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Bank Handlowy w Warszawie S.A.

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

March 2007

Selected financial data

	In PLN '000		In EUR '000**	
	End of 2006 period from 01/01/06 to 31/12/06	End of 2005 period from 01/01/05 to 31/12/05	End of 2006 period from 01/01/06 to 31/12/06	End of 2005 period from 01/01/05 to 31/12/05
Interest income	1,609,874	1,643,670	412,883	408,538
Fee and commission income	712,350	605,191	182,696	150,422
Profit before tax	800,818	748,645	205,385	186,077
Net profit	620,392	589,245	159,112	146,458
Increase/decrease of net cash	299,358	33,250	78,137	8,614
Total assets	35,095,894	32,669,425	9,160,549	8,464,020
Due to central bank	250,113	-	65,283	-
Financial liabilities valued at amortized cost	25,529,437	23,223,955	6,663,562	6,016,880
Shareholders' equity	5,304,564	5,171,494	1,384,570	1,339,835
Share capital	522,638	522,638	136,416	135,405
Number of shares	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN / EUR)	40.60	39.58	10.60	10.25
Capital adequacy ratio (%)	13.40	13.37	13.40	13.37
Earnings per ordinary share (PLN / EUR)	4.75	4.51	1.22	1.12
Diluted net profit per ordinary share (in PLN)	4.75	4.51	1.22	1.12
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 profits.*

****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).*

CONTENTS

Income statement

In thousands of PLN	*Note*	**2006**	**2005**
Interest and similar income	*4*	1,609,874	1,643,670
Interest expense and similar charges	*4*	(605,640)	(655,216)
Net interest income	*4*	**1,004,234**	**988,454**
Fee and commission income	*5*	712,350	605,191
Fee and commission expense	*5*	(140,252)	(95,531)
Net fee and commission income	*5*	**572,098**	**509,660**
Dividend income	*6*	34,202	21,094
Net trading income and revaluation	*7*	313,351	463,889
Net gain on investment (deposit) securities	*8*	36,571	121,841
Net gain on investment (capital) instruments	*9*	44	15,544
Other operating income	*10*	122,837	128,703
Other operating expenses	*10*	(33,650)	(51,996)
Net other operating income	*10*	**89,187**	**76,707**
General administrative expenses	*11*	(1,333,863)	(1,351,035)
Depreciation expense	*12*	(129,167)	(139,312)
Profit / (loss) on sale of tangible fixed assets	*13*	116,064	6,589
Net impairment losses	*14*	98,097	35,214
Profit before tax		**800,818**	**748,645**
Income tax expense	*15*	(180,426)	(159,400)
Net profit		**620,392**	**589,245**
Weighted average number of ordinary shares	*16*	130,659,600	130,659,600
Net profit per ordinary share (in PLN)	*16*	4.75	4.51
Diluted net profit per ordinary share (in PLN)	*16*	4.75	4.51

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***	4,551,094	5,878,624
Debt securities available-for-sale	***19***	8,247,313	7,171,157
Equity investments	***20***	300,534	284,304
Loans and advances	***21***	19,030,974	15,839,648
to financial sector		*9,562,908*	*6,898,665*
to non-financial sector		*9,468,066*	*8,940,983*
Property and equipment	***23***	626,481	687,894
land, buildings and equipment		*617,095*	*646,946*
investment property		*9,386*	*40,948*
Intangible assets	***24***	1,284,883	1,313,418
Deferred income tax assets	***26***	273,216	300,162
Other assets	***27***	233,237	199,221
Non-current assets held-for-sale	***28***	12,539	72,348
Total assets		**35,095,894**	**32,669,425**
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	***29***	25,529,437	23,223,955
deposits from		*24,843,591*	*22,768,006*
financial sector		*6,481,772*	*5,808,791*
non-financial sector		*18,361,819*	*16,959,215*
other liabilities		*685,846*	*455,949*
Provisions	***30***	47,023	57,245
Income tax liabilities	***26***	-	162,788
Other liabilities	***31***	647,910	629,354
Liabilities held-for-sale	28	-	4,370
Total liabilities		**29,791,330**	**27,497,931**
EQUITY			
Issued capital	***32***	522,638	522,638
Share premium	***32***	2,944,585	2,944,585
Revaluation reserve	***32***	(81,501)	(64,554)
Other reserves	***32***	1,297,175	1,101,418
Retained earnings		621,667	667,407
Total equity		**5,304,564**	**5,171,494**
Total liabilities and equity		**35,095,894**	**32,669,425**

