282,657
Loans and advances, of which:	930,588	1,015,009
financial sector	*14,382*	*26,153*
non-financial sector	*916,206*	*988,856*
Debt securities available-for-sale	353,455	268,354
Debt securities held-for-trading	84,664	96,073
	1,632,218	**1,676,797**
Interest expense and similar charges for:		
Central Bank	(9)	(45)
Deposits from banks	(108,855)	(83,695)
Deposits from financial sector (excl. banks)	(69,365)	(74,417)
Deposits from non-financial sector	(415,621)	(467,446)
Loans and advances received	(11,967)	(22,900)
	(605,817)	**(648,503)**
	1,026,401	**1,028,294**

Net interest income for the first half of 2006 includes interest received on impaired loans, of PLN 30,803 thousand (for 2005: 40,907 thousand).

Additionally net interest income was adjusted by the amount of PLN 15,240 thousand as a result of implementing of enhancements to the system used to calculate impairment losses (taking into account additional factors in cash flow forecast).

5. Net fee and commission income

In thousands of PLN	2006	2005
Fee and commission income:		
Insurance and investment products	263,949	200,964
Payment and credit cards	151,235	101,024
Payment services	123,164	125,848
Custody services	88,972	80,858
Brokerage operations	69,583	78,271
Cash management	38,371	97,386
Off-balance sheet guarantee liabilities	18,043	19,994
Off-balance sheet financial liabilities	6,893	7,984
Other	22,525	2,667
	782,735	**714,996**
Fee and commission expense:		
Insurance and investment products	(61,123)	(52,274)
Payment and credit cards	(59,817)	(20,353)
Brokerage operations	(20,023)	(16,271)
Fees paid to KPWiG	(9,592)	(12,768)
Brokers fees	(8,270)	(9,991)
Other	(6,008)	(7,018)
	(164,833)	**(118,675)**
	617,902	**596,321**

6. Dividend income

In thousands of PLN	2006	2005
Securities available-for-sale	3,388	2,022
Securities held-for-trading	271	73
	3,659	**2,095**

7. Net gain on financial instruments an revaluation

In thousands of PLN	2006	2005
Net income on financial instruments valued at fair value through profit and loss account from:		
Debt instruments	29,457	68,151
Derivative instruments including:	(30,658)	53,761
Interest rate	*(37,352)*	*41,916*
Equity	*4,819*	*5,910*
Commodity	*1,875*	*5,935*
	(1,201)	**121,912**
Net profit on foreign exchange:		
Net profit on foreign currency derivatives	546,908	107,152
Revaluation	(229,801)	245,832
	317,107	**352,984**
	315,906	**474,896**

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

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

8. Net gain on investment (deposit) securities

In thousands of PLN	2006	2005
Profits realized on available-for-sale securities:	43,654	133,203
Losses realized on available-for-sale securities:	(7,083)	(11,362)
	36,571	**121,841**

9. Net gain on investment (capital) securities

In thousands of PLN	2006	2005
Profits realized on available-for-sale securities:	**95,846**	**15,544**

10. Net other operating income

In thousands of PLN	2006	2005
Other operating income:		
Data processing for related parties	63,062	59,466
Settlement of perpetual usufruct right to land	6,456	6,657
Investment property	6,206	19,149
Other income related to shares granted by MasterCard	6,120	-
Income from office rent	3,719	3,982
Sale of receivables	-	8,075
Other	42,810	39,007
	128,373	**136,336**
Other operating expenses:		
Investment property	(7,537)	(19,963)
Vindication expenses	(5,446)	(6,292)
Other	(26,634)	(34,991)
	(39,617)	**(61,246)**
	88,756	**75,090**

11. General administrative expenses

In thousands of PLN	2006	2005
Staff expenses:		
Remuneration costs, including:	(521,362)	(526,487)
Provisions for retirement benefits	*(13,872)*	*(13,692)*
Provision for restructuring	*–*	*(20,138)*
Perks and rewards including:	(180,184)	(159,725)
Payments related to own equity instruments	*(20,889)*	*(12,585)*
Rewards for long time employment	*(6,012)*	*(20,331)*
	(701,546)	**(686,212)**
Administrative expenses		
Telecommunication fees and hardware purchases	(175,107)	(182,414)
Building maintenance and rent	(110,381)	(114,010)
Advisory, audit, consulting and other services	(107,700)	(141,684)
Marketing	(55,374)	(45,728)
Transaction costs	(51,230)	(45,317)
Postal services	(28,517)	(30,927)
Training and education	(12,072)	(11,757)
Other expenses	(129,445)	(147,281)
	(669,826)	**(719,118)**
	(1,371,372)	**(1,405,330)**

Staff expenses in 2006 include PLN 17,092 thousand of remunerations and bonuses paid and payable to current and former members of the Management Board (in 2005: PLN 12,836 thousands).

12. Depreciation expense

In thousands of PLN	2006	2005
Depreciation of tangible assets	(96,165)	(106,896)
Depreciation of intangible assets	(34,018)	(33,400)
Depreciation of property investment	(3)	-
	(130,186)	**(140,296)**

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

In thousands of PLN	2006	2005
Profits on:		
Assets held-for-sale*	114,129	-
Investments in subordinated entities	3,269	3,999
Other tangible fixed assets	1,489	1,816
	118,887	**5,815**
Losses on:		
Assets held-for-sale*	(317)	-
Investments in subordinated entities	(254)	(2,319)
Other tangible fixed assets		(172)
	(571)	**(2,491)**
	118,316	**3,324**

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

14. Net impairment losses

Net impairment write-downs of financial assets

In thousands of PLN	2006	2005
Impairment write-downs:		
Equity investments	-	(10,824)
Loans and receivables valued at amortized cost (including finance leases)	(575,285)	(691,442)
Other	(43,784)	(40,908)
	(619,069)	**(743,174)**
Reversals of impairment write-downs:		
Loans and receivables valued at amortized cost (including finance leases)	629,284	763,520
	629,284	**763,520**
	10,215	**20,346**

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

In thousands of PLN	2006	2005
Charges to provisions for off-balance sheet commitments	(80,208)	(39,808)
Releases of provisions for off-balance sheet commitments	92,528	49,647
	12,320	**9,839**
Net impairment losses	**22,535**	**30,185**

15. Income tax expense

Recognized in the income statement

In thousands of PLN	2006	2005
Current tax:		
Current year	(138,758)	(232,268)
Adjustments for prior years	(350)	(2,252)
	(139,108)	**(234,520)**
Deferred tax:		
Origination and reversal of temporary differences	(34,522)	59,577
Movement in receivables arising from tax deductions	(1,428)	(3,234)
	(35,950)	**56,343**
Income tax expense	**(175,058)**	**(178,177)**

Reconciliation of effective tax rate:

In thousands of PLN	2006	2005
Profit before tax	832,114	796,278
Income tax at the domestic tax rate of 19%	(158,101)	(151,292)
Expenses not tax deductible	(38,603)	(25,139)
Taxable income not in income statement	(60,611)	(46,846)
Deductible expenses not in income statement	48,383	44,196
Non taxable income	16,885	8,538
Other	16,989	(7,634)
Income tax expense	**(175,058)**	**(178,177)**
Effective tax rate	**21%**	**22%**

Deferred tax recognized directly in equity

Deferred tax recognized directly in equity as at 31 December 2006 is related to debt instruments available-for-sale and amounts to PLN 19,118 thousand (31 December 2005: PLN 15,142 thousand).

16. Earnings per share

As at 31 December 2006 earnings per share amounted to PLN 5.03 (31 December 2005: PLN 4.73).

The calculation of earnings per share as at 31 December 2006 was based on the consolidated profit attributable to owners of ordinary shares of PLN 657,056 thousand (31 December 2005: PLN 618,101 thousand) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2006 of 130,659,600 (31 December 2005: 130,659,600).
The Bank does not have any ordinary shares that may have a dilution impact.

17. Cash and balances with the Central Bank

In thousands of PLN	31.12.2006	31.12.2005
Cash at hand	366,211	299,817
Current balances with Central Bank	169,412	622,832
	535,623	**922,649**

On the current account in the National Bank of Poland (NBP), the Group maintains an obligatory reserve with the declared balance as at 31 December 2006 of PLN 756,858 thousand (31 December 2005: PLN 670,717 thousand). The Group may use the obligatory reserve provided that the sum of the average monthly balance on the current account in NBP is not lower than the declared balance.

18. Financial assets and liabilities held-for-trading

Financial assets held for trading

In thousands of PLN	31.12.2006	31.12.2005
Debt securities		
Bonds and notes issued by:		
Banks	84,368	16,780
Financial sector	43,834	35,604
Non-financial sector	54,476	30,803
Government	1,353,377	2,203,519
Other debt securities issued by:		
Banks	41,311	13,356
	1,577,366	**2,300,062**
Including:		
Listed	*1,353,177*	*2,203,769*
Unlisted	*224,189*	*96,293*
Derivative financial instruments	**2,973,728**	**3,578,726**
Equity instruments	**5,377**	**4,570**
Including:		
Listed	*5,376*	*4,569*
Unlisted	*1*	*1*
	4,556,471	**5,883,358**

Debt securities held for trading (maturity):

In thousands of PLN	31.12.2006	31.12.2005
up to 1 month	32,234	35,015
1 month - 3 months	156,559	56,290
3 months - 1 year	185,929	369,845
1 year - 5 years	602,736	1,352,773
over 5 years	599,908	486,139
	1,577,366	**2,300,062**

Financial liabilities held-for-trading:

In thousands of PLN	31.12.2006	31.12.2005
Short positions in financial assets	278,109	-
Derivative financial instruments	3,038,738	3,420,219
	3,316,847	**3,420,219**

As at 31 December 2006 and 31 December 2005 the Group did not hold any financial assets and financial liabilities initially designated for valuation at fair value through the profit and loss account.

Derivative financial instruments as at 31 December 2006

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

**Exchange-traded products.*

Derivative financial instruments as at 31 December 2005

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

**Exchange-traded products.*

Foreign currency contracts

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

In thousands of PLN	Weighted average contracted exchange rates		Notional amount	
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
Buy Euro				
Less than 3 months	3.9438	4.0770	3,510,777	4,346,758
Between 3 months and 1 year	3.9961	4.0880	2,789,323	2,627,891
More than 1 year	3.9239	4.3273	633,090	493,482
Sell Euro				
Less than 3 months	3.9028	4.0637	4,541,265	3,672,993
Between 3 months and 1 year	3.9694	4.1038	3,120,562	2,694,794
More than 1 year	3.9195	4.3375	487,578	524,938
Buy US Dollars				
Less than 3 months	2.9581	3.2968	8,925,606	5,320,548
Between 3 months and 1 year	3.0706	3.2722	2,547,342	5,351,800
More than 1 year	2.8704	3.1301	410,142	996,433
Sell US Dollars				
Less than 3 months	2.9483	3.2533	12,868,304	7,847,620
Between 3 months and 1 year	3.0562	3.2720	2,813,338	5,033,878
More than 1 year	2.8685	3.1082	402,183	733,304
Buy Swiss Franc				
Less than 3 months	2.3869	2.4837	103,475	268,281
Between 3 months and 1 year	-	2.5400	-	1,767
Sell Swiss Franc				
Less than 3 months	2.3857	2.4832	219,585	527,860
Between 3 months and 1 year	-	2.5260	-	5,733
Buy Pound Sterling				
Less than 3 months	5.7153	5.7524	91,303	106,041
Between 3 months and 1 year	5.8512	5.9784	4,394	217,550
Sell Pound Sterling				
Less than 3 months	5.7129	5.8467	1,256	63,744
Between 3 months and 1 year	-	6.0066	-	206,299

19. Debt securities available-for-sale

In thousands of PLN	31.12.2006	31.12.2005
Bonds and notes issued by:		
Central Bank	378,413	2,258,159
Government	7,868,900	4,912,998
	8,247,313	**7,171,157**
Including:		
Listed instruments	*7,795,947*	*4,872,996*
Unlisted instruments	*451,366*	*2,298,161*

Debt securities available-for-sale (maturity):

In thousands of PLN	31.12.2006	31.12.2005
up to 1 month	16,996	1,886,194
1 month - 3 months	12,887	14,847
3 months - 1 year	399,147	327,668
1 year - 5 years	5,030,034	1,882,493
over 5 years	2,788,249	3,059,955
	8,247,313	**7,171,157**

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

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

In thousands of PLN	31.12.2006	31.12.2005
As at 1 January	**7,171,157**	**6,091,194**
Increases (in respect of)		
Purchases	91,359,979	68,190,468
FX differences	-	4,806
Amortization of discount, premium and interest	142,082	84,066
Decreases (in respect of)		
Purchases	(90,209,113)	(67,043,561)
Revaluation	(28,885)	(122,475)
FX differences	(149,215)	-
Amortization of discount, premium and interest	(38,692)	(33,341)
As at the end of a period	**8,247,313**	**7,171,157**

20. Equity investments accounted for under the equity method

In thousands of PLN	31.12.2006	31.12.2005
Stocks and shares in subordinated entities	**67,910**	**61,884**
Including:		
Listed instruments	-	-
Unlisted instruments	*67,910*	*61,884*

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

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

In thousands of PLN	Subordinated entities
As at 1 January 2006	**61,884**
Increases (in respect of)	
Revaluation	6,850
Decrease (in respect of)	
Revaluation	(824)
As at 31 December 2006	**67,910**

21. Other equity investments

In thousands of PLN	31.12.2006	31.12.2005
Stocks and shares in other entities	87,642	98,628
Impairment	(33,024)	(32,209)
	54,618	**66,419**
Including:		
Listed instruments	*34,009*	*9,992*
Unlisted instruments	*20,609*	*56,427*

The change in other equity investments is as follows:

In thousands of PLN	Associated entities	Other entities	Total
As at 1 January 2005	**329**	**27,758**	**28,087**
Impact of expanded consolidation scope		53,928	53,928
As at 1 January 2005 after restatement	**329**	**81,686**	**82,015**
Increases (in respect of)			
Purchases	-	9,992	9,992
Conversion of debt into shares	-	5,000	5,000
Decreases (in respect of)			
Sales	(329)	(19,435)	(19,764)
Revaluation	-	(10,824)	(10,824)
As at 31 December 2005	**-**	**66,419**	**66,419**

In thousands of PLN	Other entities
As at 1 January 2006	**66,419**
Increases (in respect of)	
Purchases	97,518
Revaluation	8,011
Conversion of debt into shares	3,689
Decreases (in respect of)	
Sales	(120,205)
Revaluation	(814)
As at 31 December 2006	**54,618**

Financial information on subordinated entities as at 31 December 2006

Subordinated entities consolidated under the full method
In thousands of PLN

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY-LEASING* Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	97.47	784,664	584,695	199,969	53,706	26,036
HANDLOWY INVESTMENTS S.A. 1/	Warsaw	Investment activity	Subsidiary undertaking	100.00	44,878	47,553	(2,675)	96,169	49,443
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary undertaking	100.00	931,863	828,524	103,339	84,358	24,341
PPH SPOMASZ Sp. z o.o. w likwidacji	Warsaw	-	Subsidiary undertaking	100.00	Entity under liquidation				

**On 10 January of 2006 Citileasing Sp. z o.o. and Handlowy-Leasing S.A. merged, and leads its activity under the name of Handlowy-Leasing Sp. z o.o. (see Note 41).*

Other entities
In thousands of PLN

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
BANK ROZWOJU CUKROWNICTWA S.A.	Poznań	Banking	Subsidiary undertaking	100.00	40,255	40,589	36	40,100	2,239	1,036
HANDLOWY INVESTMENTS II S.a.r.l.	Luksembourg	Investment activity	Subsidiary undertaking	80.97	17,172	33,543	21,850	8,204	2,601	1,576
HANDLOWY INWESTYCJE Sp. z o.o. 2/	Warsaw	Investment activity	Subsidiary undertaking	100.00	8,070	18,964	5,058	13,906	11,914	8,263

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

The explanation of indirect relationships:

1/ Indirect relationship via Handlowy Investments S.A

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY INVESTMENTS II S.a.r.l.	Luksemburg	Investment activity	Subsidiary undertaking	19.03	1,960	33,543	21,850	8,204	2,601	1,576

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

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY--LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	2.53	3,125	784,664	584,695	199,969	53,706	26,036

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

Financial data concerning subordinated entities as at 31 December 2005

Subordinated entities consolidated under the equity method
In thousands of PLN

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Assets	Liabilities	Equity	Revenues	Profit/(loss)
CITILEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	97.47	173,372	3,713	169,659	10,057	4,407
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary undertaking	100.00	652,732	544,677	108,055	99,323	31,589
TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH BH S.A.*	Warsaw	Investment activity	Subsidiary undertaking	100.00	36,673	4,519	32,154	47,160	8,708
HANDLOWY ZARZĄDZANIE AKTYWAMI S.A.*	Warsaw	Brokerage	Subsidiary undertaking	100.00	8,677	2,146	6,531	10,024	1,964
HANDLOWY INVESTMENTS S.A. 1/	Luksembourg	Investment activity	Subsidiary undertaking	100.00	88,711	160,627	(71,916)	13,374	(4,058)
HANDLOWY-LEASING S.A.	Warsaw	Leasing	Subsidiary undertaking	100.00	711,115	703,731	7,384	58,136	10,083
PPH SPOMASZ Sp. z o.o. w likwidacji	Warsaw	-	Subsidiary undertaking	100.00	Entity under liquidation				

Other entities
In thousands of PLN

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
BANK ROZWOJU CUKROWNICTWA S.A.	Poznań	Banking	Subsidiary undertaking	100.00	40,816	41,699	883	40,816	4,126	1,947
HANDLOWY INVESTMENTS II S.a.r.l.	Luksemburg	Investment activity	Subsidiary undertaking	80.97	14,981	33,860	24,680	9,180	119	(1,414)
HANDLOWY INWESTYCJE Sp. z o.o. 2/	Warsaw	Investment activity	Subsidiary undertaking	100.00	6,086	15,587	6,300	9,287	785	365
HANDLOWY HELLER S.A.*	Warsaw	Factoring	Associated undertaking	25.00	8,056	495,402	463,172	32,230	44,525	7,459

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

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

The explanation of indirect relationships:

1/ Indirect relationship via Handlowy Investments S.A.

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	19.03	1,871	33,860	24,680	9,180	119	(1,414)

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

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
CITILEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	2.53	-	173,372	3,713	169,659	10,057	4,407
HANDLOWY HELLER S.A.	Warsaw	Factoring	Associated undertaking	25.00	8,056	495,402	463,172	32,230	44,525	7,459

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

22. Loans and advances

Loans and advances (by category)

In thousands of PLN	31.12.2006	31.12.2005
Loans and advances to the financial sector:		
Current accounts of banks	785,539	82,691
Loans, placements and advances, including:	8,200,535	6,380,189
placements in banks	*7,769,877*	*5,813,106*
Purchased receivables	45,918	17,566
Realized guarantees	245	274
Receivables subject to securities sale and repurchase agreements	302,405	-
Other receivables	75,860	11,012
	9,410,502	6,491,732
Impairment write-offs	(91,230)	(92,679)
	9,319,272	**6,399,053**
Loans and advances to the non-financial sector:		
Loans and advances	10,669,613	11,129,056
Purchased receivables	234,666	166,182
Realized guarantees	50,720	63,069
Other receivables	783,424	2,307
	11,738,423	11,360,614
Impairment write-offs	(1,541,477)	(1,753,521)
	10,196,946	**9,607,093**
Loans and advances	**19,516,218**	**16,006,146**

Loans and advances – gross (by time to maturity)

In thousands of PLN	31.12.2006	31.12.2005
Loans and advances to the financial sector:		
up to 1 month	7,211,396	4,197,005
1 month - 3 months	163,632	207,483
3 months - 1 year	1,125,366	1,336,750
1 year - 5 years	793,509	665,700
over 5 years	116,599	84,794
	9,410,502	**6,491,732**
Loans and advances to the non-financial sector:		
up to 1 month	6,682,312	6,264,397
1 month - 3 months	764,519	779,752
3 months - 1 year	1,247,079	1,460,153
1 year - 5 years	2,910,678	2,786,033
over 5 years	133,835	70,279
	11,738,423	11,360,614
Loans and advances – gross	**21,148,925**	**17,852,346**

Finance lease receivables

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

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

In thousands of PLN	31.12.2006	31.12.2005
Gross finance lease receivables	852,864	785,136
Unearned finance income	(70,931)	(75,240)
Net finance lease receivables	**781,933**	**709,896**
Gross finance lease receivables by time to maturity:		
Less then 1 year	318,361	349,967
between 1 and 5 years	534,503	434,789
over 5 years	-	380
	852,864	**785,136**
Net finance lease receivables by time to maturity:		
Less then 1 year	284,341	314,051
between 1 and 5 years	497,592	395,476
over 5 years	-	369
	781,933	**709,896**

As at 31 December 2006 impairment for unrecoverable finance lease receivables amounted to 54,725 thousand (31 December 2005: 64,150 thousand).
Finance lease income is presented in interest income.

23. Impairment of loans and advances

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

In thousands of PLN	2006	2005
As at 1 January	**1,846,200**	**1,776,560**
Related to:		
Receivables from banks	11,332	9,751
Receivables from other customers of financial and non-financial sector	1,834,868	1,766,809
Effects of transition to IFRS*	-	234,935
O/B adjustment due to expanded consolidation	-	(45,674)
1 January – after restatement of opening balance	**1,846,200**	**1,965,821**
Change in impairment write-downs	(213,493)	(119,621)
Charges	575,285	691,442
Write-offs	(175,483)	(86,522)
Amounts released	(629,284)	(763,520)
Other	15,989	38,979
As at 31 December	**1,632,707**	**1,846,200**
Related to:		
Receivables from banks	9,572	11,332
Receivables from other customers of financial and non-financial sector	1,623,135	1,834,868

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

In thousands of PLN	31.12.2006	31.12.2005
Portfolio impairment loss	413,670	462,432
Individual impairment loss	1,163,040	1,315,368
Incurred but not reported losses	55,997	68,400

24. Property and equipment

Land, buildings and equipment

In thousands of PLN	Land and buildings	Machines and equipment	Vehicles	Other	Under construction	Total
Gross value:						
Balance as at 1 January 2005	**775,679**	**1,394**	**63,059**	**663,469**	**5,022**	**1,508,623**
Effects of transition to IFRS*	(41,249)	-	-	-	(1,154)	(42,403)
As at 1 January - after restatement of opening balance	**734,430**	**1,394**	**63,059**	**663,469**	**3,868**	**1,466,220**
Additions:						
Purchases	1,237	80	2,235	36,386	45,180	85,118
Other increases	-	-	-	4,380	-	4,380
Disposals:						
Disposals	(3,749)	(304)	(16,868)	(8,034)	-	(28,955)
Classified as "Non-current assets held-for-sale" (see Note 29)	-	(568)	(185)	(9,682)	-	(10,435)
Other decreases	(8,249)	(1)	(311)	(27,553)	(262)	(36,376)
Reclassification	15,737	-	15,772	9,838	(43,986)	(2,639)
Balance as at 31 December 2005 **IAS 40*	**739,406**	**601**	**63,702**	**668,804**	**4,800**	**1,477,313**
Balance as at 1 January 2006	**739,406**	**601**	**63,702**	**668,804**	**4,800**	**1,477,313**
Additions:						
Purchases	636	99	727	19,078	34,688	55,228
Transfer from investment property	-				18,000	18,000
Other increases	-	-	-	2,179	-	2,179
Disposals:						
Disposals	-	(6)	(11,044)	(6,489)	-	(17,539)
Classified as "Non-current assets held-for-sale" (see Note 29)	(4,932)	-	-	-	-	(4,932)
Reclassification	15,968	-	10,233	7,402	(36,002)	(2,399)
Other decreases	(4,986)	-	(271)	(24,993)	-	(30,250)
Balance as at 31 December 2006	**746,092**	**694**	**63,347**	**665,981**	**21,486**	**1,497,600**
Depreciation and amortization						
Balance as at 1 January 2005	**206,865**	**1,205**	**26,092**	**548,899**	**-**	**783,061**
Effects of transition to IFRS*	(17,554)	-	-	-	-	(17,554)
As at 1 January - after restatement of opening balance	**189,311**	**1,205**	**26,092**	**548,899**	**-**	**765,507**
Increases:						
Depreciation charge for the period	38,146	115	12,993	55,639	-	106,893
Other increases	59	-	-	4,669	-	4,728
Decreases:						
Disposals	(3,749)	(304)	(13,515)	(7,074)	-	(24,642)
Classified as "Non-current assets held-for-sale" (see Note 29)	-	(536)	(106)	(4,443)	-	(5,085)
Other decreases	(5,127)	(1)	(6)	(25,909)	-	(31,043)
Balance as at 31 December 2005 **IAS 40*	**218,640**	**479**	**25,458**	**571,781**	**-**	**816,358**
Balance as at 1 January 2006	**218,640**	**479**	**25,458**	**571,781**	**-**	**816,358**
Increases:						
Depreciation charge for the period	37,832	114	12,131	46,095	-	96,172
Other increases	-	-	-	1,346	-	1,346
Decreases:						
Disposals	-	(2)	(9,977)	(6,591)	-	(16,570)
Classified as "Non-current assets held-for-sale" (see Note 29)	(752)	-	-	-	-	(752)
Other decreases	(3,462)	-	(97)	(24,255)		(27,814)
Balance at 31 December 2006	**252,258**	**591**	**27,515**	**588,376**	**-**	**868,740**

In thousands of PLN	Land and buildings	Machines and equipment	Vehicles	Other	Under construction	Total
Impairment losses						
Balance at 1 January 2005	**1,453**	**-**	**-**	**238**	**-**	**1,691**
Increases						
Decreases						
Balance at 31 December 2005	**1,453**	**-**	**-**	**238**	**-**	**1,691**
Balance at 1 January 2006	**1,453**	**-**	**-**	**238**	**-**	**1,691**
Increases						
Decreases	(1,453)	-	-	(238)	-	(1,691)
Balance at 31 December 2006	**-**	**-**	**-**	**-**	**-**	**-**
Carrying amounts						
As at 1 January 2005	543,666	189	36,967	114,332	5,022	700,176
As at 31 December 2005	519,313	122	38,244	96,785	4,800	659,264
As at 1 January 2006	519,313	122	38,244	96,785	4,800	659,264
As at 31 December 2006	493,834	103	35,832	77,605	21,486	628,860

Investment properties

In thousands of PLN	2006	2005
As at 1 January	**40,948**	**-**
Effects of transition to IFRS*	-	54,923
As at 1 January - after restatement	**40,948**	**54,923**
Increases:		
Restructuring	-	13,200
Revaluation	711	-
Other increases	-	139
Decreases:		
Disposals	(14,273)	(3,929)
Classified as "Non-current assets held-for-sale" (see Note 29)	-	(12,740)
Classified as Bank's properties	(18,000)	-
Revaluation	-	(10,645)
As at the end of a period	**9,386**	**40,948**

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

25. Intangible assets

In thousands of PLN	Goodwill	Patents and trademarks	Software	Other intangible assets	Prepayments	Total
Gross value:						
Balance as at 1 January 2005	**1,448,907**	**1,752**	**204,953**	**410**	**107**	**1,656,129**
Additions:						
Purchases	4,876	2	10,172	20,900	6,536	42,486
Reclassification	-	-	4,531	-	-	4,531
Disposals:						
Classified as "Non-current assets held-for-sale" (see Note 29)	-	(104)	(281)	(2)	-	(387)
Other decreases	(2,545)	-	(788)	(2,347)	(4,543)	(10,223)
Balance as at 31 December 2005	**1,451,238**	**1,650**	**218,587**	**18,961**	**2,100**	**1,692,536**
Balance as at 1 January 2006	**1,451,238**	**1,650**	**218,587**	**18,961**	**2,100**	**1,692,536**
Additions:						
Purchases	-	1	7,250	127	1,976	9,354
Reclassification	-	-	770	-	(4,033)	(3,263)
Balance as at 31 December 2006	**1,451,238**	**1,651**	**226,607**	**19,088**	**43**	**1,698,627**
Depreciation and amortization:						
Balance as at 1 January 2005	**205,262**	**1,476**	**139,238**	**387**	**-**	**346,363**
Increases:						
Depreciation charge for the period	-	147	28,224	5,030	-	33,401
Decreases:						
Classified as "Non-current assets held-for-sale" (see Note 29)	-	(104)	(135)	-	-	(239)
Other decreases	-	-	(788)	-	-	(788)
Balance as at 31 December 2005	**205,262**	**1,519**	**166,539**	**5,417**	**-**	**378,737**
Balance as at 1 January 2006	**205,262**	**1,519**	**166,539**	**5,417**	**-**	**378,737**
Increases:						
Depreciation charge for the period	-	120	27,207	6,815	-	34,142
Decreases:						
Disposals	-	-	(5)	-	-	(5)
Balance as at 31 December 2006	**205,262**	**1,639**	**193,741**	**12,232**	**-**	**412,874**
Carrying amounts						
As at 1 January 2005	1,243,645	276	65,715	23	107	1,309,766
As at 31 December 2005	1,245,976	131	52,048	13,544	2,100	1,313,799
As at 1 January 2006	1,245,976	131	52,048	13,544	2,100	1,313,799
As at 31 December 2006	1,245,976	12	32,866	6,856	43	1,285,753

As at 31 December 2006, goodwill includes the amount of PLN 1,243,645 thousand arising from the merger of Bank Handlowy w Warszawie S.A. and Citibank (Poland) S.A. on 28 February 2001 and the amount of PLN 2,331 thousand as a result of the purchase of an organized part of an enterprise from ABN AMRO Bank (Poland) S.A. on 1 March 2005. As at 1 January 2004, as required by IFRS, the Group ceased to make write-downs of goodwill, and replaced them with the impairment test. In addition, PLN 13,229 thousand of other intangible assets was recognized in the balance sheet as a result of the purchase of an organized part of an enterprise from ABN AMRO Bank (Poland) S.A.