Statement of changes in equity

In thousands of PLN	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	**Total equity**
Balance as at 1 January 2005	**522,638**	**3,044,585**	**(9,371)**	**2,116,063**	**468,069**	**6,141,984**
Effects of transition to IFRS*	-	-	2,479	-	59,443	61,922
Balance as at 1 January 2005- after restatement	**522,638**	**3,044,585**	**(6,892)**	**2,116,063**	**527,512**	**6,203,906**
Valuation of financial assets available-for-sale	-	-	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
Net profit	-	-	-	-	589,245	589,245
Dividends paid	-	(100,000)	-	(1,049,804)	(414,191)	(1,563,995)
Transfers to capital	-		-	35 159	(35 159)	-
Closing balance as at 31 December 2005	**522,638**	**2,944,585**	**(64,554)**	**1,101,418**	**667,407**	**5,171,494**

** IAS 32, IAS 39 and IAS 40*

Statement of changes in equity

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

Statement of cash flows

In thousands of PLN	2006	2005
A. Cash flows from operating activities		
I. Net profit (loss)	**620,392**	**589,245**
II. Adjustments to reconcile net profit or loss to net cash provided by operating activities:	**128,770**	**1,399,659**
Current and deferred tax income, recognised in income statement	180,426	159,400
Amortisation	129,167	139,312
Impairment	(86,842)	(27,736)
Net provisions (recoveries)	(11,255)	(7,478)
Income on sale of investments	(115,449)	(11,548)
Received interest	1,527,330	1,512,848
Retained interest	(587,088)	(664,208)
Other adjustments	(845,695)	(1,005,923)
Cash flows from operating profits before changes in operating assets and liabilities	**190,594**	**94,667**
Increase / decrease in operating assets (excl. cash and cash equivalents)	**(2,345,815)**	**1,230,651**
Increase / decrease in loans and receivables	(2,571,874)	2,638,309
Increase / decrease in securities available-for-sale	(1,005,578)	(1,100,132)
Increase / decrease in equity investments	(16,230)	33,927
Increase / decrease in assets held for trading	1,307,818	(525,073)
Increase / decrease in assets available-for-sale	(4,179)	(67,978)
Increase / decrease in other assets	(55,772)	251,598
Increase / decrease in operating liabilities (excl. cash and cash equivalents)	**2,283,991**	**74,341**
Increase / decrease in advances from central bank	250,000	(718)
Increase / decrease in financial liabilities valued at amortised cost	2,272,149	1,500,871
Increase / decrease in liabilities held for trading	(103,372)	(774,071)
Increase / decrease in other liabilities	(134 786)	(651,741)
Cash flows from operating activities	**749,162**	**1,988,904**
Income taxes (paid) refunded	**(141,171)**	**(40,298)**
III. Net cash flows from operating activities	**607,991**	**1,948,606**
B. Cash flows from investing activities		
Cash payments to acquire tangible assets	(54,774)	(82,625)
Cash receipts from the sale of tangible assets	6,923	16,181
Cash payments to acquire intangible assets	(8,641)	(42,173)
Cash receipts from the sale of intangible assets	139	-
Cash receipts from the disposal of investments in subordinated entities	-	13,954
Cash receipts from assets/liabilities available for sale	174,395	-
Dividends received	34,202	21,094
Net cash flows from investing activities	**152,244**	**(73,569)**
C. Cash flows from financing activities		
Dividends paid	(470,375)	(1,563,995)
Inflows from long-term loans from financial sector	46,108	83,818
Repayment of long-term loans from financial sector	(36,610)	(361,610)
Net cash flows from financing activities	**(460,877)**	**(1,841,787)**
D. Effect of exchange rate changes on cash and cash equivalent	**(3,596)**	**(1,367)**
E. Increase in net cash	**299,358**	**33,250**
F. Cash at the beginning of reporting period	**1,005,263**	**972,013**
G. Cash at the end of reporting period	**1,304,261**	**1,005,263**

Explanatory notes to the financial statements

1. General information about the Issuer

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

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

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

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

2. Significant accounting policies

Statement of compliance

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

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

The consolidated financial statements were authorised for issue on 16 March 2007.