26. Impairment test for goodwill

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

Book value of goodwill allocated to unit:

In thousands of PLN	
Corporate and Investment Bank	851,944
Consumer Bank	394,032
	1,245,976

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

The discount rate, which is equivalent to the required rate of return, has been used in the valuation. The required rate of return is assessed on the basis of the capital assets pricing model using a beta coefficient for the banking sector, return on WIG index and Treasury bond yield curves. In 2006 the discount rate amounted to 11,6% (in 2005: 13,7%).

Extrapolation of cash flows, which exceed the five-year period covered by the financial plan, has been based on growth rates reflecting the long-term NBP inflation target that amounted to 2,5% as at 31 December 2006.

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

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

27. Income tax assets and liabilities

In thousands of PLN	31.12.2006	31.12.2005
Income tax assets*		
Current tax	25,080	3,452
Deferred tax	249,044	279,592
	274,124	**283,044**
Income tax liabilities*		
Current tax	**5,687**	**163,311**

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

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

Deferred tax assets are attributable to the following:

In thousands of PLN	31.12.2006	31.12.2005
Interest accrued and other expense	68,363	58,653
Loan loss provisions	109,045	151,179
Subordinated loans provisions	2,880	3,896
Unrealized premium	7,346	5,371
Unrealized financial instruments valuation expenses	637,379	652,181
Income collected in advance	27,055	9,737
Valuation of shares	68	815
Commissions	5,666	24,205
Debt securities available-for-sale	19,118	15,142
Unrealized cost related to asymmetric transaction	74,258	114,417
Differences between balance sheet and tax value of leases	-	2,610
Other:	16,440	24,583
Deferred tax assets	**967,618**	**1,062,789**

Deferred tax liabilities are attributable to the following:

In thousands of PLN	31.12.2006	31.12.2005
Accrued interest income	71,278	63,886
Unrealized premium from options	8	40
Unrealized financial instruments valuation income	618,827	673,440
Unrealized securities discount	910	380
Investment relief	22,377	23,054
Valuations of shares	667	738
Differences between balance sheet and tax value of leases	303	2,148
Other	4,204	19,511
Deferred tax provisions	**718,574**	**783,197**

Movement in temporary differences during the year

In thousands of PLN	Balance as at 31 December 2004	IFRS Adjustments	Balance as at 1 January 2005 after IFRS	Impact of expanded consolidation scope	Balance as at 1 January 2005 after restatement	IFRS Adjustments recognized in income	IFRS Adjustments recognized in equity	Balance as at 31 December 2005
Interest accrued and other expense	46,095	78	46,173	-	46,173	12,480	-	58,653
Loan loss provisions	175,621	17,198	192,819	(8,677)	184,142	(32,963)	-	151,179
Subordinated loans provisions	5,403	-	5,403	-	5,403	(1,507)	-	3,896
Unrealized premium	5,629	-	5,629	-	5,629	(258)	-	5,371
Unrealized financial instruments valuation expense	738,803	-	738,803	-	738,803	(86,622)	-	652,181
Income collected in advance	11,556	-	11,556	-	11,556	(1,819)	-	9,737
Valuation of shares	29,822	-	29,822	(3,558)	26,264	(25,449)	-	815
Commission	14,542	5,274	19,816	-	19,816	4,389	-	24,205
Debt securities available-for-sale	2,198	-	2,198	-	2,198	-	12,944	15,142
Unrealized cost related to asymmetric transaction	48,092	-	48,092	-	48,092	66,325	-	114,417
Settlement of retained tax loss	1,580	-	1,580	-	1,580	(1,580)	-	-
Differences between balance sheet and tax value of leases	926	-	926	-	926	1,684	-	2,610
Other	4,395	(1,530)	2,865	-	2,865	21,718	-	24,583
	1,084,662	**21,020**	**1,105,682**	**(12,235)**	**1,093,447**	**(43,602)**	**12,944**	**1,062,789**

In thousands of PLN	Balance as at 31 December 2004	IFRS Adjustments	Balance as at 1 January 2005 after IFRS	Impact of expanded consolidation scope	Balance as at 1 January 2005 after restatement	IFRS Adjustments recognized in income	Balance as at 31 December 2005
Interest accrued (income)	27,374	25,617	52,991	-	52,991	10,895	63,886
Unrealized premium from options	26	-	26	-	26	14	40
Unrealized financial instruments valuation income	775,058	-	775,058	-	775,058	(101,618)	673,440
Unrealized securities discount	2,383	-	2,383	-	2,383	(2,003)	380
Investment relief	23,754	-	23,754	-	23,754	(700)	23,054
Valuation of shares	2,690	-	2,690	(878)	1,812	(1,074)	738
Differences between balance sheet and tax value of leases	2,805	-	2,805	-	2,805	(657)	2,148
Other	22,962	-	22,962	-	22,962	(3,451)	19,511
	857,052	**25,617**	**882,669**	**(878)**	**881,791**	**(98,594)**	**783,197**

In thousands of PLN	Balance as at 31 December 2005	IFRS Adjustments recognized in income	Adjustments recognized in equity	Balance as at 31 December 2006
Interest accrued and other expense	58,653	9,710	-	68,363
Loan loss provisions	151,179	(42,134)	-	109,045
Subordinated loans provisions	3,896	(1,016)	-	2,880
Unrealized premium	5,371	1,975	-	7,346
Unrealized financial instruments valuation expenses	652,181	(14,802)	-	637,379
Income collected in advance	9,737	17,318	-	27,055
Valuation of shares	815	(747)	-	68
Commissions	24,205	(18,539)	-	5,666
Debt securities available-for-sale	15,142	-	3,976	19,118
Unrealized cost related to asymmetric transaction	114,417	(40,159)	-	74,258
Differences between balance sheet and tax value of leases	2,610	(2,610)	-	-
Other	24,583	(8,143)	-	16,440
	1,062,789	**(99,147)**	**3,976**	**967,618**

In thousands of PLN	Balance as at 31 December 2005	IFRS Adjustments recognized in income	Balance as at 31 December 2006
Interest accrued (income)	63,886	7,392	71,278
Unrealized premium from options	40	(32)	8
Unrealized financial instruments valuation income	673,440	(54,613)	618,827
Unrealized securities discount	380	530	910
Investment relief	23,054	(677)	22,377
Valuation of shares	738	(71)	667
Differences between balance sheet and tax value of leases	2,148	(1,845)	303
Other	19,511	(15,307)	4,204
	783,197	**(64,623)**	**718,574**

28. Other assets

In thousands of PLN	31.12.2006	31.12.2005
Interbank settlements	20,259	13,192
Settlements related to operations on derivative instruments	-	18,751
Settlements related to brokerage activity	564,624	224,799
Accounts receivable	58,932	15,608
Staff loans out of the Social Fund	33,094	38,943
Sundry debtors	78,145	81,998
Prepayments	46,693	37,575
Other assets	173	316
	801,920	**431,182**

29. Non-current assets held-for-sale

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

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

Non-current assets held-for-sale as at 31 December 2006

In thousands of PLN	Training and holiday centers	Own property	Total
Non-current assets held-for-sale			
Tangible fixed assets	**8,360**	**4,179**	**12,539**

As at 31 December 2006 Group's own property that fulfilled the requirements of IFRS 5 was classified as non-current assets held-for-sale. An active program to attract potential buyers and complete the sale plan is currently highly advanced. The sale transaction is expected to be completed by the end of 2007.

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

- Shares in the associated entity Handlowy Heller S.A. which was sold on 2 February 2006 (see Note 41).
- Assets and related liabilities of Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A. („TFI") and Handlowy Zarządzanie Aktywami S.A. („HANZA") which were sold on 1 February 2006 (see Note 41).
- Organized part of the Bank's enterprise that consists of card's transactions settlements within the Consumer Banking Sector. The Bank rents POS terminals and provides service as a settlement agent in accordance with Electronic Payment Instruments Act of 12 September 2002. The sale was completed on 31 January 2006 in aid of Cardpoint SA, with its headquarters in Poznań. The Extraordinary General Meeting agreed on the sale of this organized part of the Bank's enterprise in a resolution of 22 December 2005.
- Organized part of the Bank's enterprise that consists of holiday resorts located in Dźwirzyna, Rowy, Skubianka, Łeba and Wisła. In the 2006 resorts in Dźwirzyna, Skubianka and Łeba were sold. Resort in Rowy was sold in January of 2007 and the sale plan of holiday resort in Wisła is currently highly advanced.

30. Financial liabilities valued at amortized cost

Financial liabilities valued at amortized cost (by category)

In thousands of PLN	31.12.2006	31.12.2005
Deposits from financial sector:		
Current accounts, including:	1,334,998	946,015
current accounts of banks	*1,197,581*	*725,453*
Term deposits, including:	4,777,734	4,229,376
term deposits of banks	*2,462,685*	*1,624,486*
Accrued interest	43,873	26,286
	6,156,605	**5,201,677**
Deposits from non-financial sector:		
Current accounts, including:	5,770,674	5,487,025
corporate customers	*3,509,698*	*3,412,132*
individual customers	*1,737,527*	*1,499,724*
Term deposits, including:	13,089,778	11,755,614
corporate customers	*9,624,446*	*7,931,673*
individual customers	*2,494,529*	*3,034,863*
Accrued interest	19,725	19,014
	18,880,177	**17,261,653**
Total	**25,036,782**	**22,463,330**
Other liabilities:		
Loans and advances received	421,015	285,410
Liabilities in respect of securities subject to sale and repurchase agreements	223,329	8,174
Other liabilities, including:	306,202	302,686
cash collateral	*238,030*	*240,075*
Accrued interest	3,808	3,163
Other liabilities	**954,354**	**599,433**
Total	**25,991,136**	**23,062,763**

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

In thousands of PLN	31.12.2006	31.12.2005
Financial sector:		
up to 1 month	3,780,818	4,090,476
1 month - 3 months	1,160,183	34,338
3 months - 1 year	1,202,016	1,128,599
1 year - 5 years	402,308	97,396
over 5 years	3,949	143,108
Accrued interest	46,097	27,580
	6,595,371	**5,521,497**
Non-financial sector:		
up to 1 month	17,920,811	15,714,663
1 month - 3 months	887,357	912,729
3 months - 1 year	505,005	811,412
1 year - 5 years	60,826	81,104
over 5 years	457	457
Accrued interest	21,309	20,883
	19,395,765	**17,541,266**
	25,991,136	**23,062,763**

31. Provisions

In thousands of PLN	31.12.2006	31.12.2005
For disputes	20,120	19,673
For off-balance sheet commitments	24,258	36,578
	44,378	**56,251**

The movement in provisions is as follows:

In thousands of PLN	2006	2005
Balance as at 1 January	**56,251**	**217,808**
Provisions for:		
Disputes	19,673	14,456
Off-balance sheet commitments	36,578	39,352
General risk	-	164,000
Effects of transition to IFRS*	-	(156,935)
As at 1 January after restatement	**56,251**	**60,873**
Movements in provisions:		
Charges to provisions:	87,764	52,261
for litigations	7,556	12,453
for off-balance sheet liabilities	80,208	39,808
Use of provisions	(630)	(146)
Release of provisions:	(99,007)	(56,737)
for litigations	(6,479)	(7,090)
for off-balance sheet liabilities	(92,528)	(49,647)
Balance as at 31 December	**44,378**	**56,251**

**IAS 32 and 39*

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

32. Other liabilities

In thousands of PLN	31.12.2006	31.12.2005
Staff benefits	63,496	65,448
Interbank settlements	86,522	82,648
Interbranch settlements	598	1,386
Settlements related to brokerage activity	293,608	226,567
Settlements with Tax Office and National Insurance (ZUS)	8,963	3,858
Sundry creditors	119,911	185,837
Accruals	287,129	255,917
Provision for employee payments	152,444	118,544
Provision for employees retirement and jubilee payments	57,620	48,942
Other	77,065	88,431
Deferred income	104,544	97,431
	964,771	**919,092**

33. Capital and reserves

Share capital

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

Par value of 1 share = PLN 4.00

As at 30 June 2006, the Bank's share capital amounted to PLN 522,638,400 divided in 130,659,600 common bearer shares nominal value of PLN 4 each, which has not changed since 31 December 2005.

The Bank has not issued preference shares.

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

Principal shareholders

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

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

The structure of major shareholdings has changed in 2006. The change was due to the decrease of International Investment Associates (IFA) ownership, a subsidiary of COIC to below 5%.

The shares held by International Finance Associates B.V. (IFA), incorporated in the Netherlands, a subordinated entity of Citibank Overseas Investment Corporation (COIC) are designated for holders of Citibank N.A. Senior Exchangeable Notes (Bonds), which were issued in 2004 and amount to USD 436,5 million with an annual interest rate of 2.875% and maturity date in 2007. These Bonds are quoted on the Warsaw Stock Exchange. In accordance with the Bonds' issue conditions included in the Information Memorandum from 3 December 2004, every holder can exchange them for 4,951 Bank shares. According to information held by Bank, as a result of accomplishment of exchange rights, as at 31 December 2006 IFA held 1,903 shares, i.e. 0,001% of the authorized share capital of the Bank and 0,001% of votes at the General Meeting of Shareholders of Bank Handlowy w Warszawie S.A.

Before the change of structure of major shareholdings IFA held 18,722,874 shares, i.e. 14,3% of the authorized share capital of the Bank and 14.3% votes at the General Meeting of Shareholders of Bank Handlowy w Warszawie S.A., i.e. 14.3% of the votes. COIC's ownership held directly and indirectly via IFA was reduced from 89.3% to 75.0%.

Supplementary capital

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

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

Revaluation reserve

In thousands of PLN	31.12.2006	31.12.2005
Revaluation of financial assets available-for-sale	**(81,501)**	**(64,554)**

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

Other reserves

In thousands of PLN	31.12.2006	31.12.2005
Reserve capital	1,015,567	803,660
General risk reserve	390,000	390,000
Foreign currency translation adjustment	1,514	2,392
	1,407,081	**1,196,052**

Reserve capital

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

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

General risk fund

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

Dividends

Dividends paid in 2006

In accordance with Resolution No. 10 of the Ordinary General Meeting of the Bank of 22 June 2006 on the distribution of 2005 profit and dividend payment, the profit for 2005 was allocated, a resolution for the payment of dividends was adopted, the dividend date and the date of dividend payment were determined. The Bank proposed to pay out PLN 470,375 thousand as dividend (in 2005 dividend was paid out from 2004 profit: PLN 414,191 thousand and retained earnings: PLN 1,149,804 thousand). This means that the dividend per one ordinary share amounts to PLN 3.60 (in 2005 appropriately: PLN 3.17 and PLN 8.80).
The date of determination of the right to the dividend was designated as 5 July 2006. The date of dividend payment was 31 August 2006. As at 31 December 2006 the Bank did not have any liabilities in respect of approved dividends.

Declared dividends

On 13 March 2007 the Management Board of the Bank adopted a Resolution proposing the distribution of 2006 profit. The Management Board of the Bank proposed to pay out PLN 535,704,360.00 as a dividend. This proposal means that the dividend per one ordinary share amounts to PLN 4. The date of determination of the right to the dividend was designated as 5 July 2007 and the date of dividend payment as 31 August 2007. The resolution will be submitted to the Supervisory Board of the Bank to give an opinion and to the General Meeting of Shareholders for approval.

34. Repurchase and reverse repurchase agreements

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

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

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

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

*including interest

As at 31 December 2005 assets sold under repurchase agreements were as follows:

In thousands of PLN	Fair value of underlying assets	Carrying amount of corresponding liabilities*	Repurchase dates	Repurchase price
Trading instruments	8,183	8,186	To 1 month	8,188

*including interest

As at 31 December 2006 the total interest expenses on repurchase agreements was PLN 2,621 thousand (as at 31 December 2005: PLN 3,672 thousand).

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

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

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

*including interest

As at 31 December 2005 there were no assets purchased subject to agreements to resell.

As at 31 December 2006 total interest incomes on repurchase agreement was PLN 94 thousand (as at 31 December 2005 PLN 346 thousand).

35. Fair value information

Fair value of financial assets and liabilities

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

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

In thousands of PLN	31.12.2006		31.12.2005	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Equity investments accounted for under the equity method	67,909	67,909	61,884	61,884
Other equity investments	54,618	54,618	66,419	66,419
Loans and other receivables	19,516,218	19,510,135	16,006,146	16,004,372
Net fixed assets available-for--sale including:	12,539	12,539	30,385	183,001
Equity investments			*8,056*	*11,099*
Liabilities				
Financial liabilities valued at amortized cost	25,991,136	26,000,128	23,062,763	23,082,621

Fair Value Definition

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

Equity investments accounted for under the equity method:

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

Other equity investments:

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

Loans and advances:

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

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

Non-current assets held-for-sale:

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

Financial liabilities valued at amortized cost:

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

36. Contingent liabilities

Information on pending proceedings

As at 31 December 2006, no proceedings relating to the liabilities or receivables of the Bank or its subsidiaries, the value of which would correspond to at least 10% of the Group's shareholders' equity, were pending before any court, administrative authority or an arbitration court.
The total value of all pending court proceedings involving the Bank or its subsidiaries and related to their receivables exceeded 10% of the Group's shareholders' equity and amounted to PLN 1,274,637 thousand.

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

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

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

As at 31 December 2006, no proceedings relating to the liabilities or receivables of the Group or its subsidiaries, the value of which would correspond to at least 10% of the Group's shareholders' equity, were pending before any court, administrative authority or an arbitration court. The total value of all pending court proceedings involving the Group or its subsidiaries and related to their receivables exceeded 10% of the Group's shareholders' equity and amounted to PLN 699,005 thousand.

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

Parties to Proceedings	Litigation Value (in thousands of PLN)	Proceedings Commencement Date	Description of Case
Plaintiff: Borrower of the Bank **Defendant:** Bank Handlowy w Warszawie S.A.	149,202	5 October 2005	The plaintiff claims that the Bank's notice of termination of the contract was illegal and paralyzed the business activity of the plaintiff and resulted in significant loss of profits. Case pending.
Plaintiff: Borrower of the Bank **Defendant:** Bank Handlowy w Warszawie S.A.	42,306 with interest from 1 March 2002	23 May 2003	The suit concerns the irregularities of the Bank's activity during the restructuring of its client's debt – the plaintiff who bears a loss. On 3 February the court suspend the proceedings owing to proceedings of bankruptcy.
Plaintiff: Borrower of the Bank **Defendant:** Bank Handlowy w Warszawie S.A.	24,661	6 February 2006	The claimant requests the payment of PLN 233,000 plus statutory interest for a period from 3 November 1999 to the payment date and the amount of PLN 24,428,000 plus statutory interest from the date of filing a statement of claim (28 October 2005) to the payment date. The first amount refers to the claim for contractual damages and equals the difference between the amount of debts deducted by the claimant, arising from a letter of credit confirmed by the Bank and the loan granted to the claimant. The claim for PLN 24,428,000 is based on the Bank's liability in tort. Until now, the claimant did not present sufficient evidence, confirming that his claims are reasonable. The response to the statement of claim was filed on 20 February 2006. The court has not set the date of the first trial yet.
Plaintiff: Entrepreneur **Defendant:** Bank Handlowy w Warszawie S.A.	387,400	11 April 2006	The claimant requests the payment of compensation. In the plaintiff's opinion the Bank infringed copyright law. The petitioner claims that the Bank violated copyright law by applying a strategy in a marketing campaign, to which the claimant was entitled.
Participants of Administrative Process Polska Organizacja Handlu Dystrybucji, Visa CEMEA International w Warszawie, Europa International SA w Warszawie and banks including Bank Handlowy w Warszawie S.A.	10,200	20 April 2001	Accusation of applying practices restraining market competition throughout pricing agreement and association with settling of the level of "interchange" charges, coordination of activity to restrict access to market for entrepreneurs who do not belong to issuer market. On 12 January 2007 the Bank received Decision by President of Office of Fair Trading. According to his decision the Bank has to pay 10,200,000 PLN. Bank has the decision to appealed again.

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

Off-balance sheet commitments

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

In thousands of PLN	31.12.2006	31.12.2005
Off-balance sheet commitments granted:		
Letters of credit	195,566	149,681
including to related parties	-	-
Guarantees granted	2,779,418	2,778,598
including to related parties	-	-
Credit lines granted	9,177,576	8,720,951
including to related parties	-	*24,192*
Deposits to be issued	24,860	15,439
Issue guarantees	217,000	-
	12,394,420	**11,664,669**

In thousands of PLN	31.12.2006	31.12.2005
Letters of credit by categories:		
Import letters of credit issued	155,296	132,216
Export letters of credit confirmed	40,270	17,465
	195,566	**149,681**

In thousands of PLN	31.12.2006	31.12.2005
Contingent liabilities received:		
Financial	-	-
Guarantee	2,019,070	2,341,400
	2,019,070	**2,341,400**

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

The Group makes specific provisions for off-balance sheet commitments. As at 31 December 2006, the specific provisions created for off balance sheet commitments amounted to PLN 24,258 thousand, no provisions for off-balance sheet commitments granted to subordinated undertakings were created (31 December 2005: PLN 36,578 thousand, including off-balance sheet commitments to subordinated undertakings – PLN 80 thousand).

37. Assets pledged as collateral

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

In thousands of PLN	31.12.2006	31.12.2005
Liabilities		
Financial liabilities valued at amortized cost:		
Liabilities in respect of securities subject to sale and repurchase agreements	223,420	8,186

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

In thousands of PLN	31.12.2006	31.12.2005
Assets pledged:		
Debt securities held for trading	223,574	8,183
Debt securities available-for-sale	39,559	27,253
Loan and advantages		
From financial sector	53,392	4,050
Other assets		
Settlements related to operations on derivative instruments	21,847	21,687
	338,372	**61,173**

38. Trust activities

The Group is the leader on the market of custodian banks in Poland. It offers both custody services connected with securities accounts for foreign institutional investors and depositary services for Polish financial institutions, including pension, investment and equity insurance funds. As at 31 December 2006 the Group maintained 10,312 securities accounts (31 December 2005: 8,952 accounts).

39. Operating leases

Leases where the Group is the lessee

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

In thousands of PLN	31.12.2006	31.12.2005
Less than 1 year	41,153	41,148
Between 1 and 5 years	85,071	113,128
More than 5 years	4,696	7,937
	130,920	**162,213**
Total operating leasing rentals for unperceived time	**1,272**	**2,344**

The Group uses office space under operating lease contracts.
The most significant lease contracts relate to office space situated in Warsaw at Wolska 171/175 and Chałubińskiego 8. Generally the contracts have been signed for 5 years and there is an ability to extend them over the next three years. Some contracts have been signed for an unspecified period of time. Lease payments are under one year indexation. In 2006 the total amount of lease payments was PLN 37,378 thousand (in 2005: PLN 43,492 thousand).
These payments are presented in the income statement in "General expenses".