Basis of preparation

These 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 implementation date of IAS 32 (Financial Instruments: Recognition and Presentation) and IAS 39 (Financial Instruments: Recognition and Measurement) was 1 January 2005.

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

The financial statements have been prepared on the fair value basis for financial liabilities and financial assets accounted at fair value through the profit and loss 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 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 Bank has not adopted IFRS 7 early because management believes that the disclosures under IFRS 7 would not be very different to 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's activity or would not have a material impact on the current year financial statements.

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

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

The estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In order to retain comparability of financial data, relevant changes in presentation of financial data of 2005 in comparison to the previously published one in the consolidated financial statements of the Bank, 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.

Foreign currency translations

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 dates of transactions.

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

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

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

in PLN		31 December 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 Bank classifies its financial instruments into the following categories:

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

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

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

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

b) Loans and receivables

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

c) Available-for-sale financial assets

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

d) Other financial liabilities

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

Recognition and exclusions

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

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

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

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

Measurement

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

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

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

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

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

Derivative instruments

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

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

Hedge accounting

The Bank does not apply hedge accounting.

Offsetting financial instruments

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

Cash pooling

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

Repurchase and resale agreements Repo / reverse repo transactions

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

Impairment of assets measured at amortized cost

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

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

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

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

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

Write-downs for impairment of individually significant assets

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

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

Write-downs for impairment of not individually significant assets

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

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

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

Impairment of financial assets available-for-sale

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

Impairment of financial assets valued at cost.

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

Impairment of assets other than financial assets

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

Calculation of recoverable amount

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

Reversal of impairment losses

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

Equity investments – shares in subordinated entities

Subordinated entities comprise subsidiaries and associates.

Subsidiaries

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

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

Associates

Associates are those entities in which the Bank indirectly or directly has significant influence but not control, usually accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the cost method.

Subsidiaries and associates - recognition and measurement

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

Investments: shares in other entities

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

Goodwill

In the financial statements of the Bank, goodwill represents the difference between the cost of the acquisition and the fair value of the Bank's interest in identifiable assets, liabilities and contingent liabilities acquired. Goodwill is included in intangible assets. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortized, but is tested annually for impairment. In respect of associates, goodwill is included in the carrying amount of the investment in the associate.
Profits or losses on the disposal of a subsidiary or an associate include the carrying value of goodwill allocated to the entity sold.
Goodwill resulting from takeovers that occurred before 31 March 2004, i.e. the effective date of IFRS 3 (Business Combinations), was calculated in accordance with the previous accounting policies, as the difference between the cost of acquisition of an entity and the net asset value of the acquired entity at the acquisition date.

Property and equipment and intangible assets (excluding goodwill)

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

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

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

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

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

At each balance sheet date, the residual values of non-current assets and their useful lives are reviewed

and the depreciation and amortization schedule is adjusted, where appropriate.
Assets with original cost less than PLN 3,500 are fully depreciated on a one-off basis when brought into use. The total cost of other tangible fixed assets depreciated on a one-off basis is not material to the financial statements.
Assets in the course of construction are stated at the total of costs directly attributable to construction, assembly or improvement in progress less impairment write-offs.
Property and equipment includes rights to perpetual usufruct of land obtained by the Bank.

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

Investment properties

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

Employee benefits

Short-term employee benefits

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

Short-term employee benefits are recognized as an expense in the period when they were incurred.

Share-based payments

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

Long-term employee benefits

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

Defined contribution plans

The Bank enables its employees to join a pension plan, which is described in detail in Note 41. The Bank pays contributions for employees who participate in the plan into a separate fund and has no subsequent obligation to pay further contributions, hence this is a defined contribution plan in accordance with IAS 19 (Employee Benefits). Contributions are recognized as an expense in related period.