Leases where the Group is the lessor

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

In thousands of PLN	31.12.2006	31.12.2005
Less than 1 year	1,875	1,435
Between 1 and 5 years	4,897	6,368
More than 5 years	1,690	-
	8,462	**7,803**
Total operating leasing rentals for unprescribed time	**1,858**	**1,252**

Part of the Group's office space is leased. Most of the agreements are signed for an unspecified period of time. Other agreements are signed for a period of between 2 and 10 years. Lease payments are under one year indexation. In 2006 the income related to these contracts amounted to PLN 2,832 thousand (in 2005: PLN 2,686 thousand). These payments are presented in the income statement in "other operating income".

40. Cash flow statement

In thousands of PLN	31.12.2006	31.12.2005
Cash related items		
Cash at hand	366,211	299,817
Nostro current account in Central Bank	169,412	622,832
Current accounts in other banks	785,539	82,691
	1,321,162	**1,005,340**

41. Related parties

Transactions with related parties

Within its normal course of business activities the Group enters into transactions with related entities, in particular with entities of Citigroup Inc., subsidiaries and associates (see Note 20) and members of the Bank's supervisory board, management and employees.

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

Transactions with Citigroup Inc. entities

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

In thousands of PLN	31.12.2006	31.12.2005
Receivables, including:	1,192,309	2,478,919
Placements	1,155,110	2,403,679
Liabilities, including:	1,626,522	483,509
Deposits	1,602,682	398,526
Loans received	-	84,916
Balance valuation of derivative transactions		
Assets available-for-sale	2,118,399	2,580,110
Liabilities available-for-sale	2,457,095	2,653,971
Off-balance sheet guarantee liabilities granted	118,536	81,838
Off-balance sheet guarantee liabilities received	156,433	77,226
Interest and commission income	85,355	136,051
Interest and commission expense	19,838	9,695

Furthermore the Group incurs costs and receives income of an operational nature from agreements concluded between Citigroup Inc. entities and the Group for the provision of mutual services.
The costs arising and accrued in 2006 from concluded agreements amounted in total to PLN 138,209 thousand (in 2005: PLN 160,506 thousand) and related in particular to the costs arising from the provision of services related to the maintenance of the Group's information systems and advisory support for the Group; income of PLN 82,024 thousand (in 2005: 65,585 thousand) arose from the provision of data processing and other services by the Group.

Transactions with subordinated entities

In thousands of PLN	31.12.2006		31.12.2005	
	Subsidiaries	Associates	Subsidiaries	Associates
Loans, advances and other receivables:				
Current accounts (in respect of):	288,122	-	441,103	103,385
consolidated subordinated undertakings	*288,122*	-	*441,103*	-
subordinated undertakings accounted under for the equity method	-	-	-	*103,385*
Loans granted (in respect of):	47,866	-	12,774	-
consolidated subordinated undertakings	*47,866*	-	*12,774*	-
subordinated undertakings accounted under for the equity method	-	-	-	-
Subordinated loans (in respect of):	16,168	-	72,755	-
consolidated subordinated undertakings	-	-	*56,587*	-
subordinated undertakings accounted under for the equity method	*16,168*	-	*16,168*	-
	352,156	**-**	**526,632**	**103,385**
Loans, advances and other receivables:				
Opening balance	526,632	103,385	648,171	105,061
Closing balance	352,156	-	526,632	103,385
Deposits:				
Current accounts (in respect of):	342,916	-	375,950	349
consolidated subordinated undertakings	*323,891*	-	*359,083*	-
subordinated undertakings accounted under for the equity method	*19,025*	-	*16,867*	*349*
Term deposits (in respect of):	29,329	-	263,743	-
consolidated subordinated undertakings	*7,223*	-	*253,074*	-
subordinated undertakings accounted under for the equity method	*22,106*	-	*10,670*	-
	372,245	**-**	**639,693**	**349**
Deposits:				
Opening balance	639,693	349	540,519	314
Closing balance	372,245	-	639,693	349
Contingent liabilities granted:				
Letters of credit (in respect of):	381	-	5,207	-
consolidated subordinated undertakings	*381*	-	*5,207*	-
subordinated undertakings accounted for under the equity method	-	-	-	-
Guarantees granted (in respect of):	2,367	-	3,274	-
consolidated subordinated undertakings	*2,367*	-	*3,274*	-
subordinated undertakings accounted for under the equity method	-	-	-	-
Credit lines granted (in respect of):	282,161	-	212,110	24,193
consolidated subordinated undertakings	*282,161*	-	*212,110*	-
subordinated undertakings accounted for under the equity method	-	-	-	*24,193*
	284,909	**-**	**220,591**	**24,193**

In thousands of PLN	31.12.2006		31.12.2005	
	Subsidiaries	Associates	Subsidiaries	Associates
Interest and commission income (in respect of):	22,645	-	41,243	6,677
consolidated subordinated undertakings	*22,639*	-	*41,236*	-
subordinated undertakings accounted for under the equity method	*6*	-	*7*	*6,677*
Interest and commission expenses (in respect of):	9,516	-	20,296	-
consolidated subordinated undertakings	*8,844*	-	*19,952*	-
subordinated undertakings accounted for under the equity method	*672*	-	*344*	-

As at 31 December 2006, the amount of impairment write-downs for receivables of subsidiaries and associates amounted to PLN 7,209 thousand (31 December 2005: PLN 58,591 thousand), write-downs for off balance sheet commitments granted amounted to PLN 3,426 thousand (31 December 2005: PLN 2,441 thousand).

Transactions related to subordinated entities

The following transactions related to subordinated entities occurred in 2006:

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

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

  On the basis of this agreement the Bank transferred the ownership of the following shares in aid of the Purchaser:

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

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

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

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

- Under a public offer of the shares of Narodowy Fundusz Inwestycyjny Empik Media & Fashion SA, following the conditions of the Information Memorandum, on October 25, 2006 the sale transactions concluded on October 23, 2006 were settled. Thus, the Bank's subsidiary, Handlowy Investments S.A., a company under the Luxembourgian law, sold 10,179,175 shares of Narodowy Fundusz Inwestycyjny Empik Media & Fashion SA, constituting 9.96% of equity in Narodowy Fundusz Inwestycyjny Empik Media & Fashion SA, entitling to the same number of voting rights in the company's general meeting of shareholders, at PLN 10.50 per share. Following the transaction, Handlowy Investments S.A. does not hold any shares of Narodowy Fundusz Inwestycyjny Empik Media & Fashion SA. Income on sale amounted PLN 26,576 thousand

- According to the information received on December 22, 2006 from the Bank's subsidiary, Handlowy Investments S.A. ("HISA"), the conditions have been met, required for the effectiveness of the performance and confirmation by the parties to the agreement concluded on July 19, 2006 by HISA and Eastbridge B.V./S.a.r.l. ("EB"), regarding the sale by HISA to EB 82,753 of shares in EB for the total amount of PLN 93,750,000.00. Therefore, as a result of the above actions, EB acquired its own shares. Income on sale amounted PLN 57,938 thousand.

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

In thousands of PLN	31.12.2006			31.12.2005		
	Employees	Members of the Management Board	Members of the Supervisory Board	Employees	Members of the Management Board	Members of the Supervisory Board
Loans, advances and other receivables						
Loans granted	86,240	1,041	11	78,337	873	-
Staff benefits	33,094	-	-	39,209	-	-
Prepayments	52	3	-	154	1	-
	119,386	**1,044**	**11**	**117,700**	**874**	**-**
Deposits						
Current accounts	26,613	611	184	22,356	83	948
Term deposits	44,874	1,943	862	42,402	2,490	515
	71,487	**2,554**	**1,046**	**64,758**	**2,573**	**1,463**
Guarantees issued	84	-	-	367	-	-

42. Employee benefits

Employee benefits are divided into the following categories:

- short-term benefits, which include salaries, social insurance contributions, paid leave and benefits in kind (such as medical care, company apartments, company cars and other free or subsidized benefits). The costs of short-term benefits are expensed in the profit and loss account in the period to which they relate. At the end of a given reporting period, if there is a balance payable that equals the expected undiscounted value of short-term benefits for that period, the Group will record it as an accrued expense;
- benefits after termination of employment – including severance pay (see Note 2) and pension plans presented below offered by the Group to its staff.

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

Description of Employee Pension Plan

The objective of the Employee Pension Plan (the Plan) created by the Bank is to save and accumulate through investments funds from premiums paid within the Plan into an individual account of the participant in order to ensure benefit payments after the participant attains the age of 60 years or undergoes early retirement or if the participant obtains the rights to disability benefits due to incapacity for work.
The current Plan, which is a continuation of PPE Polskie Towarzystwo Emerytalne "Diament", was implemented on 19 March 2004 under an agreement with Legg Mason Senior Specjalistyczny Fundusz Inwestycyjny Otwarty ("LM Senior SFIO") and is registered in the District Court for Warsaw under number RFJ-8. LM Senior SFIO is managed by Legg Mason Towarzystwo Funduszy Inwstycyjnych SA and its transfer agent is Obsługa Funduszy Inwestycyjnych Sp. z o.o.

The basic premium for Plan participants is paid out of the Group's own funds. Each employee who participates in the Plan can also make additional premium contributions to the Plan. The total of premiums paid to Plan is invested in units of LM Senior SFIO.

- Other long-term employee benefits – jubilee and other long service awards. Information about jubilee awards is described in Note 2. These are paid under a pre-determined benefit scheme and an independent actuary in accordance with IAS 19 carries out their valuation.
- Employee equity benefits – in the form of stock options granted on Citigroup common stock and also under stock award programs based on shares of Citigroup common stock in the form of deferred stock. Valuation and presentation principles of these programs are described in Note 2. Detailed information concerning the employee equity benefits are presented in the further part of this note.

Provisions for the above employee benefits are as follows:

In thousands of PLN	31.12.2006	31.12.2005
Provision for remuneration	116,693	90,796
Provision for employees' retirement and jubilee payments	54,543	48,942
Provision for employees' equity compensation	38,828	27,748
Provision for personnel restructuring expense	-	10,501
	210,064	**177,987**

In 2006, the Group's expenses in respect of premiums for the employee pension plan amounted to PLN 13,760 thousand (in 2005: PLN 13,590 thousand).

In 2006, the average number of employees in the Group was 5,539 (in 2005: 5,591).

Description and principles of employee stock benefits

The Group's employees are entitled to participate in Citigroup equity compensation plans. In accordance with these plans the Group's employees may receive awards under stock option programs based on stock options granted on Citigroup common stock and also under stock award programs based on shares of Citigroup common stock in the form of deferred stock.

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

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

Assumptions of valuation of the employee equity benefit programs

The fair value of particular awards and the assumptions used in their measurement, except the Citigroup 2003 Stock Purchase Program, the amount of which is immaterial for the financial statements, are shown below:

SOP Program	Grant date	Exercise price/ stock price at grant date	Number of eligible employees	Number of options/shares
1	13.02.2002	42.11 or 41.90	325	132,908
2	12.02.2003	32.05	317	102,624
3	05.01.2004	49.00	1	150
4	20.01.2004	49.50	122	79,076
5	28.01.2004	50.07	1	307
6	17.02.2004	49.49	1	3,000
7	18.03.2004	50.82	1	77
8	30.03.2004	51.32	1	72
9	15.09.2004	47.19	1	129
10	18.01.2005	47.50	6	5,339
11	20.09.2005	45.36	1	2,000
12	17.01.2006	48.92	2	2,426

CAP Program	Grant date	Exercise price/ stock price at grant date	Number of eligible employees	Number of options/shares
1	12.02.2003	24.70	1	1,619
2	20.01.2004	37.27 or 49.69	31	25,577
3	18.01.2005	35.96 or 47.95	246	67,864
4	15.02.2005	49.25	1	3,900
5	15.11.2005	48.24	2	3,498
6	17.01.2006	36.58 or 48.77	215	111,606
7	21.11.2006	50.73	1	2,957

	SOP Program	CAP Program
Period to acquire the title (in years)	(1) 20% after the each of the following years (2)-(9) 33.33% after each of the following years (10)-(12) 25% after each of the following years	(2) after 3 years (1). (3)-(7) 25% after each of the following years
Expected variances	16.47%	16.47%
Life cycle of the instrument	(1)-(12) – year from the moment of rights acquisition	In the moment of rights acquisition
Risk free interest rate (for USD)	4.48%	4.48%
Expected dividends (in USD per one share)	1.96	1.96
Probability of premature termination of employment (annual staff turnover for awarded employees)	7%	7%
Fair value of one instrument* (in USD)	4.38-23.65	55.70

**Varies depending on the date of exercise.*

Options – volumes and weighted-average strike prices:

	31.12.2006		31.12.2005	
	Number ('000)	Weighted average strike price	Number ('000)	Weighted average strike price
At the beginning of the period	351,282	40.86	531,887	40.11
Allocated in the period	2,426	48.92	8,131	46.97
Redeemed in the period	58,493	37.70	57,104	39.32
Expired in the period	32,892	-	131,632	-
At the end of the period	328,107	39.94	351,282	40.86
Exercisable at the end of the period	257,460	39.69	227,852	38.74

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

31.12.2006			31.12.2005		
Striking price range (in USD)	Number ('000)	Weighted average period to the end of life cycle	Striking price range (in USD)	Number ('000)	Weighted average period to the end of life cycle
32.05	102,624	0.53	32.05	111,106	1.03
49.50	79,076	1.01	49.50	81,925	1.55
41.90	855	1.03	41.90	418	1.53
42.11	132,053	1.03	42.11	145,395	1.53
47.19	129	1.05	47.19	129	2.20
49.00	150	1.05	49.00	474	1.51
49.49	3,000	1.05	49.49	3,000	1.63
50.07	307	1.05	50.07	307	1.57
50.82	77	1.05	50.82	77	1.72
51.32	72	1.05	51.32	320	1.75
45.36	2,000	1.56	45.36	2,000	3.72
47.50	5,339	1.56	47.50	6,131	3.06
48.92	2,426	2.56	-	-	-

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

	31.12.2006		31.12.2005	
	Number ('000)	Weighted average strike price	Number ('000)	Weighted average strike price
At the beginning of the period	145,448	39.10	126,227	32.06
Allocated in the period	114,563	39.59	96,944	42.73
Redeemed/ expired in the period	42,989	-	77,723	-
At the end of the period	217,022	40.29	145,448	39.10

43. Subsequent events

As at 31 December 2006 there were no major events after the balance sheet date not included in the financial statement that could have a significant influence on the net result of the Group or required to be disclosed in the financial statement.

44. Risk management

Derivative instruments

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

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

As at 31 December 2006, the Group placed deposits at other institutions as collateral against derivative transactions amounting in total to PLN 3,347 thousand (31 December 2005: PLN 18,687 thousand), and for derivative transactions as at 31 December 2005, the Group received collateral totaling PLN 6,072 thousand.

Forward and swap FX contracts

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

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

Currency option contracts

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

Interest rate contracts

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

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

Interest rate option contracts

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

Securities term contracts

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

Share options

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

Futures contracts

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

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

Commodities derivatives

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

Market risk

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

Liquidity risk is defined as the risk of the Group failing to meet the financial obligations due to its customers and partners.
Pricing risk is defined as the risk of the negative impact on the Group's results of changes in market interest rates, foreign exchange rates, share prices and any other volatility parameters in respect of these rates and prices.

Liquidity risk management

Measurement and mitigation of the liquidity risk

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

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

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

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

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

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

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

In thousands of PLN	31.12.2006	31.12.2005	Change
Liquid assets, including:	10,077,752	9,977,915	99,837
• obligatory reserve in NBP and cash surplus	489,459	773,417	(283,959)
• debt securities held-for-trade	1,619,402	2,293,314	(673,911)
• debt securities available-for-sale	7,968,891	6,911,184	1,057,707
Cumulative liquidity gap up to 1 year	633,219	1,115,952	(482,733)
Coverage of the gap with liquid assets (in %)	Positive gap	Positive gap	Doesn't apply

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

Pricing risk management

Scope

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

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

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

Measurement of the banking portfolios pricing risk

The Group applies two methods for measuring the banking portfolios pricing risk:

- Interest Rate Exposure method
- Value at Close method.

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

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

Presentation of interest gap as at 31 December 2006

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

In million PLN	With revaluation date					Non-interest bearing	Total
	Till 1 M.	1 M. - 3 M.	3 M. - 1 Y.	1 Y. - 5 Y.	Over 5 Y.		
Cash and balances with Central Bank	(381)	568	25	245	-	-	457
Receivables from other bank's	1,047	45	30	-	-	-	1,122
Receivables from customers - loans	6,777	410	396	442	13	-	8,038
Debt securities available-for-sale							
Treasury bills	15	13	45	-	-	-	73
Treasury bonds*	136	1,462	450	2,089	1,100	-	5,237
Other assets	-	-	-	-	-	5,061	5,061
Total assets	**7,594**	**2,498**	**946**	**2,776**	**1,113**	**5,061**	**19,988**
Due to banks	1,347	838	555	30	-	-	2,770
Due to non-banking customers	11,944	423	884	2,388	3	-	15,642
Own funds	-	-	-	-	-	5,304	5,304
Other liabilities	-	-	-	-	-	2,920	2,920
Total liabilities	**13,291**	**1,261**	**1,439**	**2,418**	**3**	**8,224**	**26,636**
Gap	**(5,697)**	**1,237**	**(493)**	**358**	**1,110**	**(3,163)**	**(6,648)**

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

In million PLN	With revaluation date					Non-interest bearing	Total
	Till 1 M.	1 M. - 3 M.	3 M. - 1 Y.	1 Y. - 5 Y.	Over 5 Y.		
Cash and balances with Central Bank	(56)	-	-	-	-	-	(56)
Receivables from other bank's	4,676	112	839	413	22	-	6,062
Receivables from customers - loans	127	7	28	38	-	-	200
Debt securities available-for-sale							
Treasury bonds*	9	58	361	189	96	-	713
Other assets	-	-	-	-	-	138	138
Total assets	**4,756**	**177**	**1,228**	**640**	**118**	**138**	**7,057**
Due to banks	9	8	579	-	-	-	596
Due to non-banking customers	1,060	90	176	482	-	-	1,807
Other liabilities	-	-	-	-	-	146	146
Total liabilities	**1,069**	**98**	**755**	**482**	**-**	**146**	**2,550**
Gap	**3,687**	**79**	**473**	**158**	**118**	**(8)**	**4,507**

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

In million PLN	With revaluation date					Non-interest bearing	Total
	Till 1 M.	1 M. - 3 M.	3 M. - 1 Y.	1 Y. - 5 Y.	Over 5 Y.		
Cash and balances with Central Bank	(180)	-	-	-	-	-	(180)
Receivables from other bank's	631	81	67	309	33	-	1,121
Receivables from customers - loans	997	98	75	14	-	-	1,184
Debt securities available-for-sale							
Treasury bonds*	52	-	395	1,099	621	-	2,167
Other assets	-	-	-	-	-	191	191
Total assets	**1,500**	**179**	**537**	**1,422**	**654**	**191**	**4,483**
Due to banks	366	111	29	70	-	-	576
Due to non-banking customers	1,857	48	190	841	1	-	2,937
Other liabilities	-	-	-	-	-	143	143
Total liabilities	**2,223**	**159**	**219**	**911**	**1**	**143**	**3,656**
Gap	**(723)**	**20**	**318**	**511**	**653**	**48**	**827**

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

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

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

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

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

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

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

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

Measurement of the trading portfolios pricing risk

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

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

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

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

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

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

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

	31.12.2006	31.12.2005	In the period 01.01.06 - 31.12.06		
			Average	Maximum	Minimum
Foreign exchange risk	347	209	938	4,943	84
Interest rate risk	2,799	4,634	3,821	6,773	1,352
Total risk	2,742	4,611	3,985	6,829	1,539

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

Equity instruments risk

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

Effective interest rate

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

As at 31 December 2006:

	Corporate and Investment Bank			Consumer Bank		
	PLN	EUR	USD	PLN	EUR	USD
ASSETS						
Receivables from financial and non-financial sector						
term	5.31	5.27	5.11	20.66	5.95	7.40
Debt securities	4.84	3.49	2.99	-	-	-
LIABILITIES						
Liabilities to financial and non-financial sector						
term	4.00	3.33	5.25	3.62	2.02	3.52

As at 31 December 2005:

	Corporate and Investment Bank			Consumer Bank		
	PLN	EUR	USD	PLN	EUR	USD
ASSETS						
Receivables from financial and non-financial sector						
term	5.9	4.21	4.13	23.60	-	-
Debt securities	4.83	2.87	3.26	-	-	-
LIABILITIES						
Liabilities to financial and non-financial sector						
term	4.33	2.05	4.19	3.17	1.30	2.16

Currency structure

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

In thousands of PLN	31.12.2006	31.12.2005
Assets:		
PLN	23,795,070	24,244,679
EUR	4,534,823	3,666,436
USD	7,042,912	4,474,889
GBP	82,287	136,257
CHF	202,470	312,461
Other currencies	333,173	42,842
	35,990,735	**32,877,564**
Liabilities		
PLN	29,281,940	27,291,710
EUR	3,751,299	3,025,646
USD	2,568,478	2,294,429
GBP	160,302	182,900
CHF	81,969	47,665
Other currencies	146,747	35,214
	35,990,735	**32,877,564**

Credit risk management

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

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

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

Corporate & Investment Banking risk management include the following elements:

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

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

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

Concentration of exposure

Exposure limits

The Banking Act of 29 August 1997 (Journal of Laws of 2002 No. 72, item 665, as later amended) and its executive regulations issued by the Commission for Banking Supervision define maximum exposure limits for a Group. Under article 71 paragraph 1 of the Act, which came into force as of 1 January 2002, total balance sheet and off-balance sheet exposure from one or more capital and organizationally related entities cannot exceed 20% of the Group's equity when one of the entities is a parent entity or subsidiary undertaking of the Group or is a subsidiary undertaking to a parent entity of the Bank or cannot exceed 25% of the Bank's equity when there is no such relationship between the Bank and the borrower. Pursuant to provisions of the Resolution No. 4/2004 of the Commission for Banking Supervision dated 8 September 2004 regarding specific rules for calculating capital requirements for banking risk categories (...) (NBP Official Journal No. 15, item 25) the Group is allowed to maintain exposure exceeding concentration limits, as defined in article 71 paragraph 1 of the Banking Act, on condition that the excess exposure relates only to transactions classified to trading portfolio. Equity for the purpose of setting concentration limits specified in the Banking Act, has been established in accordance with resolution No. 5/2004 of the Commission for Banking Supervision dated 8 September 2004 regarding specific rules for calculating equity for banks (...) (NBP Official Journal No. 15, item 26).

As at 31 December 2006, the Group had an exposure to a related party from the banking sector exceeding the statutory debt concentration limits. The excess exposure arose by virtue of derivative transactions. As a consequence, an additional capital requirement for excess exposure was factored into the calculation of the Group's capital adequacy ratio as at 31 December 2006.

The Group sets out to limit its exposure to a group of customers. As at 31 December 2006, the Group's exposure in banking portfolio transactions with customers, which all-in exceeded 10% of the Group's equity, amounted to PLN 2,596,676 thousand i.e. 76.6% of these funds (31 December 2005: PLN 2,542,206 thousand i.e. 79%).

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

In mln PLN	31.12.2006			31.12.2005		
	Balance Outstanding*	Off-Balance Outstanding	Total Outstanding	Balance Outstanding*	Off-Balance Outstanding	Total Outstanding
Group 1	180,299	360,088	540,387	209,183	261,334	470,517
Group 2	327,613	144,832	472,445	234,461	113,661	348,122
Customer 3	127,231	302,773	430,004	15	55,211	55,226
Customer 4	241,001	159,164	400,165	241,396	160,000	401,396
Group 5	255,437	130,836	386,273	257,342	286,903	544,245
Group 6	106,960	260,442	367,402	112,108	75,540	187,648
Customer 7	60,792	274,310	335,102	18	60,914	60,932
Group 8	5	309,856	309,861	6	211,303	211,309
Group 9	38,568	244,209	282,777	38,848	212,455	251,303
Group 10	71,468	194,543	266,011	80,181	203,465	283,646
Total	**1,409,374**	**2,381,053**	**3,790,427**	**1,173,558**	**1,640,786**	**2,814,344**

Excluding outstanding on commercial papers and subsidiaries.

Concentration of exposure in individual industries

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

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

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

The Bank's policy distinguishes the following criteria as the basis for negative selection:
- Industries excluded in view of their incompatibility with the characteristics of small and medium enterprises,
- Industries excluded in view of their sensitivity to market factors and earnings volatility,
- Industries excluded in view of their declining trends in performance.

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

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

Sector of the economy according to Polish Classification of Economic Activity (PKD)	31.12.2006	31.12.2005
	%	%
Wholesale and sale on commission basis, except for trade with vehicles and motorcycles	16.1	16.6
Financial intermediation, except for insurance and retirement fund business	9.9	7.4
Provision of power, gas, steam and hot water	9.6	9.2
Production of food and beverages	5.8	6.6
Production of chemicals	5.4	5.3
Postal services and telecommunications	5.2	2.0
Production of coke, oil refinery and atomic fuel	4.0	2.1
Construction	3.7	3.3
Retail trade, except for trade with vehicles and motorcycles; servicing and repair of personal commodities	3.7	3.7
Production of rubber and plastic goods	3.2	2.4
Top 10 business sectors	**66.6**	**58.6**
Production of equipment, otherwise unclassified	2.7	2.5
Other business services	2.5	2.0
Non-life Insurance and pension funding	2.4	2.2
Sale, servicing and repair of vehicles and motorcycles, retail sale of car fuel	2.1	2.7
Production of vehicles, trailers and semi-trailers	1.9	2.7
Production of other transportation equipment	1.7	2.2
Production of metallic goods, except for machines and equipment	1.6	1.3
Production of radio, television and telecommunications equipment	1.4	1.4
Production of goods out of other non-metallic resources	1.3	1.6
Production of tobacco goods	1.3	0.7
Top 20 business sectors	**18.9**	**19.3**
Other sectors	**14.5**	**22.1**
	100.0	**100.0**

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

Operational risk

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

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

Key operational risk management principles as well as roles and responsibilities of different management levels have been formalized in the "Operational Risk Policy". The Business Risk, Control and Compliance Committee are responsible for ongoing monitoring of the Group's operational risk. Issues, events and indicators pertaining to operational risk are being regularly reported to this Committee. At the same time the management of risks (including the self assessment process) within the Group's organizational units are subject to rated internal audit review.