Provisions

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

Restructuring provision

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

Equity

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

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

Calculating net income

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

Accruals and prepayments

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

Interest income and interest expenses

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

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

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

Fee and commission income and expenses

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

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

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

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

Other operating income and expenses

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

Income tax

Income tax consists of current tax and deferred tax. Income tax is recognized in the income statement, except for taxes related to amounts that are allocated directly to equity.
A deferred tax provision is calculated using the carrying value method by computing temporary differences between the carrying value of assets and liabilities, in the balance sheet, and the tax base of assets and liabilities. In the balance sheet, the Bank discloses deferred tax assets net of deferred tax provisions.
A deferred tax asset is recognized only to the extent that it is probable that a tax benefit will be realized in the future.
Following the introduction of the EU Guarantee Fund Act of 16 April 2004 (Journal of Laws No. 121 item 1262) and the related new Art. 38a in the Corporate Income Tax Act, the Bank has recognized a receivable from the Budget in respect of its right to reduce its taxation liabilities in the years 2007 to 2009.

Segment reporting

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

with the accounting policies and standards adopted by the Bank.

Non-current assets held-for-sale

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

Accounting estimates and judgments

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

Fair value of derivatives

The fair value of financial instruments not quoted on active markets is determined using valuation techniques. If valuation techniques are used to determine the fair values, these methods are periodically assessed and verified. All the models are approved before application. As far as possible, only observable data are used in the models, although in some areas, the entity's management must use estimates. Changes in the assumptions relating to the estimated factors may affect the fair values of financial instruments disclosed.
The Bank applies the following methods of measurement of particular types of derivative instruments:
- fx forwards – discounted cash flows model;
- options - Garman-Kohlhagen model;
- interest rate transactions – discounted cash flows model;
- futures – current quotations.

Impairment of loans

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

Impairment of available-for-sale assets

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

Impairment of financial assets valued at cost

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

Impairment of goodwill

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

3. Segment reporting

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

Corporate and Investment Bank

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

Consumer Bank

– Within the Consumer Bank segment the Bank provides products and financial services to individuals and also to micro enterprises and individual entrepreneurs though the Citibusiness offer. Apart from maintaining bank accounts and providing an extensive lending and deposit offer, the Bank offers 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 Bank 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 Bank' activities, that identifies separate level of risk and profitability of its activity.

The valuation of segment assets and liabilities, income and segment results are based on the Group's accounting policies as described in note 2 – significant accounting policies.
Transactions between individuals segments of the Bank are concluded on an arms length basis.
The Bank conducts its operations solely in the territory of Poland and no significant differences in risk were identified as regards the geographical location of its outlets. Therefore results of the Bank have not been presented by geographical area.

Income statement by business segment for 2006

In thousands of PLN	**Corporate and Investment Bank**	**Consumer Bank**	**Total**
Net interest income	424,887	579,347	1,004,234
Net fee and commission income	252,512	319,586	572,098
Dividend income	34,202	-	34,202
Net income on traded financial instruments and revaluation	277,631	35,720	313,351
Net gain on investment (deposit) instruments	36,571	-	36,571
Net gain on investment (capital) securities	44	-	44
Other operating income	71,914	17,273	89,187
General administrative expenses	(637,643)	(696,220)	(1,333,863)
Depreciation expense	(94,280)	(34,887)	(129,167)
Profit/ (loss) on sale of tangible fixed assets	102,984	13,080	116,064
Net impairment losses	136,628	(38,531)	98,097
Profit before tax	**605,450**	**195,368**	**800,818**
Income tax expenses			(180,426)
Net profit			**620,392**

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

In thousands of PLN	**Corporate and Investment Bank**	**Consumer Bank**	**Total**
Assets including:	31,267,006	3,828,888	35,095,894
Non-current assets held-for-sale	*8,360*	-	*8,360*
Liabilities:	28,930,089	6,165,805	35,095,894

Income statement by business segment for 2005

In thousands of PLN	**Corporate and Investment Bank**	**Consumer Bank**	**Total**
Net interest income	431,240	557,214	988,454
Net fee and commission income	265,719	243,941	509,660
Dividend income	21,094	-	21,094
Net income on traded financial instruments and revaluation	421,783	42,106	463,889
Net gain on investment (deposit) instruments	121,841	-	121,841
Net gain on investment (capital) securities	15,544	-	15,544
Other operating income	75,370	1,337	76,707
General administrative expenses	(675,523)	(675,512)	(1,351,035)
Depreciation expense	(99,250)	(40,062)	(139,312)
Profit/ (loss) on sale of tangible fixed assets	7,740	(1,151)	6,589
Net impairment losses	80,582	(45,368)	35,214
Profit before tax	**666,140**	**82,505**	**748,645**
Income tax expenses			(159,400)
Net profit			**589,245**