As part of operating losses analysis the following categories are captured:

- losses resulting from employees' mistakes (transaction capture, execution and maintenance),
- losses resulting from external fraud and theft,
- losses resulting from systems and technology flaws.

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

45. Explanation of expanded consolidation scope

Impact of expanded consolidation scope

As at 1 January 2005 the Group has changed the scope of fully consolidated entities by adding Handlowy Investments S.A. (HISA). 2006 financial results of HISA are material from the point of view of consolidated financial statements of the Group. Until now HISA was accounted for under equity method, due to insignificant impact of the company's financial data on the Group's results.

Impact of the change of the consolidation scope on shareholder's equity and net profit is presented in the tables below:

Balance sheet as at 1 January 2005

In thousands of PLN	Before consolidation	Impact of expanded consolidation	After consolidation
ASSETS			
Cash and balances with Central Bank	841,114	-	841,114
Financial assets held for trading	5,317,395	-	5,317,395
Debt securities available-for-sale	6,091,194	-	6,091,194
Equity investment accounted for under the equity method	86,674	-	86,674
Other equity investments	28,087	53,928	82,015
Loans and advances	18,673,603	(74,051)	18,599,552
Tangible fixed assets	755,346	-	755,346
Intangible assets	1,309,766	11	1,309,777
Deferred income tax assets	234,317	(15,117)	219,200
Other assets	602,998	-	602,998
Total assets	**33,940,494**	**(35,229)**	**33,905,265**
LIABILITIES			
Liabilities due to Central Bank	718	-	718
Financial liabilities held for trading	4,194,290	-	4,194,290
Financial liabilities valued at amortized cost	22,678,859	(20,150)	22,658,709
Provisions	60,873	-	60,873
Income tax liabilities	24,226	-	24,226
Other liabilities	711,443	7	711,450
Total liabilities	**27,670,409**	**(20,143)**	**27,650,266**
EQUITY			
Issued capital	522,638	-	522,638
Share premium	3,077,176	-	3,077,176
Revaluation reserve	(6,892)	-	(6,892)
Other reserves	2,130,962	111,289	2,242,251
Retained earnings	546,201	(126,375)	419,826
Total equity	**6,270,085**	**(15,086)**	**6,254,999**
Total liabilities and equity	**33,940,494**	**(35,229)**	**33,905,265**

Balance sheet as at 31 December 2005/01 January 2006

In thousands of PLN	Before consolidation	Impact of expanded consolidation	After consolidation
ASSETS			
Cash and balances with Central Bank	922,649	-	922,649
Financial assets held for trading	5,883,358	-	5,883,358
Debt securities available-for-sale	7,171,157	-	7,171,157
Equity investment accounted for under the equity method	61,884	-	61,884
Other equity investments	20,615	45,804	66,419
Loans and advances	16,074,250	(68,104)	16,006,146
Tangible fixed assets	700,212	-	700,212
Intangible assets	1,313,799	-	1,313,799
Deferred income tax assets	299,290	(16,246)	283,044
Other assets	430,574	608	431,182
Fixed assets held-for-sale	37,714	-	37,714
Total assets	**32,915,502**	**(37,938)**	**32,877,564**

In thousands of PLN	Before consolidation	Impact of expanded consolidation	After consolidation
LIABILITIES			
Financial liabilities held for trading	3,420,219	-	3,420,219
Financial liabilities valued at amortized cost	23,084,589	(21,826)	23,062,763
Provisions	56,251	-	56,251
Income tax liabilities	163,311	-	163,311
Other liabilities	918,991	101	919,092
Liabilities held-for-sale	7,329		7,329
Total liabilities	**27,650,690**	**(21,725)**	**27,628,965**
EQUITY			
Issued capital	522,638	-	522,638
Share premium	3,010,452	-	3,010,452
Revaluation reserve	(64,554)	-	(64,554)
Other reserves	1,128,860	67,192	1,196,052
Retained earnings	667,416	(83,405)	584,011
Total equity	**5,264,812**	**(16,213)**	**5,248,599**
Total liabilities and equity	**32,915,502**	**(37,938)**	**32,877,564**

Consolidated income statement for the period from 1 January to 31 December 2005

In thousands of PLN	Before consolidation	Impact of expanded consolidation	After consolidation
Interest and similar income	1,676,797		1,676,797
Interest expense and similar charges	(648,614)	111	(648,503)
Net interest income	**1,028,183**	**111**	**1,028,294**
Fee and commission income	715,002	(6)	714,996
Fee and commission expense	(118,675)	-	(118,675)
Net fee and commission income	**596,327**	**(6)**	**596,321**
Dividend income	2,095	-	2,095
Net trading income and revaluation	468,194	6,702	474,896
Net gain on investment (deposit) securities	121,841	-	121,841
Net gain on investment (capital) instruments	15,544	-	15,544
Other operating income	136,336	-	136,336
Other operating expenses	(61,246)	-	(61,246)
Net other operating income	**75,090**	**-**	**75,090**
General administrative expenses	(1,405,008)	(322)	(1,405,330)
Depreciation expense	(140,296)	-	(140,296)
Profit/(loss) on sale of tangible fixed assets	3,324	-	3,324
Net impairment charges	33,823	(3,638)	30,185
Operating income	**799,117**	**2,847**	**801,964**
Share in profits/(losses) of undertakings accounted for under the equity method	(5,686)	-	(5,686)
Profit before tax	**793,431**	**2,847**	**796,278**
Income tax expenses	(177,047)	(1,130)	(178,177)
Net profit	**616,384**	**1,717**	**618,101**

Value adjustments concerning statement of cash flow result form adjustments in balance sheet and income statement.

46. Capital adequacy

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

	31.12.2006	31.12.2005
Total capital requirement	1,923,574	1,748,670
Funds held by the entity, including:	3,390,917	3,230,592
Primary funds (including deductions)	3,556,495	3,381,253
Counterpart funds	(81,501)	(64,554)
Reductions of the total primary and counterpart funds	84,077	86,107
Capital adequacy ratio (%)	14.10	14.78

47. Statement of the Bank's Management Board

Accuracy and fairness of the statements presented

To the best knowledge of the Bank's Management Board, the financial data for the year 2006 and the comparative data presented in the "Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the period from 1 January 2006 to 31 December 2006" were prepared consistently with the accounting standards in force and reflect the accurate, true and fair view of assets and financial position as well as the financial profit or loss of the Bank. The Annual Report on Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in 2006 contained in this document is a true representation of the development, achievements and situation (together with a description of the main risks) of the Group in 2006.

Selection of the entity authorized to examine financial statements

The entity authorized to examine financial statements, reviewing the "Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the period from 1 January to 31 December 2006", was selected consistently with the legal regulations. This entity along with the registered auditor met the conditions necessary for issuing an impartial and independent opinion on the review, consistently with the respective regulations of the Polish law.

Signatures of all Management Board Members

Date	Name	Position/function	Signature
16.03.2007	Sławomir S. Sikora	President of the Management Board	
16.03.2007	Edward Wess	Vice-President of the Management Board	
16.03.2007	Sonia Wędrychowicz- -Horbatowska	Vice-President of the Management Board	
16.03.2007	Witold Zieliński	Vice-President of the Management Board	
16.03.2007	Lidia Jabłonowska-Luba	Member of the Management Board	
16.03.2007	Michał H. Mrożek	Member of the Management Board	

Report on Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in 2006

Poland's Economy in 2006

Main Macroeconomic Trends

In 2006, economic growth amounted to 5.8% year on year, versus 3.2% generated in 2005. The most significant increase in the pace of growth was noted in the case of capital expenditure. After years of exceptionally weak investment activity, enterprises begun to increase their spending on plants and equipment and implemented projects co-funded from EU funds. As a result, investments increased by 16.7% year on year, as compared with the growth by 6.5% in the previous year. Positive trends in capital expenditure and dynamic growth in individual consumption (related to recovery in the labor market and indexation of pensions) mean that the burden of economic growth was borne by the national demand. However, decreased importance of foreign trade for economic growth resulted not only from weakened exports but above all from import strengthening.

In 2006, the highest improvement was noted in the case of the situation in the labor market. The dynamic economic growth resulted in a gradual increase in demand for new employees by enterprises. Because this was accompanied by economic emigration to EU Member States, the unemployment rate fell in December 2006 to 14.9%, which was the lowest level since 2000. At the same time, employment in the enterprise sector increased at a record-setting pace, increasing even by 4.1% year on year in December. Despite a dynamic improvement in the labor market, wage pressure remained in 2006 under control. The average increase in wages in 2006 was 5.1% year on year, versus 3.2% year on year in December 2005.

Despite recovery in the labor market and strong economic growth, the inflation pressure remained relatively low. Although the increase in draught contributed to a significant growth in food prices in the second half of 2006, the CPI in December amounted only to 1.4% year on year. The low inflation level made the Monetary Policy Council lower the interest rates twice, in January and February 2006, as a result of which the reference rate was reduced to an all time low of 4.00%. Nevertheless, the subsequent months were characterized by stabilization in the monetary policy.

Good economic situation was also reflected in the monetary sphere. On the money supply side, the most important change was noted in revival in household deposits. At the end of December 2006, their value was by 9.6% higher than in November 2005. Simultaneously, growth of corporate deposits was maintained.

In 2006, marked recovery was noted in corporate loans. Their value increased in December 2006 by 14.1% year on year, which was the fastest pace since 2000. Dynamic investment recovery contributed to enhanced demand for corporate loans. On the other hand, the rapid growth in consumption and recovery in the housing market led to an increase in household loans by 33.4% year on year.

Money Markets and FX Markets

In 2006, the very good condition of the Polish economy and constant inflow of funds from EU and direct investments contributed to appreciation of the national currency. However, macroeconomic fundamentals were reflected only to a limited extent in changes of foreign currency exchange rates, which underwent considerable fluctuations in the first half of the year.

The most important internal risk factor in 2006 was an unstable political situation. Investors reacted particularly nervously to the recurring news on potential shortening of the Parliament's term, and they calmly accepted the creation of the majority government with participation of Samoobrona and LPR, which ended the tiring period of political insecurity. The political factors once again became the focus of attention at the end of September, when zloty depreciated as a result of transitional conflict of the government coalition.

For the major part of the year, the situation in foreign markets contributed to an increase in the value of domestic currency apart from a short period at the end of the second quarter, when the sharp declines on worldwide stock exchanges prompted dramatic escapes of investors from emerging markets. As a result, zloty has considerably lost in value despite the fact that economic fundamentals did not considerably change and did not justify such a dramatic reaction of international investors. Zloty returned for good to its increasing trend only at the end of the fourth quarter of 2006, when the boom in the main markets of equity securities, which was associated with the falling feedstock prices and good results obtained by enterprises, encouraged the investors to invest their capital in more risky assets.

For bonds, 2006 was much more difficult than the previous year. Expectations of cuts in interest rates, which attracted foreign capital and contributed to an increase in the prices of debt securities in 2005, expired already in March when it became clear that despite falling inflation the Monetary Policy Council is not willing to further relax monetary policy in the situation or more and more numerous signs of growing economic activity. Furthermore, in the first half of 2006, the stock prices of Polish debt securities were very sensitive to the events on the political arena. The worst month for the debt market was June, when demission of the minister of finance coincided with zloty weakening and increased expectations of interest rate increases in Poland. A definite improvement in attitudes was noted only in the last quarter of 2006. Maintenance of CPI at a relatively low level and a series of moderated statements of the Monetary Policy Council might have created an impression in the market players that the inflationary pressure ceased to be a problem for the monetary authorities. The investors willingly bought Polish securities also due to the fact that the optimistic information received from the Ministry of Finance on the lower-than-expected budget implementation in 2006 suggested a lower supply of debt securities in the last months of the year.

Capital Market

2006 was a successful year for the stock market. The basic index, WIG rose by 42% from 35,600 as of the end of 2005 to 50,412 as of the end of 2006. WIG20 (most liquid companies) jumped by 24%.

In 2006, the market followed the bull trend that commenced in 2003. At the turn of the second quarter, an over 20% correction was observed and the next wave of growth started in the beginning of June, which lifted WIG (main index) to its all time high.

The most significant events included the successful debut of the largest company of our region – the Czech energy conglomerate CEZ, as well as of dozens of smaller companies. At the end of 2005, the Warsaw Stock Exchange traded 255 companies, while a year later this had risen to 284. More foreign companies entered the market. In 2006, their number increased from 7 to 12. Debuting companies significantly expanded stock market capitalization – as of the end of 2006 national companies were valued at PLN 437.7 billion (i.e. 42% higher than the level of PLN 308.4 billion). Total capitalization (including foreign companies) increased from PLN 424.9 billion in 2005 to PLN 635.9 billion in 2006.

Stock exchange indexes – December 31, 2006

Indeks	2006	Change (%)	2005	Change (%)	2004
WIG	50,411.82	41.6	35,600.80	33.7	26,636.20
WIG-PL	50,361.39	42.8	35,277.70	32.9	26,540.10
WIG20	3,285.49	23.7	2,654.95	35.4	1,960.60
MIDWIG	3,733.26	69.1	2,207.74	27.6	1,730.10
TECHWIG	1,201.5	42.3	844.41	26.7	666.30
WIRR	12,716.59	132.4	5,471.33	15.5	4,738.60
Sector subindexes					
Banks	70,858.39	51.4	46,787.80	32.0	35,454.40
Construction	77,034.96	148.4	31,007.30	63.1	19,014.60
IT	17,565.84	34.8	13,032.90	0.3	12,996.50
Food	38,323.98	50.6	25,444.10	7.1	23,761.60
Telecoms	13,400.1	8.2	12,382.00	20.9	10,242.90

Source: Warsaw Stock Exchange, Dom Maklerski Banku Handlowego S.A.

Increasing indexes were correlated with investors' activity in the capital market. Turnover in equity securities rose by 83% from PLN 175.4 billion to PLN 320.3 billion, following the bullish trend initiated in 2003.
Turnover in bonds increased by 8.5% and totaled PLN 5.5 billion, as compared with PLN 5.06 billion in 2005.
The increasing indexes and the persistent bull trend in the stock market had a very positive impact on turnover in the futures market – in 2006 they were 19% higher than in 2005.

Turnover on the Warsaw Stock Exchange – December 31, 2006

	2006	Zmiana (%)	2005	Zmiana (%)	2004
Stocks (in millions of PLN)	320,291	82.6	175,403	59.8	109,775
Bonds (in millions of PLN)	5,488	8.5	5,059	-35.3	7,820
Futures (pcs.)	6,386	18.7	5,378	51.4	3,552

Source: Warsaw Stock Exchange, Dom Maklerski Banku Handlowego S.A.

Banking Sector

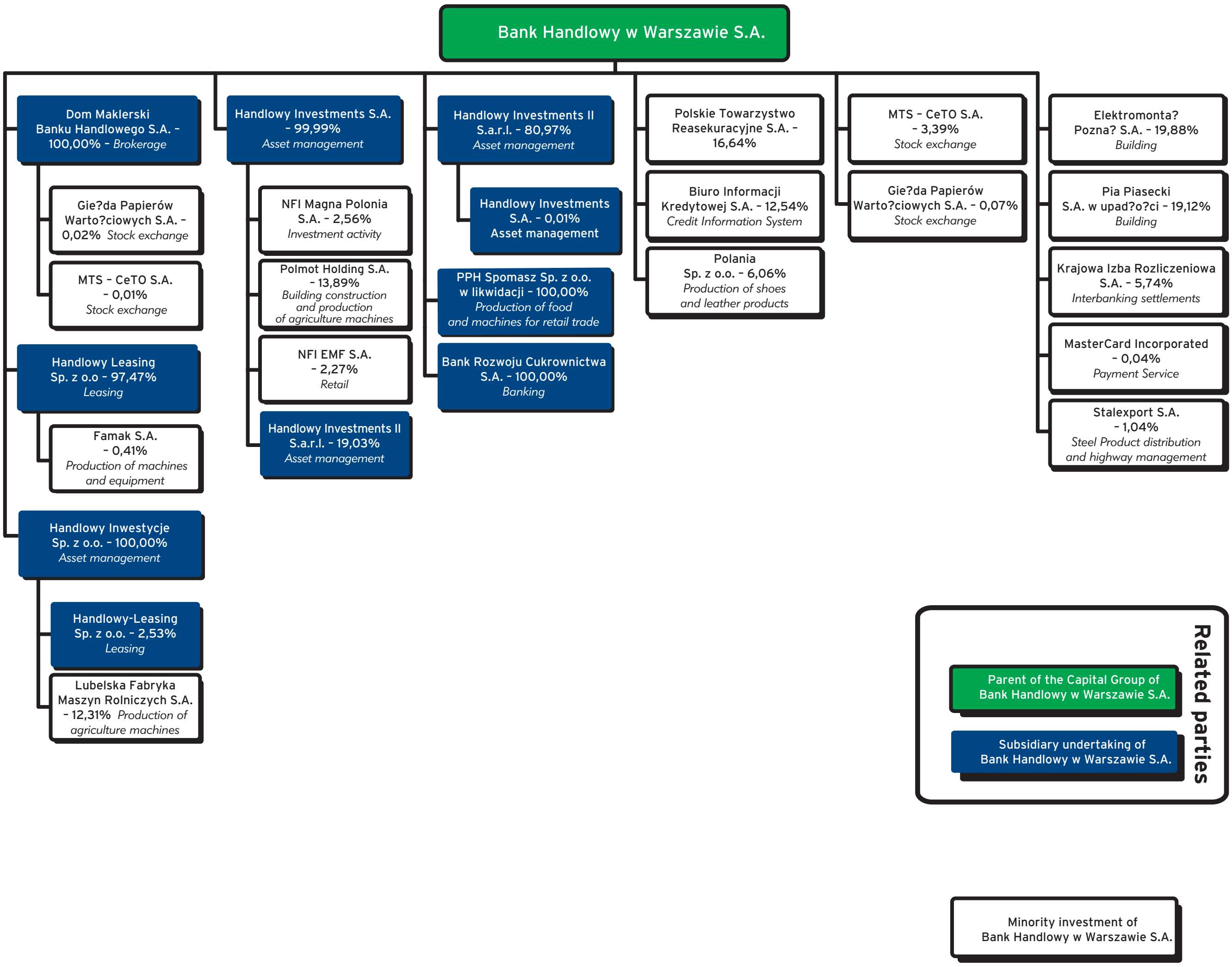
In 2006, the net income of the entire banking sector was PLN 10.7 billion, i.e. it increased by 16.0% as compared with 2005. The excellent result reflects the strength of Poland's economy. The profitability of the sector was mainly influenced by an increase in banking activity (increase in the net interest income and net commission income, the remaining elements of the result on banking activity were in total slightly lower) and a lower increase in costs than the increase in the result on banking activity as well as the costs of loan provisions lower than in the previous years.

In 2006, loans to individual customers increased by 37.5% year on year, including an increase in mortgage loans by 54.7% year on year, while deposits placed by those customers rose by 6.2% year on year. The gap resulted from the fact that bank deposits were relatively unattractive due to low rates and the continued transformation of the savings structure for individual customers (more assets allocated to investment funds).

The corporate loan portfolio rose by 14.0% as compared with the end of 2005. Nevertheless, the good situation continued in the market of corporate deposits (growth by 26.0% year on year). The situation in the market for loans and corporate deposits reflects the over liquidity of enterprises due to very good financial results; investment outlays are to a large extent funded from profits obtained.

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 31 December 2006, is presented below.



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	-	-	5,304,564*
Dom Maklerski Banku Handlowego S.A. (DMBH)	brokerage	subsidiary	100.00%	full consolidation	103,339
Handlowy-Leasing S.A.	leasing	subsidiary	100.00%**	full consolidation	199,969
Handlowy Investments S.A.	investment activity	subsidiary	100.00%	full consolidation	(2,675)
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	13,906
Handlowy Investments II S.a.r.l.	investments	subsidiary	100.00% **	equity valuation	8,204
Bank Rozwoju Cukrownictwa S.A.	banking	subsidiary	100.00%	equity valuation	40,100

***Taking into account indirect shareholdings.*

Changes in the structure of the Group

In 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 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 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.

Selected Financial Data of the Capital Group of Bank Handlowy w Warszawie S.A.

Selected Financial Data of the Group

In millions of PLN	2006	2005
Total assets	35,990.7	32,877.6
Equity	5,417.8	5,248.6
Loans*	10,196.9	9,607.1
Deposits*	18,880.2	17,261.7
Net profit	657.1	618.1
Capital adequacy ratio	14.10%	14.78%

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

Financial Results of the Group for the Year Ended December 31, 2006

Income Statement

The Group's net profit in 2006 was PLN 657.1 million, i.e. PLN 39.0 million or 6.3% more than in the previous year. The profit before tax obtained by the Group in 2006 attained the level of PLN 832.1 million, which corresponds to an increase by PLN 35.8 million (i.e. 4.5%) as compared with 2005.

In 2006, the Group noted a lower operating income by PLN 14.1 million (i.e. 0.6%) compared to the previous year, which included the net interest income, dividend income, net gains on financial instruments held for trading and on revaluation, net gains on investment debt securities and on equity securities, net other operating income and net gains on sale of fixed assets.

The revenues obtained were accompanied by a decrease in overheads and general administrative expenses and depreciation by 44.1 million (i.e. 2.9%) as compared with 2005.

In thousands of PLN	2006	2005	Change	
			PLN'000	%
Net interest income	1,026,401	1,028,294	(1,893)	(0.2%)
Net commission income	617,902	596,321	21,581	3.6%
Dividend income	3,659	2,095	1,564	74.7%
Net gains on financial instruments held for trading and on revaluation	315,906	474,896	(158,990)	(33.5%)
Net gains on investment debt securities	36,571	121,841	(85,270)	(70.0%)
Net gains on investment equity securities	95,846	15,544	80,302	516.6%
Net other operating income	88,756	75,090	13,666	18.2%
Overheads and general administrative expenses	(1,371,372)	(1,405,330)	33,958	2.4%
Depreciation	(130,186)	(140,296)	10,110	7.2%
Net gains on sale of fixed assets	118,316	3,324	114,992	3459.4%
Net change in impairment losses	22,535	30,185	(7,650)	(25.3%)
Profit before tax	**832,114**	**796,278**	**35,836**	**4.5%**
Income tax expense	**(175,058)**	**(178,177)**	**3,119**	**1.8%**
Net profit for the year	**657,056**	**618,101**	**38,955**	**6.3%**

Revenue

Operating income decreased by 0,6% from PLN 2,317.4 in 2005 to PLN 2,303.4 in 2006. The decrease was mainly due to:

- A slight decrease in the net interest income by PLN 1.9 million (i.e. 0.2%), which without including an adjustment resulted from enhancements introduced to the system used for calculation of impairment losses, would be higher by PLN 15.2 million (i.e. 1.3%). The lower growth rate was caused by a lower level of market interest rates and lowering of interest rates on credit cards in July 2005. This fall was partially compensated by a significant increase in interest income in Consumer Banking as a result of increase in loans portfolio value and an increase in interest income on debt instruments available for sale as a result of a significant increase in the portfolio of these securities. Furthermore, the considerable changes in price structure introduced on 14 February 2006 as imposed by the Act Amending the Act – Civil Code and Amending Certain Other Acts of 7 July 2005, limiting the maximum interest rate, had a negative effect on the net interest income. Also the increase interest expenses on deposits accepted in the inter-bank market undoubtedly influenced the net interest income.
- An increase in net commissions income by PLN 21.6 million (i.e. 3.6%), above all due to the commissions on insurance and investment products in Consumer Banking, despite the absence of commission income generated by the subsidiaries HanZA and TFI BH sold in the first quarter of 2006.
- An increase in net gains on investment (capital) instruments by PLN 80.3 million compared to PLN 15.5 million in 2005, mainly due to sale of NFI Empik Media & Fashion shares by the Bank's subsidiary – Handlowy Investments S.A.
- An increase in net gains on sale of fixed assets by PLN 115 million compared to PLN 3.3 million in 2005, mainly due to the inflow on the sale of assets held for sale at the end of 2005, including assets and the related liabilities of the entities Towarzystwo Funduszy Inwestycyjnych Banku Handlowego w Warszawie S.A. and Handlowy Zarządzanie Aktywami S.A., shares in the associated undertaking Handlowy Heller S.A. and the organized part of the Bank's enterprise including the business in settlements of card transactions within the Consumer Banking Sector.
- An increase in net other operating income by PLN 13.7 million (i.e. 18.2%) as a result of obtaining lower costs of provisions for litigation, with an associated increase in operating income resulting from the provision of data processing services by the Bank to CitiGroup Inc. entities and from recognition of income related to shares granted by MasterCard.
- A fall in net gains on financial instruments held for trading and on revaluation by PLN 159 million (i.e. 33.5%), mainly by decrease of interest rates in 2006, which resulted to the loss on financial instruments held for trade as a result of deteriorated valuation of interest rate instruments, compensated by net gains on foreign exchange on currency derivatives available-for-sale. Additional influence was negative revaluation of balance sheet balances.
- A fall in net gains on investment debt securities and equity investments by PLN 85.3 million (i.e. 70.0%). Despite such a deep fall, the result obtained on this category of financial instruments in the market conditions of 2006 should be considered very good because the comparative year is 2005, when the results obtained by the Bank followed the real boom in the market of operations on debt securities.