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

In thousands of PLN	**Corporate and Investment Bank**	**Consumer Bank**	**Total**
Assets, including:	29,669,250	3,000,175	32,669,425
non-current assets held-for-sale	*62,492*	*9,856*	*72,348*
Liabilities, including:	26,640,207	6,029,218	32,669,425
liabilities related to non-current assets held-for-sale	-	*4,370*	*4,370*

4. Net 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:	908,244	981,882
financial sector	*35,707*	*41,432*
non-financial sector	*872,537*	*940,450*
Debt securities available-for-sale	353,455	268,354
Debt securities held for trading	84,644	96,073
	1,609,874	**1,643,670**
Interest expense and similar charges for:		
Central Bank	(9)	(45)
Deposits from banks	(108,798)	(83,444)
Deposits from financial sector (excl. banks)	(78,000)	(92,873)
Deposits from non-financial sector	(413,962)	(462,377)
Loans and advances received	(4,871)	(16,477)
	(605,640)	**(655,216)**
	(1,004,234)	**(988,454)**

Net interest income for 2006 includes interest received on impaired loans, of PLN 30,803 thousand (for the 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 (agency)	263,949	200,964
Payment and credit cards	151,244	101,030
Payment services	123,211	126,009
Custody services	88,972	80,886
Cash management	38,371	46,928
Off-balance sheet guarantee liabilities	18,058	20,008
Off-balance sheet financial liabilities	6,893	7,984
Other	21,652	21,382
	712,350	**605,191**
Fee and commission expense:		
Insurance and investment products	(61,123)	(52,274)
Payment and credit cards	(59,817)	(20,353)
Brokers fees	(8,270)	(9,991)
Fees paid KDPW	(5,071)	(5,895)
Other	(5,971)	(7,018)
	(140,252)	**(95,531)**
	572,098	**509,660**

6. Dividend income

Dividend income amounted to PLN 34,202 thousand in 2006 (2005: PLN 21,094 thousand) and is related to Bank's equity investments. Total amount of dividends income include dividends received form Bank's subsidiaries: Dom Maklerski Banku Handlowego S.A. – PLN 29,061 thousand (in 2005: PLN 16,800 thousand) and Bank Rozwoju Cukrownictwa S.A. – PLN 1,752 thousand (in 2005: PLN 1,689 thousand). The remaining amount of dividends were received from entities with minority interest.

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

In thousands of PLN	**2006**	**2005**
Net income on financial instruments valued at fair value through profit and loss account from:		
Debt instruments	29,578	68,148
Derivative instruments including:	(31,816)	52,850
Interest rate	*(37,352)*	*41,916*
Equity	*3,661*	*4,999*
Commodity	*1,875*	*5,935*
	(2,238)	**120,998**

In thousands of PLN	**2006**	**2005**
Net profit on foreign exchange		
Net profit on foreign currency derivatives	546,776	107,152
Revaluation	(231,187)	235,739
	315,589	**342,891**
	313,351	**463,889**

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

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

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

8. Net gain on investment (deposit) securities

In thousands of PLN	**2006**	**2005**
Profits realized on available-for-sale securities:		
Debt instruments	43,654	133,203
Losses realized on available-for-sale securities:		
Debt instruments	(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:		
Capital instruments	**44**	**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	5,667	4,428
Other income from related entities	2,786	4,652
Sale of receivables	-	8,075
Other	32,540	26,276
	122,837	**128,703**
Other operating expenses		
Investment property	(7,537)	(19,963)
Vindication expenses	(5,446)	(6,292)
Other	(20,667)	(25,741)
	(33,650)	**(51,996)**
	89,187	**76,707**

11. General administrative expenses

In thousands of PLN	**2006**	**2005**
Staff expenses:		
Remuneration costs, including:	(507,463)	(500,337)
Provisions for retirement benefits	*(13,199)*	*(13,285)*
Provision for restructuring	-	*(20,138)*
Perks and rewards including:	(172,496)	(159,674)
Payments related to own equity instruments	*(20,834)*	*(12,534)*
Rewards for long time employment	*(5,764)*	*(20,331)*
	(679,959)	**(660,011)**
Administrative expenses		
Telecommunication fees and hardware purchases	(174,197)	(182,257)
Building maintenance and rent	(110,192)	(113,979)
Advisory, audit, consulting and other services	(106,342)	(136,604)
Marketing	(54,862)	(45,151)
Transaction costs	(51,230)	(45,317)
Postal services	(27,946)	(30,736)
Training and education	(11,851)	(11,612)
Other expenses	(117,302)	(125,368)
	(653,904)	**(691,024)**
	(1,333,863)	**(1,351,035)**

Staff expenses in 2006 include PLN 17,092 thousand of remuneration 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**
Property and equipment	(95,248)	(106,026)
Intangible assets	(33,919)	(33,286)
	(129,167)	**(139,312)**

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

In thousands of PLN	**2006**	**2005**
Profits on:		
Fixed assets held-for-sale*	114,129	-
Investments in subordinated entities	1,017	7,264
Other fixed assets	1,489	1,816
	116,635	**9,080**
Losses on:		
Fixed assets held-for-sale*	(317)	-
Other fixed assets	(254)	(2,319)
Investments in subordinated entities	-	(172)
	(571)	**(2,491)**
	116,064	**6,589**

*Refers to fixed assets classified as at 31 December 2005 as held-for-sale and sold in 2006 (see Note 28)

14. Net impairment losses

Net impairment write-downs of financial assets

In thousands of PLN	**2006**	**2005**
Impairment write-downs:		
Equity investments	(2,338)	(9,712)
Loans and receivables valued at amortized cost (including finance leases)	(570,301)	(716,228)
Other	(47,547)	(45,365)
	(620,186)	**(771,305)**
Reversals of impairment write-downs:		
Equity investments	4,529	20,931
Loans and receivables valued at amortized cost (including finance leases)	698,466	771,583
Other	4,033	6,527
	707,028	**799,041**
	86,842	**27,736**

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

In thousands of PLN	**2006**	**2005**
Charges to provisions for off-balance sheet commitments	(85,173)	(42,169)
Releases of provisions for off-balance sheet commitments	96,428	49,647
	11,255	**7,478**
Net impairment losses	**98,097**	**35,214**

15. Income tax expense

Recognized in the income statement

In thousands of PLN	**2006**	**2005**
Current tax		
Current year	(131,376)	(207,196)
Adjustments for prior years	(350)	(2,252)
	(131,726)	**(209,448)**
Deferred tax		
Origination and reversal of temporary differences	(47,272)	53,282
Movement in receivables arising from tax deductions	(1,428)	(3,234)
	(48,700)	**50,048**
Total income tax expense in income statement	**(180,426)**	**(159,400)**

Reconciliation of effective tax rate

In thousands of PLN	**2006**	**2005**
Profit before tax	800,818	748,645
Income tax at the domestic corporation tax rate at 19%	(152,155)	(142,242)
Non-deductible expenses	(31,870)	(13,791)

In thousands of PLN	**2006**	**2005**
Deductible income not in income statement	(1,063)	(1,809)
Non taxable income	6,498	4,007
Other	(1,836)	(5,565)
Total tax expenses	**(180,426)**	**(159,400)**
Effective tax rate	**23%**	**21%**

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

16. Earnings per share

As at 31 December 2006 earnings per share amounted to PLN 4.75 (31 December 2005: PLN 4,51).
The calculation of earnings per share at 31 December 2006 was based on profit attributable to ordinary shareholders of PLN 620,392 thousand (31 December 2005: PLN 589,245 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 Bank 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 Bank may use the obligatory reserve provided that the sum of the average monthly balance on the current account in NBP is not lower than the declared balance.

18. Financial assets and liabilities held for trading

In thousands of PLN	**31.12.2006**	**31.12.2005**
Financial assets held for trading		
Debt securities		
Bonds and notes issued by:		
Banks	84,368	16,780
Financial sector	43,834	35,604
Non-financial sector	54,476	30,553
Government	1,353,377	2,203,519
Other debt securities issued by:		
Banks	41,311	13,356
	1,577,366	**2,299,812**
Including:		
Listed	*1,353,177*	*2,203,519*
Unlisted	*224,189*	*96,293*
Derivative financial instruments	**2,973,728**	**3,578,812**
	4,551,094	**5,878,624**

Debt securities held for trading (maturity)	**31.12.2006**	**31.12.2005**
In thousands of PLN		
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	1,352,523
over 5 years	599,908	486,139
	1,577,366	**2,299,812**

Financial liabilities held for trading		
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 the Bank did not hold any financial assets and financial liabilities initially designated for valuation at fair value though the profit and loss account.