Expenses

in PLN'000	2006	2005	Change	
			PLN'000	%
Personnel costs	**701,546**	**686,212**	**15,334**	**2.2%**
General administrative expenses, including:	**669,826**	**719,118**	**(49,292)**	**(6.9%)**
Costs of telecommunication fees and IT hardware	175,107	182,414	(7,307)	(4.0%)
Building maintenance and rent	110,381	114,010	(3,629)	(3.2%)
Advisory, audit, consulting and other services	107,700	141,684	(33,984)	(24.0%)
Total overheads	**1,371,372**	**1,405,330**	**(33,958)**	**(2.4%)**
Depreciation	130,186	140,296	(10,110)	(7.2%)
Total expenses	**1,501,558**	**1,545,626**	**(44,068)**	**(2.9%)**

In 2006, marked effects of restructuring activities conducted in the previous years and aimed to improve the rate of return obtained by institutions through optimization of costs are already visible. The fall was observed in almost all their categories. An exception are personnel expenses which increased by PLN 15.3 million (i.e. o 2.2%) as compared with the corresponding period of 2005, which results, for example, from the lower level of remuneration and incentive programs, and also with an increase in employment in the developing CitiFinancial network of the Bank, including 99 branches and 12 smaller centers as compared with 61 as at the end of December 2005. Taking into account an increase in number of employees in CitiFinancial network, an increase in the number of branches and markedly higher costs arising from marketing conducted in 2006, the fact of the reduction in general administrative expenses by PLN 49.3 million (i.e. 6.9%) is all the more worth mentioning.

This positive trend was complemented by a fall in depreciation costs related to reduced purchases in 2006 and high value of assets liquidated already in 2005.

Net Impairment Losses of Financial Assets and Difference in the Value of Provisions for Off-balance Sheet Liabilities

Net Impairment Losses

in PLN'000	2006	2005	Change	
			PLN'000	%
Net impairment losses incurred but not reported (IBNR)	21,994	32,755	(10,761)	(32.9%)
Net impairment losses on loans and off-balance sheet liabilities	541	8,254	(7,713)	(93.4%)
accounted for individually	(1,708)	132,382	(134,090)	(101.3%)
accounted for collectively (on a portfolio basis)	2,249	(124,128)	126,377	101.8%
Impairment of investments	-	(10,824)	10,824	100.0%
Total change in impairment losses	**22,535**	**30,185**	**(7,650)**	**(25.3%)**

The small percentage effect of provision expenses, which amounted PLN 22,5 million, on the performance of the Group reflects the stability of the credit portfolio and thus, reduction of the provisioning rate, effective restructuring and collections as well as favorable macroeconomic conditions. Additionally net impairment losses in 2006 increased by the amount of PLN 21,4 million as a result of implementing of enhancements to the system used to calculate impairment losses (taking into account additional factors in cash flow forecast). Additionally, an annual review of ratios for individual risk groups was performed and a more detailed breakdown of homogeneous portfolios was introduced.

Balance sheet

As at 31 December 2006 the total assets of the Group amounted to PLN 35,990.7 million, 9.5% more than at the end of 2005.

Balance sheet

In thousands of PLN	As at		Change	
	31.12.2006	31.12.2005	PLN'000	%
ASSETS				
Cash and balances with Central Bank	535,623	922,649	(387,026)	(41.9%)
Financial assets held for trading	4,556,471	5,883,358	(1,326,887)	(22.6%)
Debt securities available-for-sale	8,247,313	7,171,157	1,076,156	15.0%
Equity investments valued by equity method	67,910	61,884	6,026	9.7%
Equity investments	54,618	66,419	(11,801)	(17.8%)
Loans and advances	19,516,218	16,006,146	3,510,072	21.9%
to financial sector	9,319,272	6,399,053	2,920,219	45.6%
to non-financial sector	10,196,946	9,607,093	589,853	6.1%
Property and equipment	638,246	700,212	(61,966)	(8.8%)
land, buildings and equipment	628,860	659,264	(30,404)	(4.6%)
investment property	9,386	40,948	(31,562)	(77.1%)
Intangible assets	1,285,753	1,313,799	(28,046)	(2.1%)
Deferred income tax	274,124	283,044	(8,920)	(3.2%)
Other assets	801,920	431,182	370,738	86.0%
Non-current assets available-for-sale	12,539	37,714	(25,175)	(66.8%)
Total assets	**35,990,735**	**32,877,564**	**3,113,171**	**9.5%**
LIABILITIES				
Due to Central Bank	250,113	-	250,113	-
Financial liabilities held for trading	3,316,847	3,420,219	(103,372)	(3.0%)
Financial liabilities valued at amortized cost	25,991,136	23,062,763	2,928,373	12.7%
deposits from	25,036,782	22,463,330	2,573,452	11.5%
financial sector	6,165,605	5,201,677	963,928	18.5%
non-financial sector	18,880,177	17,261,653	1,618,524	9.4%
other liabilities	954,354	599,433	354,921	59.2%
Provisions	44,378	56,251	(11,873)	(21.1%)
Income tax	5,687	163,311	(157,624)	(96.5%)
Other liabilities	964,771	919,092	45,679	5.0%
Non-current liabilities available-for-sale	-	7,329	(7,329)	(100.0%)
Total liabilities	**30,572,932**	**27,628,965**	**2,943,967**	**10.7%**
EQUITY				
Issued capital	522,638	522,638	-	0.0%
Share premium	3,027,470	3,010,452	17,018	0.6%
Revaluation reserve	(81,501)	(64,554)	(16,947)	(26.3%)
Other reserves	1,407,081	1,196,052	211,029	17.6%
Retained earnings	542,115	584,011	(41,896)	(7.2%)
Total equity	**5,417,803**	**5,248,599**	**169,204**	**3.2%**
Total liabilities and equity	**35,990,735**	**32,877,564**	**3,113,171**	**9.5%**

Assets

Gross loan receivables*

In thousands of PLN	As at		Change	
	31.12.2006	31.12.2005	PLN'000	%
Bank and other monetary financial institutions	8,907,986	6,021,502	2,886,484	47.9%
Non-banking financial institutions	502,516	470,230	32,286	6.9%
Non-financial sector	7,817,887	8,381,354	(563,467)	(6.7%)
Individuals	3,630,594	2,726,489	904,105	33.2%
Government units	286,361	244,480	41,881	17.1%
Other receivables	3,581	8,291	(4,710)	(56.8%)
Total	**21,148,925**	**17,852,346**	**3,296,579**	**18.5%**

**Receivables without payable interest.*

The year 2006 did not bring about any significant changes in the level of loan receivables of the Group. Nevertheless, it is worth noticing that this year was a first period in a long time in which the Group obtained an increase in the loan portfolio in the non-financial sector of customers. Although this portfolio was not very high above all due to the non-financial sector the receivables of which dropped by PLN 563.5 million, i.e. 6.7%, which was related to significantly lower demand for funding, at the same time the Group noted a considerable increase in loans to individuals by PLN 904.1 million (33.2%). At the end of 2006, the portfolio of amounts due from individuals amounted to PLN 3,630.6 million. In this case it may be expected that the recovery in the market and the related high level of optimism among the borrowers as related to their future payment potential and Group's plan of introducing new credit products, in particular mortgage loan and home equity loans, will result in a further increase in the loan portfolio.

The debt securities portfolio was the second largest component of assets. The fact that it is very large (particularly the treasury bonds portfolio) is mainly due to the Group's intention to benefit from the very good performance of the market for debt securities and the necessity to invest the cash at the Group's disposal as a result of the decrease in the non-financial sector loan portfolio in the previous years.

Debt securities portfolio

In thousands of PLN	As at		Change	
	31.12.2006	31.12.2005	PLN'000	%
Treasury bonds	9,149,123	7,076,515	2,072,608	29.3%
NBP bonds	378,413	386,934	(8,521)	(2.2%)
Treasury bills	73,153	40,002	33,151	82.9%
Certificates of deposit and banks' bonds	125,679	30,136	95,543	317.0%
Issued by non-financial entities	54,476	30,803	23,673	76.9%
Issued by financial entities	43,834	35,604	8,230	23.1%
NBP bills	-	1,871,225	(1,871,225)	(100.0%)
Total	**9,824,678**	**9,471,219**	**353,459**	**3.7%**

Liabilities

Financial liabilities valued at amortized cost

In thousands of PLN	As at		Change	
	31.12.2006	31.12.2005	PLN'000	%
Due to financial sector	**6,112,732**	**5,175,391**	**937,341**	**18.1%**
• banks and other monetary financial institutions	3,660,266	2,349,939	1,310,327	55.8%
• due to non-banking financial sectorh	2,452,466	2,825,452	(372,986)	(13.2%)
Due to non-financial sector including:	**18,860,452**	**17,242,639**	**1,617,813**	**9.4%**
• corporate customers	13,134,144	11,343,805	1,790,339	15.8%
• individuals	4,232,056	4,534,587	(302,531)	(6.7%)
Other liabilities including accrued interest:	**1,017,952**	**644,733**	**373,219**	**57.9%**
Total external funds	**25,991,136**	**23,062,763**	**2,928,373**	**12.7%**

Amounts due to clients from the non-financial sector were the major source of financing for the Group's assets. The amounts due to clients from the corporate sector increased by PLN 1,790.3 million (i.e.15.8%) compared with the end of 2005, and amounts due to the financial sector increased by PLN 937.3 million i.e. 18.1%, the largest increase among which – by PLN 1,310.3 million, i.e. 55.8% – was noted in funds on accounts of banks.

Amounts due to non-banking financial sector and to individuals decreased the most in the year ended 31 December 2006. The decrease amounted to PLN 373.0 million i.e. 13.2% in non-banking financial sector, and PLN 302.5 million i.e. 6.7% in individuals, and was connected with the transfer of customers' assets to competitive investment products.

Amounts due to banks, accounting for 59.9% of the total amounts due to the financial sector, as compared with 45.4% as at the end of 2005, increased in 2006 from PLN 2,349.9 million to PLN 3,660.3 million, i.e. by PLN 1,310.3 million (i.e. 55.8%). During the year 2006, the amounts due to banks remained lower than amounts due from banks. 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 purchase and sale transactions. The carrying amount of these instruments presented in "Financial assets held for trading" and "Financial liabilities held for trading".

Sources and Uses of Funds

Source of funds	31.12.2006	31.12.2005
Banks' and other monetary financial institution's funds	4,118,794	2,506,054
Customers and government units funds	21,872,342	20,556,709
Own funds with net income	5,417,803	5,248,599
Other external funds	4,581,796	4,566,202
Total source of funds	**35,990,735**	**32,877,564**
Use of funds		
Receivables from banks and other monetary financial institutions	8,898,414	6,010,170
Receivables from customers and government units	10,617,804	9,995,976
Securities, shares and other financial assets	12,926,312	13,182,818
Other use of funds	3,548,205	3,688,600
Total use of funds	**35,990,735**	**32,877,564**

Equity and Capital Adequacy Ratio

The Group's equity increased by PLN 130.2 million (i.e. 2.8%) as compared with the end of 2005, which was mainly due to:

- an increase in the supplementary (additional) capital by PLN 117.6 million originating from the distribution of profit for 2005 and from disclosing in this capital the correction of the net profit in previous years by PLN 78.16 million in relation to adopting the International Financial Reporting Standards by the Bank on 1 January 2005,
- an increase of share premium by PLN 17,0 million originating from the distribution of profit for 2005,
- a decrease in the revaluation reserve by PLN 16.9 million, above all due to moving the valuation of sold financial assets available for sale to the net financial profit at an amount of minus PLN 36.6 million and an increase in valuation of financial assets available for sale by PLN 15.6 million.

Equity

In thousands of PLN	As at		Change	
	31.12.2006	31.12.2005	PLN'000	%
Issued capital	522,638	522,638	-	0.0%
Share premium	3,027,470	3,010,452	17,018	0.6%
Supplementary (additional) capital	1,015,567	803,660	211,907	26.4%
Revaluation reserve	(81,501)	(64,554)	(16,947)	(26.3%)
General risk reserve	390,000	390,000	-	0.0%
Retained earnings	(113,427)	(31,698)	(81,729)	(257.8%)
Total equity	**4,760,747**	**4,630,498**	**130,249**	**2.8%**
Tier 1 capital	4,955,675	4,726,750	228,925	4.8%
Tier 2 capital	(81,501)	(64,554)	(16,947)	(26.3%)
Other equity	(113,427)	(31,698)	(81,729)	(257.8%)

The Group's capital is fully sufficient to ensure financial security to the institution and the deposits it accepts and to ensure its financial growth.

As at 31 December 2006, the capital adequacy ratio stood at 14.1%, down 0.68 percentage points compared with the end of 2005. Despite the increase in the capital requirements by PLN 174.9 million, which resulted mainly from the increase in the credit risk capital requirement by PLN 128.7 million related to the increase in risk-weighted off--balance sheet assets and contingent liabilities by PLN 1,609.0 million, the capital adequacy ratio remained at the same level owing to an increase in regulatory equity of the Group by PLN 160,3 million.

Capital adequacy ratio

In thousands of PLN	31.12.2006	31.12.2005
Own funds, as stated on the balance sheet	**4,760,747**	**4,630,498**
Less:	1,369,830	1,399,906
• goodwill	1,245,976	1,245,976
• other intangible assets	39,777	67,823
• interests in subordinated financial entities	84,077	86,107
Own funds for the calculation of the capital adequacy ratio	**3,390,917**	**3,230,592**
Risk-weighted assets and off-balance sheet liabilities (banking portfolio)	**15,398,733**	**13,789,692**
Total capital requirement, including:	**1,923,574**	**1,748,670**
• capital requirement to cover credit risk	1,231,899	1,103,175
• capital requirement to cover excess exposure concentration and large	327,073	328,154
• total capital requirements to cover market risk	248,418	220,737
• other capital requirements	116,184	96,604
Capital adequacy ratio	**14.10%**	**14.78%**

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

Lending and Other Risk Exposures

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 as needed. In 2006, the Group has continued further development of credit policy rules and credit offer for small and medium size enterprises.

The portfolio of receivables from individuals is managed on the basis of a model that calculates risk and return on the loan portfolio. Usage of information available in the Credit Bureau translating to a Credit Bureau score has been expanded for use in underwriting of Unsecured Personal loans as well as Overdraft lines, for individual borrowers. Performance based score models usage have now been expanded to evaluate approvals of credit card transactions. Further, evaluation of pro-actively granting additional credit limits to cards customers are now based on, apart from customer's creditworthiness with us, also based on creditworthiness with other lenders as reported to the Credit Bureau.

Lending to non-bank customers (gross)

In thousands of PLN	As at		Change	
	31.12.2006	31.12.2005	PLN'000	%
Loans in PLN	10,662,605	9,755,498	907,107	9.3%
Loans in foreign currency	1,578,334	2,075,346	(497,012)	(23.9%)
Total	**12,240,939**	**11,830,844**	**410,095**	**3.5%**
Loans to non-financial sector	11,452,062	11,116,134	335,928	3.0%
Loans to financial sector	502,516	470,230	32,286	6.9%
Loans to public sector	286,361	244,480	41,881	17.1%
Total	**12,240,939**	**11,830,844**	**410,095**	**3.5%**
Non-financial corporates	7,817,887	8,381,354	(563,467)	(6.7%)
Individuals	3,630,594	2,726,489	904,105	33.2%
Non-bank financial entities	502,516	470,230	32,286	6.9%
Public entities	286,361	244,480	41,881	17.1%
Other non-financial receivables	3,581	8,291	(4,710)	(56.8%)
Total	**12,240,939**	**11,830,844**	**410,095**	**3.5%**

As at 31 December 2006, gross credit exposure to the non-financial sector amounted to PLN 12,240.9 million, representing an increase of 3.5% as compared with 31 December 2005. The largest part of the non-financial sector credit portfolio, which is loans to non-financial corporates (64.0%) decreased by 6.7% in 2005 as a result of improved liquidity positions of corporate customers. Loans to individuals grew in comparison with the end of 2005 by 33.2% to PLN 3,630.6 million. Growth in loans to individuals has come from a combination of expansion of our sales points, including branches under the 'CitiFinancial' umbrella, as well as from prudently expanding the target market to selectively include certain employment segments as well as lower levels of minimum income requirements to qualify for credit.

As at 31 December 2006 the currency structure changed as compared with the end of 2005. The share of foreign currency loans, which in December 2005 was 17.5% decreased to 12.9% in December 2006. 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. Only cash secured overdrafts were provided selectively in foreign currency to individual borrowers.

The Group monitors the concentration of its exposure on a regular basis, seeking to avoid a situation where the portfolio is dependent on a limited group of customers. As of the end of December 2006, the Group's portfolio of exposure to non-bank entities did not exceed the exposure concentration limits required by the law.

Concentration of exposure – non-bank customers

Exposure concentration by customer*

In thousands of PLN	31.12.2006			31.12.2005		
	Balance Outstanding*	Off-Balance Outstanding	Total Outstanding	Balance Outstanding*	Off-Balance Outstanding	Total Outstanding
Group 1	180,299	360,088	540,387	209,183	261,334	470,517
Group 2	327,613	144,832	472,445	234,461	113,661	348,122
Customer 3	127,231	302,773	430,004	15	55,211	55,226
Customer 4	241,001	159,164	400,165	241,396	160,000	401,396
Group 5	255,437	130,836	386,273	257,342	286,903	544,245
Group 6	106,960	260,442	367,402	112,108	75,540	187,648
Customer 7	60,792	274,310	335,102	18	60,914	60,932
Group 8	5	309,856	309,861	6	211,303	211,309
Group 9	38,568	244,209	282,777	38,848	212,455	251,303
Group 10	71,468	194,543	266,011	80,181	203,465	283,646
Total 10	**1,409,374**	**2,381,053**	**3,790,427**	**1,173,558**	**1,640,786**	**2,814,344**

Excluding commercial papers and subsidiaries.

Quality of loan portfolio

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

All receivables of the Bank 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 December 2006, the share of loans at risk of impairment was 15.5% of the total portfolio, while as at 31 December 2005 it was 19.6% of the total portfolio. The decrease was related to the classifiable portfolio accounted for individually and was related to the repayment of outstanding amounts in this customer group.

Loans to non-financial sector (gross) by the risk of impairment

In thousands of PLN	As at			
	31.12.2006		31.12.2005	
Loans to non-banking sector (gross)				
	Thousand of PLN	Share in %	Thousand of PLN	Share in %
Not at risk of impairment	10,346,653	84.5%	9,513,132	80.4%
At risk of impairment	1,894,286	15.5%	2,317,712	19.6%
accounted for individually	1,385,255	11.3%	1,681,688	14.2%
accounted for collectively (on a portfolio basis)	509,031	4.2%	636,024	5.4%
Total non-banking sector (gross)	**12,240,939**	**100.0%**	**11,830,844**	**100.0%**

Management Board believes that provisions for receivables reflect the actual impairment of the portfolio, 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 incurred but not reported losses.

As at 31 December 2006, the impairment of the portfolio was PLN 1,623.1 million, down from PLN 1,834.9 million in December 2005, mainly due to the repayment of outstanding amounts as well as written-down a part of non-recoverable loans.

Impairment of non-bank loan portfolio

In thousands of PLN	As at		Change	
	31.12.2006	31.12.2005	PLN'000	%
Impairment due to incurred but not reported (IBNR) losses	55,916	67,702	(11,786)	(17.4%)
Impairment of receivables	1,567,219	1,767,166	(199,947)	(11.3%)
accounted for individually	1,153,549	1,304,734	(151,185)	(11.6%)
accounted for collectively (on a portfolio basis)	413,670	462,432	(48,762)	(10.5%)
Total impairment	**1,623,135**	**1,834,868**	**(211,733)**	**(11.5%)**
Total provision coverage index	13.3%	15.5%		
Provision coverage index for receivables at risk	82.7%	76.2%		

Off-balance Sheet Exposures

As at 31 December 2006, off-balance sheet exposures amounted to PLN 12,394.4 million, representing an increase by 6.3% as compared with 31 December 2005. The largest change related to unused commitments lines which represented 74.0% of off-balance sheet contingent liabilities and which increased by PLN 456.6 million (5.2%). This was due to increase in revolving loans and an increase in overdrafts.

Off-balance sheet exposures

In thousands of PLN	As at		Change	
	31.12.2006	31.12.2005	PLN'000	%
Guarantees	2,779,418	2,778,598	820	0.0%
Letters of credit issued	155,296	132,216	23,080	17.5%
Third-party confirmed letters of credit	40,270	17,465	22,805	130.6%
Committed loans	9,177,576	8,720,951	456,625	5.2%
Underwriting	217,000	-	217,000	-
Forward placements	24,860	15,439	9,421	61.0%
Total	**12,394,420**	**11,664,669**	**729,751**	**6.3%**
Provisions for off-balance sheet liabilities	24,258	36,578	(12,320)	(33.7%)
Provision coverage index	0.20%	0.31%		

As at 31 December 2006, the total amount of collateral held on accounts (or assets) of borrowers amounted to PLN 5,032 million (31 December 2005: PLN 4,631.0 million).

In 2006, the Group issued 4,246 enforcement titles amounting to PLN 118.7 million (in 2005: 4,241 enforcement titles amounting to PLN 139.1 million).

External Funding

As at 31 December 2006, the total value of external funding of the Group was PLN 25,991.1 million and was higher by PLN 2,928.4 million (12.7%) as compared with 31 December 2005. Liabilities to the non-financial sector, which rose by PLN 1,618.5 million (9.4%), had the largest impact on changes of the external funding of the Group's activity – their increase resulted to a large extent from the growth of term deposits.

External funding

In thousands of PLN	As at		Change	
	31.12.2006	31.12.2005	PLN'000	%
Due to financial sector	**6,156,605**	**5,201,677**	**954,928**	**18.4%**
Funds on current accounts, including:	1,334,998	946,015	388,983	41.1%
• *funds on current accounts of banks and other monetary financial institutions*	*1,197,581*	*725,453*	*472,128*	*65.1%*
Deposits, including:	4,777,734	4,229,376	548,358	13.0%
• *deposits of banks and other monetary financial institutions*	*2,462,685*	*1,624,486*	*838,199*	*51.6%*
Accrual interest	43,873	26,286	17,587	66.9%
Due to non-financial sector	**18,880,177**	**17,261,653**	**1,618,524**	**9.4%**
Funds on current accounts, including:	5,770,674	5,487,025	283,649	5.2%
• *corporate customers*	*3,509,698*	*3,412,132*	*97,566*	*2.9%*
• *individuals*	*1,737,527*	*1,499,724*	*237,803*	*15.9%*
Deposits, including:	13,089,778	11,755,614	1,334,164	11.3%
• *corporate customers*	*9,624,446*	*7,931,673*	*1,692,773*	*21.3%*
• *individuals*	*2,494,529*	*3,034,863*	*(540,334)*	*(17.8%)*
Accrual interest	19,725	19,014	711	3.7%
Other liabilities, including:	**954,354**	**599,433**	**354,921**	**59.2%**
Sell-Buy-Backs	223,329	8,174	215,155	2632.2%
Accrual interest	3,808	3,163	645	20.4%
Total external funding	**25,991,136**	**23,062,763**	**2,928,373**	**12.7%**

Looking at all sectors as a whole, the largest growth of external funding was recorded for non-financial economic entities by approximately 15.3%, while the largest decrease was for non-banking financial institutions by PLN 374.3 million (13.2%). An increase in deposits of corporate customers occurred while deposits of individuals decreased. It should be noted that the decrease in the deposits of was compensated by the sale of investment products that is mainly due to the increasing competitiveness of alternative investments in the environment of declining interest rates, aggressively advertised investment funds and positive trends on the stock exchange, which created an additional incentive to invest.

Liabilities to non-bank customers

In thousands of PLN	As at		Change	
	31.12.2006	31.12.2005	PLN'000	%
Liabilities towards:				
Individuals	4,303,314	4,626,064	(322,750)	(7.0%)
Non-financial economic entities	13,789,474	11,957,306	1,832,168	15.3%
Non-profit institutions	442,064	471,383	(29,319)	(6.2%)
Non-bank financial institutions	2,453,680	2,827,994	(374,314)	(13.2%)
Public sector	561,544	430,854	130,690	30.3%
Other liabilities	68,173	57,177	10,996	19.2%
Total	**21,618,249**	**20,370,778**	**1,247,471**	**6.1%**
PLN	16,569,474	15,356,325	1,213,149	7.9%
Foreign currency	5,048,775	5,014,453	34,322	0.7%
Total	**21,618,249**	**20,370,778**	**1,247,471**	**6.1%**

Corporate and Investment Bank

Transaction Services

The Bank offers comprehensive, differentiated and attractive products in the area of trade and transaction services to corporate customers. In parallel with traditional banking services, such as current bank accounts, domestic and international money transfers, accepting deposits, granting overdrafts, the Bank has extensively broadened its product offer and carried out acquisition of customers in the scope of more sophisticated transaction services including flagship electronic and web-based banking proposals.

Transaction Servicing

a) Liquidity Management Products

Current accounts and deposits

In 2006, the Bank retained its leader position with respect to cash saved on corporate customer current accounts with an increase in balances – as compared to the previous year – by 25% and the market share of 15.3%. This is an almost 40% advantage over the second top bank in the market.
With respect to balances on current accounts increased by deposits, the Bank held a high third position in the market, increasing the balances by 15% as compared with 2005, with a market share of 9.5%.
In services for insurance companies and pension funds, in 2006 the Bank once again, similarly as in several previous years, held the top position with an over 100% advantage over the subsequent bank on the list.

Accounts in suspense

In 2006, the Bank intensified its actions aimed to increase the number of transactions in the dynamically developing real estate sector. Owing to these actions, the number of agreements in this sector increased in 2006 by 100%, with a concurrent increase in the respective revenue by 132% as compared with 2005.

b) Cash Products

In 2006, a number of new solutions, which guarantee an increased safety of cash processing within the group of cash products and increase the quality and functionality of the products offered. At the same time, an increase was noted in the number of calculated cash deposits by 10% as compared with 2005.
The range of cash deposit products was supplemented by the service of training in recognition of forged money intended for employees of the Bank's customers. The purpose of the training is to expand the customers' knowledge in recognition of authenticity of the banknotes and coins (PLN, EUR) introduced into circulation. The training is intended for tellers in points of sale and service and for other employees of the Bank's customers, whose job includes accepting cash from contractors. Bank Handlowy w Warszawie S.A. is the first bank in the Polish market which offers such services to the customers.
The current offer of cash payments in a post office (Wpłaty PLUS) was supplemented by introduction of a joint service of cash convoy from a client's premise to the nearest post office.
For customers who are interested in secured forms of cash payments Bank implemented a new service of secure envelopes delivery to a disclosed address. Customer can order secure envelopes via electronic mail.
In order to make a process of cash payments more efficient for Bank's customers there were certain enhancements to the secured forms of cash payments processes introduced. Instead of cash check, which was basis to give an order of payments, a new form signed in accordance with specimen of signature was implemented. This resulted in easily and effectively way of cash payments ordering.

c) Electronic Banking

In 2006, the number of customers serviced through the CitiDirect web platform increased by about 11% as compared to the previous year. The customers using the CitiDirect Internet system constitute currently 99.2% of all Bank's customers using electronic banking systems; for comparison, they constituted about 72% of the customers in the previous year. As a result, CitiDirect became the main electronic banking system of the Bank.
This met with appreciation of an independent body assessing financial services. The Bank won the ranking competition of the best Internet banks organized by the international financial monthly "Global Finance", in the category of the best Internet product range for corporate customers and institutional customers in Poland in 2006.
The Bank, aiming to improve the efficiency of customer service, attached great importance to automation of processes. As a result, the Bank obtained high ratios in electronic transaction processing and in delivering bank statements to customers. The number of money transfers accepted by electronic route attained 99.4% of the total volume.
Furthermore, the number of bank statements delivered to customers exclusively in the electronic form increased and attained 83% of the total volume of bank statements; for comparison, the respective level was 74% in the previous year.
Owing to process automation and switching to electronic systems, the Bank obtained important cost savings in the area of transaction processing and bank statement printing.

d) Payments and Receivables

At the end of 2006, the number of outgoing foreign money transfers increased by 20% as compared with the orders performed at the end of 2005. In 2006, a 44% increase in revenues from foreign money transfers was noted as compared to the previous year.
In the area of settlements in US dollars, a solution was introduced to qualitatively support settlements in full amounts, limiting the risk of cost deductions by third-party banks. The change introduced a new quality in the area of dollar settlements and met with positive acceptance in the settlement market.
The number of Direct Debit instructions increased at the end of 2006 by 20% as compared with the level at the end of 2005. In the area of Direct Debits, product promotions were conducted to make this service more popular with the customers so as to ensure their increased use of this modern payment instrument, which supports settlements.
The number of Electronic Postal Money Transfers in 2006 was 155.000, which constitutes an increase by 72% as compared with the number of orders implemented in 2005.

e) Unikasa

Unikasa is a Payment Processing Network which complements the package of receivables offered to the mass invoice issuers (corporate customers).
Taking into account the interests of the consumer and corporate banking customers, the Bank took a decision to upgrade the IT system at the turn of 2005 and 2006 to increase the effectiveness of settlement of the payments accepted within the Unikasa network. The introduced modification increased the efficiency of the operating processes on the Bank's side, shortening to two days the period between acceptance of payments within the Unikasa network and their transfer to the issuer's account. The changes made in the operating processes of the Bank met with great appreciation on the customers' side.
The Unikasa network was also enlarged by the possibility of accepting new types of invoices issued by the financial sector. The number of these transactions has regularly increased by several percent monthly.
The Bank has also held a pan-Polish marketing campaign the purpose of which was to strengthen the Unikasa brand and to convince retail customers to this method of regulation of its payments. The press and the business environment have positively assessed the marketing campaign. The Bank has been conducting continuous education of consumer banking customers for this service, aiming to promote and create a modern channel of mass payments in the Polish market.

f) Card Products

At the end of 2006, the number of issued business payment cards was 15,300, which constitutes a 14% increase as compared with the number of cards issued at the end of 2005.
The number of issued prepaid cards at the end of 2006 was higher by 48% with respect to the number of cards issued at the end of 2005 and attained more than 226.000 cards. In 2006, the Prepaid Social Benefit and Scholarship Cards (Przedpłacone Karty Zasiłkowe i Stypendialne) were honored by the prestigious award granted by the international "The Banker" magazine in the category of Investment Banking Projects. In 2006 this product was also honored by the second-degree award for the most innovative product 2005 in corporate banking in Europe, granted by the European Payments Consulting Association (EPCA) and the European Card Review (ECR). The Bank cooperates in total with 20 Social Service Centers at issuing the Prepaid Social Benefit and Scholarship Cards.

g) European Union Unit

In 2006, a considerable increase in the interest in the European Union products offered by the Bank was noted, owing to the creation of a special product range for customers of the sector of small and medium-sized enterprises, and also owing to the preparation of a wide product package for local self-governments. An additional stimulus was also implementation of a unit of European Union advising services for customers. A reflection of increased demand for European Union products is the increase in Bank revenues in 2006 from the provision of these services by 130% as compared to the previous year.
In January 2006, within the framework of enlargement of the target group of the Bank's customers, an individualized range of European Union products was prepared for the customers of the small- and medium-sized enterprise sector.
In February 2006, a conference for self-government entities was organized, with a central topic of "Funding Investment Projects by Self-Government Entities – Methods of Obtaining Funds for Implementing Investments Funded from European Union Funds". The participants received at the conference a unique guidebook prepared under the patronage of the Bank, concerning the management of projects funded by the Norwegian Financial Mechanism and Financial Mechanism of the European Economic Area.
In the second quarter of 2006, a new service of European Union advising provided for the customers and potential customers of the Bank was introduced. Within the framework of these services, the European Union office prepares the lists of the available sources of co-funding of projects from the European Union funds and develops application documentation and accounts for projects, and also provides ongoing advisory services before and during project implementation.
In August 2006, the investment loan for small and medium-sized enterprises, refunded by Kreditanstalt für Wiederaufbau in cooperation with the European Commission, received the Europroduct title granted by the Polish Commercial Society (Polskie Towarzystwo Handlowe) under the patronage of the Ministry of Economy and of the Polish Agency for Enterprise Development.

Trade Finance Products

The key objectives implemented by the Bank in 2006 in the area of trade finance products were to:

a) implement a cycle of "Trade Academy" workshops for the customers conducted in various regions of Poland by Bank specialists, aimed to expand the customers' knowledge of the solutions related to trade finance products, and especially to present to them the most recent products offered by the Bank in this area;

b) continue marketing activities, including the launch of a wide "product campaign" in the mass media (for example, by sponsored press publications, advertisements in the Internet), activation of periodic promotional campaign aimed to encourage a wider group of customers to use the trade finance products proposed by the Bank;

c) develop further various options of supplier financing solutions based on financing receivables documented by invoices (factoring);

d) continue cooperation with Korporacja Ubezpieczeń Kredytów Eksportowych S.A., agree new price terms of insurance as related to the solution based on funding of domestic and foreign receivables with limited recourse for the Bank's customers;

e) agree new loan terms for the customers of the segment of small and medium-sized enterprises wanting to obtain funding based on assignment of receivables and assignment of rights from insurance policies for receivables;

f) expand the range of products offered by the Bank in the guarantee area by signing with the National Fund for Environmental Protection and Water Management the respective agreement concerning the specific terms and conditions of cooperation with respect to accepting by this institution financial security in the form of the Bank's guarantee covering the funding of collection, processing, recovery, including recycling, and disposal of used electric and electronic equipment;

g) expand the functionality of the electronic data transmission system, i.e. a so-called electronic platform intended, for example, for processing customers' applications so as to ensure the possibility of negotiation of guarantee content and terms;

The important transactions and programs conducted or implemented in 2006 include:

- launching the supplier funding program based on discounting receivables documented by invoices for one of the key construction investors in the Polish market, building roads and motorways in Poland;
- granting the customs guarantee for more than PLN 50 million to one of the major tobacco companies in Poland;
- granting a two-year guarantee of advance payment reimbursement for an amount of PLN 111 million, for one of the key companies building railway and tram infrastructure in Poland;
- granting the guarantee for loan repayment for an amount of about PLN 84 million on order of one of the major electricity generating plants in Poland;
- granting a payment guarantee for an amount of about USD 82 million on order of one of the major Polish liquid fuel processing companies;
- implementation of an innovative solution based on adaptation of the global Citigroup program of discounting receivables with limited recourse to the assignor, for one of the IT sector companies.

Custody and Depositary Services

The Bank operates custody services pursuant to the applicable laws of Poland and to international standards. These services are offered to investors and brokers active in international markets of securities. The Bank is able to meet the requirements of the largest and most demanding institutional customers.
In 2006, the Bank retained its leader position in the segment of bank depositaries in Poland. It offers both custody services to foreign institutional investors and depository services to the Polish financial institutions especially pension funds, investment funds and investment funds with insurance options.

As part of its statutory activities, pursuant to the relevant license of the Polish Securities and Exchange Commission, 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 foreign markets.

Furthermore, the Bank processes transactions made by corporate customers on the electronic platform for trading in debt securities, operating under the name of MTS-Poland, organized by MTS-CeTO S.A., and also processes transaction in securities for remote members of Giełda Papierów Wartościowych w Warszawie S.A. (the Warsaw Stock Exchange) and MTS-CeTO S.A. We have noted a visible increase in interest of foreign brokers in the product intended for remote members of the Exchange, which allows expecting an increase of activity of the new customer segment, and thus higher volumes of transactions settled by the Bank in the next year.

The Bank continued activities to improve legal regulations in force in the market of securities, participating through delegated representatives in the work of the Council of Depositary Banks at the Association of Polish Banks and the advisory committee at Krajowy Depozyt Papierów Wartościowych S.A. The strong position of the Bank justifies the presentation of proposal of amendments to legal regulations and creation of practices approaching our market to international standards. Using their own resources, experience and competences, the Bank employees cooperate with the Financial Supervision Commission, Krajowy Depozyt Papierów Wartościowych S.A. and Giełda Papierów Wartościowych w Warszawie S.A. at introduction of new systemic solutions.

In June, the professional journal Global Investor, which conducts annual assessment of settlement services in Europe within the framework of so-called European Clearing Survey, granted to Bank Handlowy w Warszawie S.A. the award of the "Best Bank for Settlement" for the year 2006 in the categories of "Equities" and "Fixed Income". This award is granted on the basis of the corporate customers' opinions.

As of December 31, 2006, the Bank maintained 10,312 securities accounts.

In 2006, the Bank was the depositary for seven Open Pension Funds:

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

and also for:

- Employee Pension Fund "Sunny Autumn",
- Employee Pension Fund of Telekomunikacja Polska S.A.

In 2005, the Bank also acted as the depositary of 31 funds and sub-investment funds, managed by the following investment companies:

- BZ WBK AIB TFI S.A.,
- PIONEER PEKAO TFI S.A.,
- PKO TFI S.A.,
- SEB TFI S.A.,
- LEGG MASON TFI S.A.,
- GE Debt TFI S.A.

Treasury

In 2006, the Bank was the leading market player in foreign exchange transactions with non-banking customers. The turnover in this segment increased in 2006 by 27% as compared with the previous year, and the level of profit from these instruments increased in the same period by 9%.

The Internet platform used for foreign exchange transactions, proved to be a highly praised by the Bank's customers. The Bank will continue the strategy of development of this product.

In the market of compound derivatives, the Bank provided to corporate customers the products hedging commodity transactions and the interest rate risk. The diversified range of structured products offered reinforced the Bank's position in the market. The Bank provided to institutional investors in Poland the structured interest rate instruments based on the American dollar yield curve and expanded its product range by structured bonds with embedded credit risk. These instruments met with interest of the Polish investors as a novel product in the local market.

Furthermore, the Bank entered into the transaction of sale of a twenty-year zero-coupon bond of the European Investment Bank with embedded call options.

The year 2006 was a period of further reinforcement of the Bank's position in the foreign exchange market of derivative instruments, especially in the small and medium-sized enterprise sector. The level of turnover on FX options with non-banking customers was maintained at a level of PLN 9 billion. The year 2006 was also a good period for market-linked deposits. The appropriately designed market structures bringing the desired rates of return to the customers caused increased interest in this product, which was translated by an increase in the volume of these transactions by 35% as compared with the previous year. An increase in volumes was accompanied by a substantial increase in revenue.

In the area of transactions in treasury bonds made with financial institutions, the volume of turnover in 2006 was a reflection of the situation in the Polish market. A change in the foreign investors' interest in the Polish treasury securities was reflected in the volume of total turnover in the local market, also among the Polish financial institutions. At the same time, the Bank maintained its market share in this segment.

In the area of inter-bank transactions, the year 2006 was difficult with respect to taking long-term investment decisions. A high instability of attitudes among foreign investors caused by low perspective for decisions of the Monetary Policy Council changing the level of interest rates in the short term, combined with changeable situation in the Bank's external environment, caused unexpected change in the interest rate market, without any fundamental reasons. While the local currency appreciation trend help implement budget plans in FX transactions, the net gain on bonds and interest rate derivative instruments was lower than in 2005. This situation resulted to a large extent from the unfavorable pricing of the banking portfolio of treasury bonds, which did not allow obtaining profits at the level of 2005.
In 2006, the Bank maintained the role of the market maker in the area of derivative products, both foreign currency-based as well as interest rate-based, which confirms how much the Bank contributes to market liquidity and stability of the financial system.

Commercial banking

The Bank is the leader of the commercial banking market in Poland. Its share in total corporate loans amounted to 4.6% at the end of 2006, as compared with 5.6% at the end of 2005, and in total corporate deposits was 9.5% as compared with 10.4% at the end of 2005. The Bank's share in the issues of short-term debt securities, measured by the amount of debt, fall to 16.1% as of December 31, 2006, from 21.4% as of 31 December 2005.

Since 2005, the Bank operated on the basis of a new service model for corporate customers. The new customer service model enabled the Bank to extend its product range for large and medium-sized enterprises. The Bank now offers an individual approach toward its largest customers.

The Bank believes that any company that operates in Poland, except sectors excluded permanently under the general policy of the Bank and companies included in the watch list due to international or U.S. sanctions, is its prospective corporate customer.

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

Corporate and investment banking

The Corporate and Investment Bank 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 Division coordinate treasury and financial management products, prepare offers of various financing forms, and provide merger and acquisition services and other investment banking services. Innovativeness and competitiveness in the area of modern financing structures offered by this Division result from the combination of local knowledge and experience, and also from cooperation within the framework of the global Citigroup structure.

In 2006, the Bank focused not only on enhancing cooperation with the existing customers but also developed relationships with new, dynamically growing companies, both in the domestic as well as international markets. In supporting those businesses, the Bank provided financing on its own or arranged and participated in the biggest syndicate deals as well as was involved in key transactions in the Polish financial market. It is worth emphasizing that the total amount of syndicated loans for which the Bank was the main arranger or co-arranger exceeded PLN 14 billion, and the total amount of issued debt securities amounted to as much as PLN 29 billion.
At the beginning of 2006, the Department servicing the public sector was formed in the Division. The main purpose of this Department is to offer various financing structures for the key infrastructural projects implemented at the central and local level.

The list of major transactions in 2006 includes:

- financing organized for PKN Orlen enabling it to take over the Lithuanian refinery AB Mazeikiu Nafta. The financing, in the form of two credit facilities for the total amount of EUR 1.6 billion, was provided by a syndicate of eight Polish and foreign banks, with Bank Handlowy w Warszawie S.A. The financing consists of a 5-year revolving loan of EUR 800 million and a 6-month bridge loan of EUR 800 million, thus constituting the largest financing program in the history of the corporation and the largest one-off financing organized for a Polish enterprise;
- financing organized for Ciech S.A. for the acquisition of a chemical company, Organika Sarzyna S.A. The total amount of the 8-year facility is PLN 216 million, out of which Bank, as the lead co-arranger, contributed PLN 65 million;
- transaction with Korporacja Ubezpieczeń Kredytów Eksportowych SA (KUKE) and one of Russian ship owners relating to 90% KUKE guaranteed financing of production and delivery of four container ships;
- issue of a revenue bond second tranche for the municipal water and sewage system company (Miejskie Wodociągi i Kanalizacja) in Bydgoszcz, totaling PLN 50 million. The bonds are due in 2024, thus carrying the longest tenor among debt securities denominated in PLN and issued in Poland. The investors, attracted by the construction of the revenue bonds and because of the bonds' investment grade assigned by Fitch Ratings, wished to purchase three times more bonds than offered. The success of this issue shows the huge potential of financing Polish companies by investment grade bonds. Bank Handlowy w Warszawie S.A. was the lead co-arranger of this bond issue.

It should be emphasized that the Structured Financing Unit in the Treasury conducted a number of hedging transactions to secure against the interest rate and the FX risk carried by long-term exposures of the major corporate customers. At the same time, it continued and developed its business and relationships with companies in risk management on the commodities markets, among other things, the energy resources and metals.

In 2006, Bank Handlowy w Warszawie S.A. was the leading bank in Poland by the issue value of short-term debt securities (i.e. up to one year), with a market share of about 16% (data by the Fitch Ratings bulletin of 29 December 2006). The Bank maintained at that time 28 issue programs.

Owing to the high quality of offered financial products and services and their innovativeness, the Bank maintains its leading position, supporting customers to accomplish their plans of development using the newest structures and financial instruments in the ever more competitive and demanding Polish banking market as well as participates in financial transactions of key importance to the customers and the Polish economy.

Commercial banking

The Commercial Bank Division services the customers whose annual sales revenue range between PLN 8 million to PLN 1 billion.
To ensure more effective service of such a large and diversified customer group of the small and medium-sized enterprise ("SME") segment, the Bank introduced in mid-2006 a new customer service model. This model promotes more individual services for small enterprises in the situation of existence of wide product requirements on the customer's side and changes the approach to acquiring new customers.

As a result of the revised approach to new customer acquisition as well as to several efficient dedicated acquisition campaigns targeted on selected customer groups (conducted with the slogans "Trade with us", "Invest with us" and "We construct assets"), the Bank acquired in 2006 more than 930 new customers in the SME segment, 40% of which in the fourth quarter. Good results in the fourth quarter were supported by implementation of a new lending program and innovative solutions in terms of f/x settlements (foreign exchange internet platform).

In 2006, the Bank presented to its SME customers several new banking products. Due to the fact that this segment is the main beneficiary of the assistance funds granted by the European Union within the new budgeting period, in 2006 the customers were proposed European Union advisory services offered by the European Union Unit functioning in the Bank. The customers may use these services at each stage of applying for the EU subsidy – from analysis of the available funding sources, through preparation of the application for the subsidy, to accounting for the project.

The product range offered to the Public Sector included an attractive long-term investment loan co-funded by Kreditanstalt für Wiederaufbau in cooperation with the European Commission – within the framework of the investment funding program "Municipal Finance Facility". This loan was used in 2006 by eight local self-government units located in various regions of Poland. Prepaid cards were another solution offered to the Public Sector on a large scale in 2006.
Owing to the new distribution channel for FX transactions, in the corporate banking area a significant increase was noted in the value of FX transactions performed by the customers was noted in 2006. Furthermore, the year 2006 was a period of active promotion of the Corporate Finance products among the major SME customers, an example of which is signing in July the mandate for public issue of 5-year bonds for PLN 100 million with one of the customers.

Brokerage

Dom Maklerski Banku Handlowego S.A. (DMBH), a wholly-owned subsidiary of Bank Handlowy S.A., renders brokerage services on the capital market to the Group. DMBH was set up on the 1 April 2001 as a result of transfer of total assets of Centrum Operacji Kapitałowych (COK) to its subsidiary Citibrokerage S.A. followed by a change of the name.

The total transactions value in 2006 amounted to PLN 35.7 million which represents 1% increase in turnover in comparison to 2005. The number of contracts settled by DMBH in 2006 increased by 198% and amounted to 182,021 items.

The substantial change of investors' structure, which operates on the Stock Exchange (i.e. share of individual investors increased while share of foreign investors decreased) was one of the reason for the decrease of DMBH's share on the stock market. The most important internal factor, which affected the position of DMBH was the replacement of the sales team, which took place in the middle of the year. This change had a significant impact on the stock market share of DMBH. Although DMBH lost the leader position, its market share increased during the quarter and finally at the end of the year DMBH had an 11% share of stock exchange turnover.

As at the end of 2006 DMBH acted as Market Maker for 43 company shares, i.e. 15.4% 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 two offshore companies quoted at the same time on their parent markets.
In 2006 DMBH acted as an agent for Elektrobudowa S.A. shares issue of C series. Shares were offered to the upper level of company's management within the framework of the management options exercise. The issue value under issued price amounted PLN 5.26 million.

Selected income statement and balance sheet items*

Company	Head-quarters	Bank's stake in company's equity	Bank's stake in company's equity 31.12.2006	Equity 31.12.2006	Net profit/loss 2006
		%	PLN thousand		
Dom Maklerski Banku Handlowego S.A.	Warsaw	100.00	931,863	103,339	24,341

**data in audit*

Leasing

In January 2006 the two leasing companies Handlowy-Leasing S.A. and Citileasing Sp. z o.o., merged. The acquirer changed its name from Citileasing Sp. z o.o. to Handlowy-Leasing Sp. z o.o.
Since the beginning of 2006 the Company has intensified its affords to develop a new product offer. Within the new offer the following new programs were launched or expanded: construction machine program and a metal processing machine program. Currently the company's offer is aimed to the broader range of customers then only Bank's clients within the following programs:

- road transportation,
- printing machines,
- machines for metal processing,
- machines for wood processing,
- machine for plastic processing,
- packaging equipment,
- construction machines.

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.

The cooperation with customers of the Bank Handlowy w Warszawie S.A. has been found as a key importance. This includes cooperation within the following client's segments:

- Corporate Banking,
- Commercial Banking,
- CitiBusiness.

Credit programs for Corporate and Commercial Banking was reviewed during the third and fourth quarter of 2006. The main purpose of the review was to enhance the product offer and accelerate the transaction approval process.

New insurance products offer was developed and introduced. The range of service was widened by damage compensation services. The new Center for damage compensation (Centrum Obsługi Szkód) was opened. The company signed a brokerage agreement with Nord Partner and new agreement with PZU, the leading underwriter.

The company continued working on the after-sale offer and strengthen of Leasing Customer Service team. Client feedback was used for the internal reorganization and process improvements. The main purpose of these activity is to ensure good and complex after--sale service and customers' satisfaction of company's service.

Since the beginning of the year the total value of new agreements signed amounted to PLN 430.7 million. This represents the increase in the value of leased assets by 37% in comparison with 2005.

Selected income statement and balance sheet items*

Company	Head-quarters	Bank's stake in company's equity	Total assets 31.12.2006	Equity 30.06.2006	Net profit/loss 1H 2006
		%	PLN thousand		
Handlowy--Leasing Sp. z o.o.	Warsaw	100.00	784,664	199,969	26,036

**data in audit*

Consumer Banking

Credit cards

Throughout the year the Bank undertook a number of actions aimed both to increase the number as well as the value of transaction made with the use of credit cards. Thus the Bank remained the market leader by the value of conducted transactions and the customers' outstandings, and the number of issued credit cards reached almost 663 thousand at the end of December 2006. This constitutes a 14% growth compared to the corresponding period in the previous year. Citibank Credit Cards also remained the most frequently used cards in the market – the average number of transactions exceeded over 2.5 times the number of transactions with other cards, which gives the Bank a market share of about 25%.

In June 2006, the Bank implemented an innovative process for credit card sale, within the framework of which a customer applying for credit card doesn't have to submit documents that confirm his earnings. Based on the declaration of earnings made by a client in the credit card application one can be offered a credit card with high limit. A client can obtain even a golden credit card in this way.

In August 2006, new selling channel – "stands" (small branches in which consultants offer credit cards to customers), was open. "Stands" are placed in shopping malls and BP petrol stations, i.e. in places that guarantee a large number of potential customers. As at 31 December 2006 there were seven outlets located in shopping malls and over fifty BP located in petrol stations.

Within the framework of the strategy of focusing on customer's needs, an important change was introduced in the Safety Package for credit cards. Since 1 January 2006, the Safety Package has been optional. Three new insurance types were added to the package. Currently, the Safety Package consists of five insurance types: „Bezpieczna Podróż" ("Safe Journey"), „Opóźnienie Odlotu" ("Delayed Flight"), „Opóźnienie Bagażu" ("Delayed Luggage"), „Bezpieczne Zakupy" ("Safe Purchases") and „Tańsze Zakupy" ("Cheaper Purchases").

In the sphere of expanding the product range offered, the Bank issued in March limited MasterCard FIFA 2006 Credit Card – on occasion of the FIFA 2006 World Cup. In the second quarter of 2006, the Bank obtained very good results in the sale of the MasterCard FIFA credit cards.

Additionally, in the same month the Bank offered to Citibank Credit Card holders the unique possibility in the Polish market to considerably increase the credit limit and to make the transfer to the debit of the increased limit. The customer in equal monthly installments repays such debt. This service was very successful – the respective outstanding amount totaled almost PLN 160 million.

In October, a new product appeared in the Polish market – the Citibank Credit Card for students. The card is granted to students in any year of studies and any faculty, solely on the basis of the ID card and the student ID card. The card is offered to this group of customers on special very advantageous conditions: the Bank does not require any revenue confirmations, possessing a personal account or reaching a particular grade average. Every student receives a credit limit of PLN 2,000 (the limit is raised to PLN 3,000 after presenting a scholarship certificate). While studying, the customer does not pay any annual fees, which is a unique offer in the Polish market. The product was welcomed with a very keen interest of students, as shown by the distribution figures in the first pilot universities.

In November 2006, the Bank offered to its existing credit card holders an additional card for young people. The card is available to teenagers of at least 13 years of age and constitutes as an alternative to "pocket money", with the adults determining the limit of available funds. The customers do not pay any fees for the issuance and usage of the additional card over the entire usage period, and the Bank guarantees to all existing privileges related to the card type.

For the holders of Motokarta Kredytowa Citibank-BP, a new service, MotoVip, was made available. The service consists of 24-hour support regarding the customer's car, including: 24-hour support of a consultant, advice on what to do in case of an accident, first aid advice, help in obtaining compensation from the insurance company as well as special offers for services in a few hundred car service points in Poland. The customers have also the possibility to purchase tires and windscreens at reduced prices. All of these services are available to Citibank credit card holders. With the help of the card they can make transactions over the phone. The MotoVIP service is provided to the holders of Motokarta Kredytowa Citibank-BP free of charge.

Furthermore, the Discount Program for Citibank Credit Cards was extended by new points granting discounts to the holders of all Citibank Credit Cards. The discounts are currently offered at more than 2300 shops and points of service.

In April 2006, in recognition of accomplishment and effort in the development of the prestigious credit cards market in 2005, Bank was honored by MasterCard Golden Rock Award. The prize was awarded during annually official Master Card event which took place on 19 April 2006. This is an evidence, that Bank maintains a leading position on the prestigious credit cards market and demonstrates its innovative approach to identify and address customers' needs in various segments.

Retail Banking

Bank's share in the retail loans market (including mortgage loans) decreased to 2.4% as at the end of 2006 from 2.5% as at the end of 2005. Bank's share in the deposits market amounted to 2.0% in comparison to 2.2% as at the end of 2005.

Bank accounts

In 2006, the Bank conducted several marketing activities focused on acquisition of new active customers, both in the affluent segment (CitiGold offer) and the medium-wealth segment. Owing to this, both the number of customer relations as well as the total number of accounts serviced increased during the year, despite the comprehensive action of closing inactive personal accounts conducted at the beginning of the year.

These activities resulted in improved quality of the portfolio of accounts serviced, which is reflected inter alia in an increase by 20% in the mean account balance (December 2006 on December 2005).

At the same time, to acquire and maintain deposits, starting from April 2006 the Bank conducted marketing campaigns offering upon advantageous terms both ordinary deposits as well as combined products consisting of traditional deposit and one of the investment products. These campaigns were supported by the intense marketing communication and contributed to acquisition of a large amount of new deposits, and also to an increase in the customers' interest in modern investment products.

At the end of 2006, the Internet account called CitiOne Direct was introduced into the product range offered. The distinguishing features of this product are the possibility to open and use the account without the need to visit the branch and low fees. CitiOne Direct is a proposal for the persons who want to manage their finances freely, contacting the Bank mainly over the Internet or phone.

Furthermore, the Bank lowered the interest rate on the personal account overdraft, retaining the 7-day interest-free period in each month, which is unique in the market. Work was also conducted to simplify the procedure of granting and increasing the overdraft so as to make it easily available to the largest possible group of customers. For the majority of customers, the Bank offers the personal account overdraft on the basis of the declared cash inflows to the account.

Loan Products

In February 2006, the Citibank Loan was fully adjusted to the requirements of the Act Amending the Act - Civil Code and Amending Certain Other Acts of 7 July 2005. Within the framework of these activities, new interest rates on loans were introduced consistently with the requirements of the 4-time level of the Lombard Rate. The Bank ensured that if this interest rate changes, the interest rates on loans are automatically adjusted to the requirements of this Act. The maximum front-end fee does not exceed 5% of the loan value. The information on collection fees was introduced into the Loan Rules.

The above changes had no significant effect on the product profitability, because the interest rate on the Citibank Loan was in the majority of cases lower than required by this Act.

In November 2006, the product range offered by the Bank was enhanced by mortgage loans („Pożyczka Hipoteczna"). The Bank offers PLN loans of up to 80% of the real estate value. Under this offer, the loan granted cannot exceed PLN 1.5 million (PLN 3 million for Citigold customers) and a tenor of up to 30 years. The interest rate depends on the assessment of the credit history and reliability of the customers. Available funds can be used for any consumer purpose, for example consolidation of all liabilities of the customer, repayment of an existing mortgage/housing loan, renovation/finishing of a real estate, etc.

Investment and Insurance Products

In 2006, the investment fund product range offered by the Bank was supplemented by the BlackRock Merrill Lynch foreign funds and six new domestic founds: ING Fundusz Parasolowy and ING Fundusz Małych i Średnich Spółek, UniStoprocent Bis, UniAktywna Alokacja 95%, UniAkcje Nowa Europa. The structured bonds offer developed dynamically. The number of subscriptions almost doubled as compared with the previous year. Consequently the value of CitiGold customers structured bonds portfolio increased by 50%.
Bank also implemented a number of innovations within insurance products. In March 2006 Bank expanded its offer by new insurance--investments products: Portfel Funduszy Zagranicznych Euro and Portfel Funduszy Zagranicznych Dolar related to insurance capital founds: Franklin Templeton, Credit Suisse and Merril Lynch.
In April 2006, the insurance products sold by the Bank were supplemented by a new SuperEmerytura annuity life insurance, unique in the Polish market. The insurance is offered by STUn Ergo Hestia S.A. This Insurance Company guarantees the level of the lifetime monthly benefit or one-off payment form.

In 2006, a product range of the Polisa Gwarancyjna (i.e. simple in service, form the customer point of view, life insurance, which is a kind of savings with only one paid premium) was supplemented by introduction of insurance policies for shorter terms as well as nominated in American dollars. Currently, this insurance is offered to customers in PLN for five years, three years and one year, and in USD – for three years. Taking into account the increase of Portfel Inwestycyjny assets, which is the product serviced by AEGON Towarzystwo Ubezpieczeń na życie S.A., 2006 was a record year. The premium revenue amounted to PLN 782 million. Taking into account the increase of Portfel Inwestycyjny assets, growth rate compared with the prior year amounted 128%.

In 2006 the Bank strengthened its position on the private banking market by achieving 16% share in the market in terms of value of assets. Assets of CitiGold clients increased by 14% and number of CitiGold accounts increased by 19% and exceeded 20 thousand. CitiGold Wealth Management is distinguished by wide range of investment and insurance products offered within "open product architecture" from its competitors.

Internet and other remote service channels

In 2006, the Bank continued popularizing the internet platform Citibank Online (CBOL), and the number of users who accessed the platform at least once reached more than 455,000, which corresponds to a 34% growth as compared with the end of 2005. The number of transactions conducted with the use of Citibank Online constituted more than 80% of total financial transactions initiated by individual customers of the Consumer Bank.

Furthermore, the Bank actively promotes the service called Wyciąg Online (Online Bank Statement), noting a stable increase in the number of users of the service, which allows considerable savings. At the end of 2006, the number of customers using this service exceeded 69,000.

In May 2006, the Bank introduced additional safety features of e-banking Citibank Online, which include the introduction of single-use passwords for authorization of new recipients. The passwords are sent to customers via SMS messages.

Since 4 March 2006, the Bank has been offering to its customers the CitiAlerts service, which replaced the previous CitiGSM service. CitiAlerts involves systematic sending by the Bank the information on the Citibank Credit Card and Citibank Personal Account. The CitiAlerts messages are sent on an ongoing basis or daily, in the form of an e-mail or SMS message. Such messages relate, for example, to the Credit Card debit balance, the date of credit card debt repayment, transactions made with the use of the credit card, the balance and operations on the account. The CitiAlerts service is available in the form of 2 packages diversified with respect to the scope of information transferred and the frequency of its sending. The Standard or Premium packages may be selected. At the end of December, the number of users of this service attained almost 77,000, and thus rose by 20% as compared with December 2005.

SME Banking and CitiBusiness

Since 2004, the Consumer Bank offers CitiBusiness services designed for small enterprises with annual sales revenue not exceeding PLN 8 million, irrespectively of the legal form of the business activity conducted.

At the turn of 2005 and 2006, reorganization of the CitiBusiness segment took place with an aim to improve efficiency in back office, credit and distribution processes, to improve the customer service model and ensure sustainability of business development.

The CitiBusiness product range is based on the concept of sale of products and services in the form of product packages meeting the specific requirements of businesses with various activity profiles. In October 2006, the list of the packages of basic banking services of CitiBusiness Development and CitiBusiness Premium was supplemented by the new package of CitiBusiness Exchange. This package was created especially for the dynamically developing segment of companies conducting export and/or import operations and includes a number of solutions particularly advantageous for entities, which make foreign trade transactions and settlements in foreign currencies. New package launch was accompanied by an extensive number of business accounts opened as well as by an increase in the volume of foreign exchange transactions handled by the Bank in the last quarter of 2006.

The range of basic banking products offered is complemented by the set of modern tools for funding small enterprises, introduced in April 2006 as the CitiBusiness Loan Program. This program takes into account the diversity of the small enterprise segment in the area of legal forms, the types of accounting standards adopted and the size of revenues, and therefore, to ensure the effectiveness of loan decision making processes, differentiates the product offering and the methods of creditworthiness analysis depending on the enterprise profile.

In July 2006, the Price Reduction Program was added to the loan products offered by CitiBusiness. This program is a modern system allowing the CitiBusiness salespersons to negotiate terms of each loan transaction entered into with a customer new for the Bank. This tool supported to a significant extent the CitiBusiness loan sale processes existing so far.

Responding to the steadily increasing needs of the micro-enterprises segment customers, the Bank adapted in 2006, for the purposes of the CitiBusiness product range, also other banking products and services which had been previously available only within the product range offered to larger enterprises.

In March 2006, the European Union advisory product has been launched, which enabled small enterprises to obtain professional assistance at searching for available sources of funding for their requirements from the EU funds, at initial assessment of the possibility to receive subsidies, at development of application documentation, and also at monitoring or managing an EU project.

In June 2006, a joint initiative of the Bank and the oldest Italian bank – Monte dei Paschi di Siena – was launched in CitiBusiness, involving the advisory support for business cooperation between the Italian and Polish enterprises in both countries.

In October 2006, the product range offered by CitiBusiness was supplemented by an extensive selection of charge-type Citibank Visa Business cards, which markedly increase the efficiency of expense management processes in businesses and include diverse packages of additional services, including insurance ones.

The constant development of the product range offered in 2006 was accompanied by numerous X-Sell actions and by acquisition of new customers for the Bank. Among these activities, the precisely targeted loan sale campaigns directed to the existing portfolio of CitiBusiness customers, activities aimed to acquire customers for the same segment among the self-employed Bank customers as well as the national acquisition campaign under the slogan „Oferta na Twoich Warunkach" (Offer on Your Terms) conducted in the fourth quarter of 2006 are worth mentioning.

CitiFinancial

Until the end of 2002, under the CitiFinancial brand, the Bank offers products for the segment of customers with average or low income. The basic product range offered consists of the Cash Loan, Loan for Debt Consolidation and Mortgage Loan. The products are offered through the network of the Bank's own branches, and also by authorized points and via the centralized process, i.e. financial intermediaries and brokers.

During the year, also work related to changes in the policy of granting loans in order to expand the group of potential customers was conducted. Among other things, the offering of granting the Cash Loan for the selected professional groups on the basis of documents confirming qualification for the performance of the specific profession (freelance professions) was tested.
To ensure better access to products to the customers, in 2006 the Bank launched 38 new branches and 12 authorized points of sale. At the end of 2006, the CitiFinancial distribution network consisted of 99 branches and 12 authorized points of sale.

Also in the fourth quarter of 2006, the CitiFinancial branches started distributing the Citibank Visa Silver Credit Card. By means of a simplified application, it can be requested by customers applying for a Cash Loan or a Mortgage Loan.

In 2006, also the Internet channel launched at the end of 2005 gained in importance. At the end of 2006, about 2% of new customers originated from this channel. Their acquisition cost was considerably lower than those of other customers, and the level of acceptance of applications from this channel was definitely below the average.

Branch Network

In 2006, the network of CitiFinancial branches was dynamically developed and work on restructuring of the network of corporate and retail branches was conducted at the same time in order to optimize their costs of operation and their availability to customers.

The branch network of CitiFinancial was enlarged to 111 outlets (an increase by 50 entities as compared with the end of 2005). In total, 38 branches and 12 sub-branches – partnership outlets operating under the CitiFinanacial logo – were opened.

At the end of 2006, the branch network of Consumer Banking consisted of 86 branches, similarly as one year ago. In the course of 2006, 1 CitiBanking branch in Warsaw was closed, and afterwards was launched in a new location, at the same time expending its functionality to the CitiGold branch standard. Additionally, 23 corporate branches conduct retail customer service (without changes as compared with the end of the previous year).

The corporate network was reduced to 39 branches (drop by 2 entities as compared with the end of 2005) as a result of closures of non-profitable sub-branches in Żywiec and Kędzierzyn-Koźle. The number of retail branches providing services to foreign corporate customers did not change and amounted to 13. In total, the corporation customers are serviced at 52 outlets (fall by 2 as compared with the end of 2005).

In total, at the end of 2006, the Bank had at its disposal a network of 236 branches (224 own branches and 12 agency branches), which constitutes an increase by 48 unites as compared with the end of 2005.

Changes in IT

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 Bank's regulatory environment.

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

- replacement of the server infrastructure and implementation of a new version of the eOrders application used for placing orders by customers. Owing to this, the costs of the service could be reduced by almost 30% and the number of servers could be reduced by almost 50% (15 servers);
- implementation of the mechanism of sending information on transactions of the SpeedCollect service customers several times daily, owing to which the customers may accelerate the process of settlement of their transactions in their accounting systems;
- introduction of a new, more efficient method of sending to the CitiDirect e-banking system the information on transactions conducted by corporate customers of the Bank. The new solution enables more rapid updating of information for customers within the electronic banking system and increases the efficiency of the process of reconciliation of transactions initiated in CitiDirect;
- launching a more efficient server infrastructure and implementation of a new version of the main Kondor+ system in the Treasury Division;
- implementation of partial automation of transaction processing and customer validations of payment orders, initiated in the paper form, on the basis of the available systems and the Adobe Forms technology;
- implementation of changes enabling reporting from the eTIS application, supporting the crediting process in the Bank, consistently with the Basel II project requirements in the Credit Risk area;
- migration of the server environment for critical Sorbnet and Elbon applications to the standard in force in the Bank combined with replacement of the Sybase database version to the manufacturer--supported version 9.0.2;
- migration of connections between the CitiFinancial branch network and the Bank head office to the MPLS technology on the basis of an agreement with the suppliers. Introduction of this new technology allows obtaining a wider connection band with a more effective cost model;
- implementation of the central system of making backup copies for data stored on servers disseminated within the network of the Bank branches;
- in the area of credit cards, a new functionality was introduced, enabling the sending of bank and card statements by e-mail, based on the customer profile. The service eliminates the necessity to send statements by ordinary mail and supplements the previously implemented e-statement services. This functionality makes it also possible to send SMS messages consistently with the profile selected by the customer, e.g. reminding the customer on loan repayment, debiting the card account, etc. Furthermore, also a loyalty-building program was implemented, which allowed to diversify the annual fee depending on the history of card use throughout the year;
- in the area of E-Banking Systems and Data Warehouses, changes were introduced in the area of security for the CBOL system, which involved the introduction of payer authorization; these changes allowed minimizing the risk related to fraud in e-banking through implementation of single-use passwords for authorization of new recipients. This is the first phase of changes planned for 2006, and related to protection of the Internet platform and customer authentication;
- improvement of the process of loan decisions through automation of the credit policy criteria, which will result in immediate loan decisions and the possibility to independently test new credit strategies.

The total investment in IT incurred in 2006 amounted to PLN 27 million in the Corporate and Investment Bank and PLN 7 million in the Consumer Bank.

Equity investments

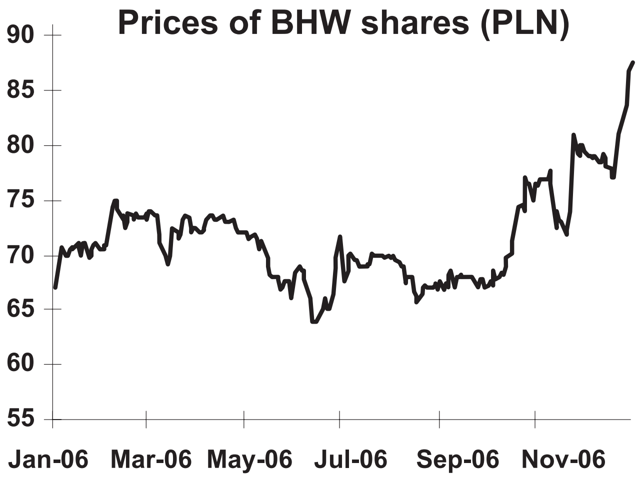
The capital exposures of the Bank are classified as part of the strategic and divestment portfolios.
In 2006, the Bank continued its so far capital investment policy, whereunder the following elements were used as indicators for the strategic portfolio: maximization of profits in the long term; increase of the market share and development of cooperation with the Bank; as regards the divestment portfolio, the following factors are taken into account: optimization of the financial result on the capital transactions and minimization of risk inherent in such transactions.

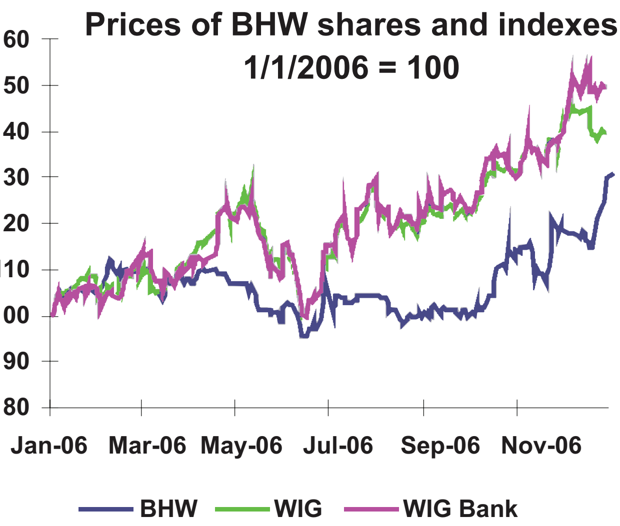
Strategic Portfolio

Strategic companies include entities that run their business in the financial sector, whose performance has impact on the result of banking operations of the Group; which help the Bank expand its offer, and which increase the prestige and competitive edge of the Group on the market of financial services in Poland (Handlowy-Leasing Sp. z o.o., Dom Maklerski Banku Handlowego S.A.). Strategic companies also include infrastructural companies that provide services for the financial sector; these companies are not controlled by the Bank as such, but they are of strategic importance for the Bank in view of the operations they perform (e.g. the Warsaw Stock Exchange, MTS-CeTO, the Domestic Clearing House, or the Credit Information Bureau). Regarding the strategic involvement in such infrastructural companies, the Bank intends to keep its share and be active in outlining the strategic directions their development while exercising its right of vote. In terms of corporate oversight of these companies, it is the overriding objective of the Bank to ensure their smooth development and continued operations in the existing form, to be used by the players on the financial markets, including the Bank

Divestment Portfolio

The companies for sale are entities where the Bank's exposure is not strategic; the companies in that portfolio include both entities that are owned by the Bank, directly or indirectly (e.g. Lubelska Fabryka Maszyn Rolniczych S.A., Pol-Mot Holding S.A., or NFI Magna Polonia S.A.), as well as special purpose investment companies that are used by the Bank for capital operations (Handlowy Investments S.A., Handlowy Investments II S.a.r.l.). Some of these companies for sale are restructured companies that follow operations involving conversion of debt in exchange for shares in equity.
The strategic assumptions of the Bank with regard to the companies for sale provide for gradual decrease of the Group's involvement in these companies. It is assumed that the individual entities will be sold at the best possible moment in view of market developments. The divestment portfolio comprises capital exposures without predetermined rate of return. The Bank does not plan any new capital investments to be divested at a later date. The divestment portfolio may grow only as a result of converting debt claims into shares in equity.





Other Information about the Bank

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, on 26 February 2007, the agency notified the Bank about change of the financial strength rating from D+ to C-. This change results form new methodology of valuating financial strength of Banks introduced by Moody's. Moreover on 3 March 2007 agency notified the Bank about Aa2 rating granted (3rd from the top) for long-term deposits in PLN and Prime-1 for short-term deposit in PLN.

The Bank's Performance on the Warsaw Stock Exchange

In 2006, the price of the Bank's shares on the Warsaw Stock Exchange (WSE) rose from PLN 67.0 (2 January 2006) to PLN 86.8 (29 December 2006), by PLN 19.8, i.e. 30%. A definite increase was visible in the fourth quarter of 2006, when – starting from October – the share price systematically climbed, which resulted above all from an increase in outstanding shares as a result of the change in the structure of the Bank's shareholders.

Interest rates

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

Awards and Honors

In 2006, the Bank received the following awards and honors:

- Micro-payments, the investment loan for small and medium-sized enterprises, and also the Comprehensive Cash Service and the eTrade Bank Handlowy w Warszawie S.A. electronic platform received awards in the 10th edition of the Europroduct competition;
- Bank won the first place and obtained the tile of the "Best Bank for Settlements" in the "Clearing Survey" ranking of the "Global Investor" journal in the categories of debt instruments and equity instrument settlements;
- For the second time in a row, the Bank won the first place in the category of a financial institution in the Pan-Polish „Kompas" Ranking of Employers co-organized by the Consulting Student Scientific Circle of SGH, SMG KRC Millward Brown Company and Radio PIN;
- The Bank was awarded in the „Firma w Twoim Stylu" ("Corporation in Your Style") competition organized by the „Twój Styl" magazine, for the Citigroup Women Poland program and for the cycle of training planned especially for women;
- Bank Handlowy w Warszawie S.A. was honored by the title of the Patron of the Year 2006 of the National Philharmonic in Warsaw;
- Bank Handlowy w Warszawie S.A. was awarded with honors by the financial "Bank" monthly for the best corporate bank in the ranking of "50 top banks in Poland 2006", in the best financial result category;

- The Bank Handlowy w Warszawie S.A. Branch in Bydgoszcz was acknowledged for the sixth time as the best bank of the Kujawy and Pomorze Region in the „Złota Setka Pomorza and Kujaw" ("The Gold Hundred of Pomorze and Kujawy") ranking organized by „Gazeta Pomorska" under the honorable patronage of the President of the National Bank of Poland, Marshal of the Kujawsko--Pomorskie Voivodeship, Kujawsko-Pomorskie Voivod, President of the Confederation of Polish Employers and pod under the press patronage of the Rzeczpospolita daily;
- Bank Handlowy w Warszawie S.A. received the Golden Rock Award Statue granted by MasterCard for particular achievements in the development of the prestigious card sector in 2005 in Poland;
- The Prepaid Social Benefit and Scholarship Cards (Przedpłacone Karty Zasiłkowe i Stypendialne) issued by Bank Handlowy w Warszawie S.A. received the second-degree award for the most innovative product in 2005 in the corporate sector in Europe, granted by the European Payments Consulting Association (EPCA) and the European Card Review (ECR);
- The Chief Economist of Bank Handlowy w Warszawie S.A. won the 12th edition of the competition organized by the „Parkiet" stock exchange gazette in the category of Economist 2005;
- Dom Maklerski Banku Handlowego S.A. received for the third time running the Golden Bull Award granted by the President of the Warsaw Stock Exchange for the largest share in the equity market turnover on the Warsaw Stock Exchange for 2005;
- The team of Bank Handlowy w Warszawie S.A. macroeconomic analysts won the first place in the ranking of best macroeconomic analysts in 2005, developed by the „Parkiet" stock exchange gazette.

Sponsoring Activity and Cultural Patronage

Patronage of culture and arts and cooperation with the National Philharmonic brought to the Bank for the subsequent time the title of the Patron of the Year 2006. This distinction is particularly important for the Bank, because we consider social commitment the Bank's particular pride and distinctive feature. In May 2006, Bank Handlowy w Warszawie S.A. was a sponsor of the concert performed by the Orchestra and Choir of the National Philharmonic directed by Jerzy Semkow, with participation of the following solo singers: Bożena Harasimowicz – soprano, Ewa Marciniec – alto, Dariusz Stachura – tenor and Romuald Tesarowicz – bass. In December 2006, the Bank sponsored the concert of Evelyn Glennie, a charismatic drum player and composer from Scotland, who was accompanied by the Chamber Orchestra of the National Philharmonic. In 2006, Bank Handlowy w Warszawie S.A. was also the sponsor of the underwater photograph exhibition „Wielki Błękit" ("The Big Blue") – extraordinary images of the most beautiful diving sites of the world, photographed by one of the most talented underwater photographers – Dariusz Sepioło.

Furthermore, the Kronenberg Foundation operating on the Bank's behalf supports the major Polish nationwide and local educational and local development projects with particular consideration of economic education and cultural heritage. In 2006, the Foundation celebrated its 10th anniversary.

The most important activities conducted by the Foundation in 2006:

- My Finances („Moje Finanse") – the largest Polish economic education program for pupils of higher secondary level schools. It is conducted in cooperation with the National Bank of Poland and the Foundation of Entrepreneurship of Young People. In 2006, more than 2000 teachers and more than 144 000 pupils in the whole of Poland participated in "My Finances". Some workshops and training sessions were conducted by the group of 70 volunteers of Bank Handlowy w Warszawie S.A. The classes with their participation took place both at schools as well as in the selected branches of the Bank, where the pupils played the roles of bankers and customers. Within the framework of this program, in combination with „Gazeta Wyborcza", a competition "My Finances – from class to teller window" was organized so as to contribute to obtaining by the pupils the ability to make right financial decisions. Thirty thousand pupils of lower secondary and higher secondary schools participated in this competition;
- Employee Volunteerism Program in Bank Handlowy w Warszawie S.A. – the purpose of this program is to involve the Bank employees in contributing their knowledge, experience and abilities to social projects. In 2006, almost 1400 employees of the Bank in the whole of Poland participated in the program. The most important project implemented in 2006 within the program was participation of volunteers of the Bank in the global action – World Citigroup Day for Community. The employees implemented 57 social projects created in cooperation with local institutions. The project recipients were a group of about 250 thousand persons. Their implementation was conducted by 822 employees and 219 members of their family and friends;
- Gieysztor's Award – the most prestigious award for services for protection of the Polish cultural heritage is granted yearly to institutions or individual for the activity aimed to protect the Polish cultural heritage. The winner of the seventh edition of the Award was Prof. Krzysztof Kazimierz Pawłowski – Vice-President of the Polish National Committee of the International Council on Monuments and Sites (ICOMOS);
- Competition for the Award of Bank Handlowy w Warszawie S.A. – the most prestigious competition for scientists, economy and finance theoreticians in Poland. The winner of the 12th edition of the competition was Dr Andrzej Rzońca of the Warsaw School of Economics, the author of the study „Non-Keynes effects of fiscal policy tightening: theory and studies of selected Central Europe countries";
- Competition Micro-entrepreneur of 2006 – the basic concept of this competition is not only encouraging to setting up small businesses, but also presentation and promotion of the best of them as examples of effective business activities. The title of the Micro-entrepreneur of 2006 was wan by Elżbieta Olszewska „To-Tur Toruńska Turystyka" from Toruń, who runs the Live Gingerbread Museum.
- Wokulski – competition for the best business plan for students intending to take up business activity. The winner of the 8th edition of the competition was Piotr Antoszek, a student of the Agricultural Academy in Lublin and of the Catholic Lublin University, the author of the business plan "www4you", the basic assumption of which is creation of a company which deals with the positioning and sale of domains in the Internet;
- Banks in Action (Banki w Akcji) – a program addressed to young people. The purpose is to present to young people the specific features of work in the banking sector – the program is based on active teaching methods – the young people play the roles of bankers and compete in the simulation game Banks in Action. The sessions are conducted in English, and volunteers from the Bank participate in program implementation;
- Traces of the Past („Ślady Przeszłości") – the purpose of this program is to increase among young people the interest in the cultural heritage of the past. The pupils search for interesting historic buildings and monuments in their neighborhood, learn their history and undertake their care. Furthermore, they conduct educational and promotional activities, owing to which the forgotten places become part of tradition, a symbol and tourist attraction of their town. Fifteen thousand pupils participated in the program. The program is conducted in combination with the Civic Education Center;
- Subsidy Program – in 2006, the Kronenberg Foundation granted 87 subsidies for the total amount of PLN 1.9 million. The projects supported by the Foundation include, for example, the Anna Dymna's Foundation „Mimo Wszystko" – for awards in the Festival of Enchanted Song, Educational Entrepreneurship Foundation („Fundacja Edukacyjnej Przedsiębiorczoś ci") for organization of the competition for economy students "Entrepreneurship, Finances and Management", the Jewish Culture Festival Society in Kraków for supplementary funding of educational workshops within the framework of the 16th Festival;
- Actions for philanthropy development – the Foundation actively participates in the activities of the Polish corporate foundations and other non-governmental organizations, participating, for example, in the work of the Forum of Donors, which plays the role of the advocate and forum for exchange of experiences of the major Polish institutional donors. The Foundation undertakes also actions promoting philanthropy among businesses and corporations. In both these roles, membership and active participation in the work of the European Foundation Centre are very helpful.

Special purpose investment companies

In 2006 the Group performed capital operations through three special purpose investment companies: Handlowy Inwestycje Sp. z o.o. (manages of portfolio which consist of shares of following companies: Lubelska Fabryka Maszyn Rolniczych S.A., Handlowy-Leasing Sp. z o.o., and Handlowy Heller S.A. (which shares were sold on 2 February 2006), Handlowy Inwestycje S.A. (a company with its headquarter in Luxemburg and manages of portfolio consisted of shares of: Eastbridge N.V., NFI EMF S.A., Handlowy Investments II S.a.r.l., Pol-Mot Holding S.A. and NFI Magna Polonia S.A.) and Handlowy Investments II S.a.r.l. (a company with its headquarter in Luxemburg and of shareholder of Techmex S.A. and Handlowy Investments S.A.). 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.

Significant Risk Factors relating to the Bank's Operations

Major Risk Factors and Threats to the Bank's Operating Environment

Economy

According to the macroeconomic forecasts developed by the Bank, the economic growth in Poland may slow down to about 4.9% in 2007, as compared with 5.8% in 2006. Most probably, the basic growth driver will still remain the domestic demand, including above all the high pace of growth of investment outlays.
Economic revival and improvement in the labor market may make the Monetary Policy Council increase the interest rates by about 50 bp in 2007. Due to the increasing demand for labor and economic emigration of some employees, the most important risk factor is the possibility of excessive increase in wage demands. Wage surges, much exceeding the growth in labor productivity, may make the monetary authorities tighten the monetary policy.
In 2006, the budgetary situation was very good. Nevertheless, it cannot be excluded that in the case of the potential slowdown the condition of public finances might deteriorate. This might lead to an increase in volatility on financial markets and to weakening of the Polish currency.

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 Management Board);
- taxes and similar charges;
- Act Amending the Act – Civil Code and Amending Certain Other Acts of 7 July 2005 limiting the maximum interest rate on a consumer loan and the maximum fees related to such a loan;
- restrictions in granting mortgage-secured foreign currency loans, arising from Recommendation S of the Commission for Banking Supervision.

Furthermore, the year 2007 will be a year when all the financial institutions in the European Union market will have to adjust their activities to the requirements set forth in Directive 2004/39/EC of 21 April 2004 on markets in financial instruments (so-called MiFID Directive).

Additionally, the Bank will adjust its operations to the legal requirements in connection with the change in the regulations concerning the implementation of the New Capital Accord.

Competition within the Banking Sector

Competition between banks in various 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 and leases 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 European Economic Area now have an advantage as they do not have to start from scratch or acquire a bank. An institution based in any member state of the European Economic Area has only to notify its intent to operate in another market to the European supervision authorities. Foreign banks may operate cross-border activities in Poland, i.e. without their actual presence. By the end of 20056, the Commission for Banking Supervision received 139 notifications from the competent supervisory authorities of the Member States of the European Economic Area announcing the intention to undertake by the credit institutions subjected to their supervision cross-border activity in the territory of the Republic of Poland. In this period, also the Chief Inspectorate of Banking Supervision confirmed to the competent supervisory authorities of the Member States of the European Economic Area the reception of 16 notifications announcing the intention to undertake by the credit institutions subjected to their supervision cross-border activity in the territory of the Republic of Poland via a branch. For the time being, the operations of these banks are oriented mainly on services for large enterprises and the wealthiest customers in the consumer banking sector (private banking). It is possible that foreign banks may attempt conquering the retail market in the future. It is highly probable that the increasing foreign investments in the banking sector and the emerging unified European market of financial services will lead to greater competition in the market for banking services, also in activities such as FX transactions, settlements of foreign trade transactions and investment banking, depositing and investing funds of natural persons.

Despite the large number of institutions that have notified their intent to open operations in Poland, we do not expect sizeable 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. The competitive struggle 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.

Another risk factor is offering the products which have so far been restricted to banks by non-bank entities such as loan brokers or shopping networks. This factor cannot cause lowering of margins in 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.

Major Risk Factors connected with the Bank and its Operations

Liquidity Risk

As a typical feature of banking activity, the Bank experiences maturity mismatches between loans and the funding of deposits. 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 Asset and Liability Committee, which defines the strategy that is implemented by the Treasury Division.

The key task of the Asset and Liability Committee is to manage the structure of the balance sheet in order to increase its profitability, to determine acceptable limits of financial risk to be accepted in particular areas of operations, to define the pricing policy and to make decisions concerning the transfer pricing system used by the Bank.

Within the framework of liquidity management activities, the Asset and Liability Committee is responsible for the preparation and implementation of a unified policy towards liquidity risk. In addition, it approves annual liquidity plans, plans of funding of the Bank's assets and liquidity limits for the Bank, as well as contingency action plans in the area of liquidity. It also determines thresholds (limits) for particular sources of funding and carries out regular reviews of liquidity risk reports.

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

Foreign Exchange Risk

The Bank performs foreign exchange operations both on behalf of its customers and 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, which manages 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.

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 where it proves 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 Asset and Liability Committee, which determines the Bank's pricing policy in respect of interest rate risk. The present level of interest rate risk is moderate.

Credit Risk

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 Bank monitors its risk assets on an ongoing basis, classifies them in accordance with the relevant regulations and establishes provisions against loans. The Bank's Management Board is of the opinion that the current level of provisions is appropriate. 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 possible losses arising out of lending activity.

Equity Investment Risk

Equity investments can be divided into two categories: strategic and for sale. The strategic portfolio includes the Bank's shares in Polish financial institutions of a strategic significance to the Bank due to their operations. Commitments for sale originate from operations of receivable conversion into equity interests. Investments are owned directly by the Bank or indirectly via the Bank's wholly-owned special purpose investment vehicles. In the case of some of the equity investments, their valuation is based on the assumption of finding a strategic investor for the company whose shareholder is the Bank. Therefore, maintenance of the high level of foreign investment may be of key importance for the valuation of these 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 of account. The Bank has already created substantial write-offs related to impairment of investments, hence, the risk level connected with a further drop in the value of the Bank's investment portfolio is low.

Operating Risk

As in other financial institutions in the market, the Bank is exposed to the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. Following the publication of the Basel Committee's recommendations and the recommendations of the Commission for Banking Supervision, the Management Board enhanced qualitative and quantitative measurements of operating risk. The monitoring and reporting of operating losses, divided into several categories, were also implemented. As a result of various tools and methods adopted by the Bank to manage operating risk (e.g. policies, procedures, checklists, limits, self-assessment process, analyses of sources of operating events and adequate repair activities, information security systems, contingency plans and audits) such risk is considerably mitigated, although it is not wholly eliminated. However, the overall level of operating risk is assessed as moderate.

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 within the banking sector or the 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 sums held within the individual deposit protection funds established for given institutions. This could adversely affect the Bank's earnings.

Development Prospects for the Bank

General Development Objectives

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

In future years, the Bank wants to continue active acquisition of new customers, including individual consumers, SME customers and corporate customers, in all market segments, with special emphasis on the former. Bank is going to follow the "client first" strategy and improve customer satisfaction through simplification of operational processes and procedures, coverage model review as well as regular client feedback review. In 2007 Bank plans to use leverage on synergies between corporate and retail banking, both in products area and common distribution network channels. Product synergies predict launching brokerage retail activity in cooperation with retail banking, as well as offering Treasury products to small enterprises (CitiBusiness) of retail banking, and enabling monthly loan repayments through Unikasa payment network.

The Bank aspires to a double digit market share in a few years (measured as the share in the result on banking activity for the entire banking sector). In 2006, its share was approximately 6%. The increase in market share will be achieved when the Bank is able to maintain its leading position in corporate banking and retail banking including services for affluent individuals. New client acquisition is going to be achieved through increase of efficiency and further development of distribution network and launching new products.

In 2007 Bank will still aim for savings and focus on improving cost discipline. Simultaneously marketing expenses are expected to raise a number of new customers as well as particular products' sale increase.

Commercial Banking

In corporate banking the Bank is aiming to increase income in the small and medium-sized enterprises (SME). The Bank is going to acquire new customers on this market as well as deepen the relations with its present customers. The Bank is going to finance SME in an active way as well as to enlarge the offer dedicated to SME customers, and also to increase the number of branches providing services for enterprises.

The majority of the Bank's revenues will be generated by cash management, trade finance services and treasury products. The solutions and innovations in these product groups will be the key factors determining the competitive advantage of the Bank, in particular in cooperation with the most demanding international and leading Polish companies. The Bank will aim also to use to a much higher extent the possibilities offered by the sale of such products which have been so far restricted only for the largest businesses in the national small and medium-sized enterprises segment, for example "Online trading" offered by the Treasury Division.

Although SME maintaining is realized mainly by electronic channels the physical branches located next to housing estates are still needed. For this reason in 2006 decision about increase number of branches available for these customers from 51 to 120 was made. The corporate and retail branches will merge, thus all branches (excluding CitiFinancial) will maintain corporate and retail customers.

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. Moreover, primary market will be one of the factor of brokerage strengthen.

Leasing

Handlowy-Leasing S.A. is going to grow dynamically in 2007. The main growth areas are:
- cross-selling,
- continuation of positive trends in the sale of products offered within the framework of product programs, with the special attention given to increase of equipment segment,
- growth of a new segment of "small transaction".

Special attention will be paid to strengthen and improve after-sale services.

Consumer Banking

Consumer Bank is involved in cooperation with all segments of customers. It is reflected in special tailored product offers, which take into consideration a variety of customer needs from different market segments. Bank plans to further develop both asset and liability products, as well as to launch Mortgage Loan Package (including loans to finance buildings under construction), and to introduce first on the market mortgage account as well as saving account and new debit card.

It is of key importance for the Bank to maintain its top position in credit cards – in whose market Citigroup is the world leader. Bank plans to undertake actions aiming to increase the number and value of transactions made with credit cards. The emphasis will be placed both on new customer acquisition as well as on enlargement and continuous improvement of the product range offered. Within the framework of strategy of focusing on the customer's needs, the Bank will offer new types of cards as well as loyalty programs with new partner. 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 affluent customer segment. What sets the Bank apart its competitors is that these customers are offered global services. In 2007 Bank will continue to build a leader position in the affluent customer segment by innovative product offering and development of the branch network.

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

Customer acquisition, modernization of distribution channels and new product launching is also planned in CitiFinancial. Bank is going to offer selected product of retail segment: home equity, mortgage loans and credit cards to this group of customers.

In 2006, the product range offered by the Consumer Bank was expanded by the modified real estate-secured loan – Mortgage Loan („Pożyczka Hipoteczna") (which had been offered until then only in the CitiFinancial network). Owing to using the real estate as a collateral, individual clients may obtain a loan with a favorable interest rate intended for any consumer purpose, for consolidation of all financial liabilities or for repayment of an existing mortgage/housing loan. In 2007 enlargement of this offer is planned by loans intended for the purchase of finished real estate, thereafter by loans for buildings under construction in PLN as well as in foreign currencies. At the same time, mortgage loans in foreign currencies (loan in PLN indexed on the basis of a foreign currency) are being prepared for the Customers.

Distribution Network

The Bank operates in the market under two brands: citi handlowy - for distribution of consumer, corporate and investment banking products and citi financial - for CitiFinancial's distribution channels. For the Bank, the creation of the brand awareness among existing and prospective customers of particular segments is a top priority task.

The Bank's customer service is based on the network of outlets, consultants and relationship managers, third party direct sales agents and remote distribution channels, such as Internet banking, Call Center, IVR (interactive automatic telephone service) and multi-functional ATMs.

The streamlining of the branch network is being implemented by optimization of available space, closure of the least profitable outlets and merger of corporate and retail outlets. In 2007, the functionality of all retail branches will be expanded by the performance of simple operations for enterprises, and the functionality corporate branches will be expanded by the service of retail customers. Bank will still open micro-branches at BP fuel stations and at prestigious shopping centers.

The utilization of the Bank's distribution network takes into account plans to increase the scope of activities of the Consumer and Corporate Bank, especially in the area of small and medium-sized enterprises (MSP), and also synergies between the Consumer Bank and the Commercial Bank. The priority is to increase the functionality and availability of remote distribution channels and to further enhance the qualifications of banking consultants, in particular those handling large entities that need more sophisticated financial products. In the case of the Consumer Bank, substantial emphasis will be placed on the further growth of Internet usage (Citibank Online). As a target, the Internet is to become the basic source of conducting transactions for private individuals.

High functionality and high quality of access to call centers via CitiPhone for individuals and small businesses and CitiService for large and medium-sized enterprises will be maintained.

Synergies

Wide-ranging experience and diverse operations provide the Bank with strong competitive leverage and allow it to offer its customers comprehensive solutions by taking advantage of the opportunities afforded by synergies between corporate and consumer banking, between banking and brokerage services, etc.

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

The Bank will also continue to sell corporate products to its consumer banking customers of the CitiGold sector. In particular, specialized treasury products, brokerage services and asset management facilities will be offered. All groups of consumer customers will further be offered investment products.

Corporate Governance

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 the 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 2006), and subsequently it was approved by the General Meeting of Shareholders of 22 June 2006.

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 the Bank, including in particular relationships and processes between statutory bodies of the Company, the following Best Practices have been introduced in the Bank.

Investor Relations

An integrated part of the Bank's information policy, whose aim is 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 the Management Board.
- Support from Investment Relations Office during the press conferences for media that are organized during the reports publication.
- 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 Bank and its capital group.
- Enabling media representatives to participate in General Meetings.

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 including the annual consolidated financial statements.
- One half of the Bank's Supervisory Board members are independent members, including the Chairman of the Board.
- Within the Bank's Supervisory Board there 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.

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 the detailed principles of debate management and adoption 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.

Bank's Authorities and Other Corporate Governance Rules

In 2006, no principles of management used by the Bank were amended. These principles are presented in the respective Note to the Bank's Financial Statements.

Changes in the Composition of the Bank's Management Board and Supervisory Board in 2006

Changes in the Composition of the Management Board in 2006

Sławomir S. Sikora	President of the Bank's Management Board
Sanjeeb Chaudhuri	Vice-President of the Bank's Management Board until 21 September 2006
Reza Ghaffari	Vice-President of the Bank's Management Board until 22 February 2006
Edward Wess	Vice-President of the Bank's Management Board from 28 March 2006
Sonia Wędrychowicz--Horbatowska	Vice-President of the Bank's Management Board from 1 October 2006
Witold Zieliński	Vice-President of the Bank's Management Board
Lidia Jabłonowska--Luba	Member of the Bank's Management Board
Michał Mrożek	Member of the Bank's Management Board

Changes in the Composition of the Supervisory Board in in 2006

Stanisław Sołtysiński	Chairman of the Supervisory Board*
Shirish Apte	Vice-Chairman of the Supervisory Board*
Andrzej Olechowski	Vice-Chairman of the Supervisory Board*
Sanjeeb Chaudhuri	Member of the Supervisory Board from 1 October 2006
Göran Collert	Member of the Supervisory Board*
Susan Dean	Member of the Supervisory Board
Todd Gravino	Member of the Supervisory Board from 22 June 2006 until 13 September 2006
Mirosław Gryszka	Member of the Supervisory Board*
Rupert Hubbard	Member of the Supervisory Board
Edward Kuczera	Member of the Supervisory Board until 31 January 2006
Stephen H. Long	Member of the Supervisory Board
Jarosław Myjak	Member of the Supervisory Board until 2 October 2006
Krzysztof L. Opolski	Member of the Supervisory Board from 27 February 2006
Aneta Popławska	Member of the Supervisory Board
Frederick F. Seegers	Member of the Supervisory Board until 19 June 2006
Wiesław Smulski	Member of the Supervisory Board from 5 December 2006

**Members of the Supervisory Board appointed for the subsequent term of office by the General Meeting on 22 June 2006. On 22 June 2006, the Supervisory Board elected Mr. Andrzej Olechowski the Vice-Chairman of the Supervisory Board.*

Changes relating to Appointments and Discharges of Members of the Management Board and Powers of Members of the Management Board

The Bank Management Board consists of five to nine members. Members of the Management Board are appointed by the Supervisory 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.

Powers of Members of the Management Board

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 the Bank's Regulations and submits them to the Supervisory Board for approval;
4) determines, and submits to the Supervisory Board for approval, regulations of management of 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) makes decisions concerning the matters defined in the Management Board Rules;
8) settles the matters submitted to it for consideration by the President of the Bank's Management Board, Vice-President or member of the Management Board;
9) makes independent decisions on the purchase and sale of real estate, perpetual usufruct or interests in a real estate;
10) adopts annual financial plans, investment plans and reports on their performance;
11) approves reports on 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;
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) udetermines 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) makes decisions to incur liabilities or sell assets the total value

of which with respect to one entity exceeds 5% of the Bank's shareholders' equity or grants authorizations to the indicated persons to make such a decision, also with respect to the matters within the competencies of the Committees appointed within the Bank; the decisions are made after the respective Committee is consulted.

Salaries and awards (in cash and in kind), including bonuses from retained profit, paid or payable to persons managing and supervising the Bank

The total amount of salaries, awards and benefits paid or payable to the current and former members of the Bank Management Board in 2006 is as follows:

In thousands of PLN	Short terms salaries, awards and benefits		Capital assets granted
	Base salaries and awards	Other benefits	
Sławomir S. Sikora	2,666	220	244
Edward Wess	1,951	345	105
Sonia Wędrychowicz-Horbatowska	1,395	115	116
Witold Zieliński	1,276	69	251
Lidia Jabłonowska-Luba	1,259	28	82
Michał Mrożek	1,568	40	146
Former members of the Bank Management Board:			
Reza Ghaffari (1)	669	385	187
Sanjeeb Chaudhuri (2)	1,483	31	275
Sunil Sreenivasan(3)	-	34	-
Philip King(4)	-	152	-
Cezary Stypułkowski(5)	-	2,000	-
	12,267	**3,419**	**1,406**

(1) until 31 May 2006
(2) until 21 September 2006
(3) until 30 April 2005
(4) until 31 October 2005
(5) until 31 May 2005

Base salaries and awards include gross salary paid and payable for 2006 as well as award granted for 2006.
According to a decision of the Supervisory Board the remaining amount of awards granted to the members of the Bank's Management Board for 2005, paid in 2006, in total amounted to PLN 2,370 thousand.
The total amount of other benefits includes the gross amount of paid remuneration arising from indemnification for employment contract termination, benefits in kind, lump-sum payment for the use of company car, insurance policy premium, holiday leave equivalent, dividend and supplementary benefits consistent with the employment contract of foreign employees.

Capital assets granted include Citigroup shares granted in the previous years and distributed in 2006 as well as value of options on Citigroup common stocks for which exercise rights were granted in 2006. Capital assets granted are reported under new methodology. According to the previous methodology these awards included capital assets granted in a given reporting period for which an exercise right was deferred for next few years subject to the durability of employment. The new methodology depicts a content of capital assets awards in more precise way then the old methodology did.

The total amount of salaries, awards and benefits paid or payable to the current and former members of the Bank Management Board in 2005 is as follows:

In thousands of PLN	Short terms salaries, awards and benefits		Capital assets granted
	Base salaries and awards	Other benefits	
Sławomir S. Sikora	2,243	167	-
Sanjeeb Chaudhuri	24	-	-
Reza Ghaffari	1,595	209	146
Lidia Jabłonowska-Luba	1,196	28	18
Michał Mrożek	1,506	37	42
Former members of the Bank Management Board:			
Philip King(1)	2,150	470	1,508
David Smith(2)	14	-	-
Sunil Sreenivasan(3)	992	5	486
	9,720	**916**	**2,200**

(1) until 31 October 2005
(2) until 3 February 2005
(3) until 30 April 2005

Base salaries and awards include gross salary paid and payable for 2005 as well as salaries and awards granted for 2005.
According to a decision of the Supervisory Board the amount of awards granted to the members of the Bank's Management Board for 2004 and paid in 2005 in total amounted to PLN 4,055 thousand.

The total amount of other benefits includes the gross amount of paid remuneration arising from indemnification for employment contract termination, benefits arising from the non-competition clause, benefits in kind, lump-sum payment for the use of company car, insurance policy premium, holiday leave equivalent, dividend and supplementary benefits consistent with the employment contract of foreign employees.

Capital assets granted include Citigroup shares granted in the previous years and distributed in 2005 as well as value of options on Citigroup common stocks for which exercise rights were granted in 2005.

The total amount of salaries, awards and benefits paid or payable to the current and former members of the Supervisory Board of the Bank in 2006 and 2005 is as follows:

In thousands of PLN	2006	2005
Stanisław Sołtysiński	276	190
Göran Collert	93	73
Mirosław Gryszka	168	116
Andrzej Olechowski	156	116
Edward Kuczera (from 31 January 2006)	28	116
Jarosław Myjak (from 2 October 2006)	74	73
Krzysztof L. Opolski (from 27 February 2006)	97	-
	892	**684**

Data specify time of affiliate/resignation of Member of the Management Board position

Remuneration paid and payable in 2006 and 2005 for the persons managing subordinates of the Bank amounted respectively PLN 3,294 thousand and PLN 7,454 thousand.

Remuneration paid and payable in 2006 and 2005 for the persons having supervisory functions in subordinates of the Bank amounted respectively PLN 136 thousand and PLN 266 thousand.

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

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 1200 shares of Bank Handlowy w Warszawie SA (total nominal value of PLN 4,800).

Agreements between the Bank and Members of the Management Board 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.

Each of the Management Board members signed with the Bank a separate non-competition agreement. The respective paragraph of each of the agreements signed defines that in the period of 12 months following termination of the employment contract with the Bank, the Management Board Member must abstain from conducting business competitive against the Bank and the Bank will pay the respective compensation to such Management Board Member.

Only in one case compensation will be payable to a Member of the Management Board in the period of 6 months following agreement termination as stated above.

Other Rules

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.

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.

Other information that are required by the Decree of the Ministry of Finance dated 19 October 2005 on current and periodic information provided by issuers of securities (Official Journal from 2005, No. 209, item 1744) and the information is consistent with the financial statements of Bank Handlowy w Warszawie S.A.

Agreements concluded with registered audit company

On 28 March 2006, the Supervisory Board of the Bank appointed a registered audit company, KPMG Audyt Sp. z o.o. ("KPMG") having its registered office in Warsaw, at Chłodna 51, registered audit company no. 458, to conduct an audit and a review of the Bank's financial statements for the year ended 31 December 2006. KPMG was selected in compliance with the applicable laws and regulations.

The contractual fees of KPMG (paid or payable) for the years ended 31 December 2006 and 2005 are presented in the table below:

Applicable to year In thousands of PLN	2006	2005
Audit and review fees of the Bank (1)	1,143	1,351
Audit and review fees of subsidiary entities (1)	447	754
Other assurance fees (3)	45	362
	1,635	**2,467**

(1) The contract fees for the audit include fees paid or payable to KPMG for the annual audit of the stand-alone and consolidated financial statements of the Bank – parent entity (agreement signed on 16 November 2006) and for the review of the semi-annual stand-alone and consolidated financial statements (agreement signed on 20 July 2006).
(2) The contract fees for the audit include fees paid or payable to KPMG for the annual audit of the financial statements of the subsidiary entities.
(3) The fees for assurance services include all other fees paid or payable ti KPMG. These fees include assurance services related to the audit and review of financial statements of the Bank - parent entity and subsidiary entities not mentioned in points (1and 2).

Other information that are required by the Decree of the Ministry of Finance dated 19 October 2005 on current and periodic information provided by issuers of securities (Official Journal from 2005, No. 209, item 1744) and the information is consistent with the financial statements of Bank Handlowy w Warszawie S.A.

Signatures of all Management Board Members

Date	Name	Position/function	Signature
16.03.2007	Sławomir S. Sikora	President of the Management Board	
16.03.2007	Edward Wess	Vice-President of the Management Board	
16.03.2007	Sonia Wędrychowicz--Horbatowska	Vice-President of the Management Board	
16.03.2007	Witold Zieliński	Vice-President of the Management Board	
16.03.2007	Lidia Jabłonowska-Luba	Member of the Management Board	
16.03.2007	Michał H. Mrożek	Member of the Management Board	