Derivative financial instruments as at 31 December 2006

In thousands of PLN	Notional amount with remaining life of					Fair values	
	less than three months	**between three months and one year**	**between one year to five years**	**more than five years**	**Total**	**Assets**	**Liabilities**
Interest rate instruments	**10,379,000**	**127,810,506**	**162,394,716**	**36,837,648**	**337,421,870**	**2,601,365**	**2,672,608**
FRA-purchase		48,134,300	21,550,000	-	69,684,300	4,739	80,699
FRA-sale	97,000	47,669,440	26,750,000	-	74,516,440	81,169	6,479
Interest rate swaps (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					Fair values	
	less than three months	**between three months and one year**	**between one year to five years**	**more than five years**	**Total**	**Assets**	**Liabilities**
Interest rate instruments	**12,955,830**	**102,770,765**	**94,019,220**	**27,242,675**	**236,988,490**	**3,136,905**	**2,899,561**
FRA-purchase	-	37,252,000	3,150,000	-	40,402,000	9,317	15,785
FRA-sale	-	36,877,000	3,400,000	-	40,277,000	15,974	7,958
Interest rate swaps	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	-	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	**21,013,882**	**15,999,287**	**1,308,327**	**735,277**	**39,056,773**	**408,803**	**486,318**
FX forward	3,369,894	1,609,689	193,603	364,546	5,537,732	75,012	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 subtotal	**34,415,090**	**118,951,814**	**95,366,053**	**27,977,952**	**276,710,909**	**3,578,812**	**3,420,219**

*Exchange-traded products

Foreign currency contracts

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

	Weighted average contracted exchange rates		**Notional amount**	
In thousands of PLN	**31.12.2006**	**31.12.2005**	**31.12.2006**	**31.12.2005**
Buy Euro				
Less than three months	3.9438	4.0768	3,510,777	4,350,125
Between three months and one year	3.9961	4.0880	2,789,323	2,627,891
More than one year	3.9239	4.3273	633,090	493,482
Sell Euro				
Less than three months	3.9028	4.0637	4,541,265	3,672,993
Between three months and one year	3.9694	4.1038	3,120,562	2,694,794
More than one year	3.9195	4.3375	487,578	524,938
Buy US Dollars				
Less than three months	2.9581	3.2968	8,925,606	5,320,548
Between three months and one year	3.0706	3.2722	2,547,342	5,351,800
More than one year	2.8704	3.1301	410,142	996,433
Sell US Dollars				
Less than three months	2.9483	3.2533	12,868,304	7,847,620
Between three months and one year	3.0562	3.2720	2,813,338	5,033,878
More than one year	2.8685	3.1082	402,183	733,304
Buy Switzerland Franc				
Less than three months	2.3869	2.4832	103,475	274,541
Between three months and one year	-	2.5400	-	1,767
Sell Switzerland Franc				
Less than three months	2.3857	2.4832	219,585	528,229
Between three months and one year	-	2.5260	-	5,733
Buy Pound Sterling				
Less than three months	5.7153	5.7524	91,303	106,041
Between three months and one year	5.8512	5.9784	4,394	217,550
Sell Pound Sterling				
Less than three months	5.7129	5.8467	1,256	63,744
Between three months and one 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		
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 bearing interest calculated according to the interest rate established on the basis of the profitability of 52-week T-bills.

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

In thousands of PLN	**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
Amortisation 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)	-
Amortisation of discount, premium and interest	(38,692)	(33,341)
As at 31 December	**8,247,313**	**7,171,157**

20. Equity investments

In thousands of PLN	31.12.2006	31.12.2005
Stocks and shares in subordinated entities	342,748	343,019
Stocks and shares in other entities	67,669	52,814
Impairment	(109,883)	(111,529)
	300,534	**284,304**
Including:		
Listed instruments	*14,046*	-
Unlisted instruments	*286,488*	*284,304*

The movement in equity investments is as follows:

In thousands of PLN	Subordinated entities	Associated entities	Other entities	Total
As at 1 January 2005	**300,423**	**4,340**	**27,748**	**332,511**
Increases (in respect of)				
Purchases	20,931	-	-	20,931
Conversion of debt in shares	-	-	5,000	5,000
Decreases (in respect of)				
Purchases	(4,247)	(1,588)	(8,835)	(14,670)
Revaluation	(6,404)	-	(3,308)	(9,712)
FX differences	(4)	-	-	(4)
Reclassified as “Fixed assets available-for-sale” (see Note 28)	(47,000)	(2,752)	-	(49,752)
As at 31 December 2005	**263,699**	**-**	**20,605**	**284,304**

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

Financial information on subordinated entities
31.12.2006

In thousands of PLN

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY – LEASING* Sp. z o.o	Warsaw	Leasing	Subsidiary undertaking	97.47	120,000	784,664	584,695	199,969	53,706	26,036
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary undertaking	100.00	70,950	931,863	828,524	103,339	84,358	24,341
PPH SPOMASZ Sp. z o.o. under liquidation	Warsaw	-	Subsidiary undertaking	100.00	9,442	Entity under liquidation				
BANK ROZWOJU CUKROWNICTWA S.A.	Poznań	Banking	Subsidiary undertaking	100.00	40,255	40,589	36	40,100	2,239	1,036
HANDLOWY- INVESTMENTS S.A. 1/	Luxembourg	Investment activity	Subsidiary undertaking	100.00	-	44,878	47,553	(2,675)	96,169	49,443
HANDLOWY - INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	80.97	17,172	33,543	21,850	8,204	2,601	1,576
HANDLOWY INWESTYCJE Sp. z o.o. 2/	Warsaw	Investment activity	Subsidiary undertaking	100.00	8,070	18,964	5,058	13,906	11,914	8,263
Total					**265,889**	**1,854,501**	**1,487,716**	**362,843**	**250,987**	**110,695**

**On 10 January of 2006 Citileasing Sp. z o.o. was merged with Handlowyleasing Sp. zo.o.. After the merger the business is ran under the name of Handlowy-Leasing Sp. z o.o. (see note 40).*

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

The explanation of indirect relationships:

1/ Indirect relationship via Handlowy Investments S.A

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY - INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	19.03	1,960	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 individual entities available at the time of preparation of these statements and originating from non-audited financial statements of the respective entities were presented

31.12.2005

In thousands of PLN

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	97.47	120,000	173,372	3,713	169,659	10,057	4,407
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary undertaking	100.00	70,950	652,732	544,672	108,055	99,323	31,589
BANK ROZWOJU CUKROWNICTWA S.A.	Poznań	Banking	Subsidiary undertaking	100.00	40,255	41,699	883	40,816	4,126	1,947
HANDLOWY- INVESTMENTS S.A.	Luxembourg	Investment activity	Subsidiary undertaking	100.00	-	88,711	160,627	(71,916)	13,374	(4,058)
TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH BH S.A.*	Warsaw	Investment activity	Subsidiary undertaking	100.00	42,000	36,673	4,519	32,154	47,160	8,708
HANDLOWY - INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	80.97	14,981	33,860	24,680	9,180	119	(1,414)
PPH SPOMASZ Sp. z o.o. in liquidation	Warsaw	Production of catering and trading equipment	Subsidiary undertaking	100.00	9,442	Entity under liquidation				
HANDLOWY INWESTYCJE Sp. z o.o. [3]	Warsaw	Investment activity	Subsidiary undertaking	100.00	8,070	15,587	6,300	9,287	785	365
HANDLOWY ZARZĄDZANIE AKTYWAMI S.A.*	Warsaw	Brokerage	Subsidiary undertaking	100.00	5,000	8,677	2,146	6,531	10,024	1,964
HANDLOWY HELLER S.A.*	Warsaw	Factoring	Associated undertaking	25.00	2,752	495,402	463,172	32,230	44,525	7,459
Total					**313,450**	**1,546,713**	**1,210,717**	**335,996**	**229,493**	**50,967**

**/The following equity investments: Towarzystwo Funduszy Inwestycyjnych BH S.A., Handlowy Zarządzanie Aktywami S.A.and Handlowy Heller S.A were classified as assets held-for-sale in accordance with IFRS 5 and are reported as „Non – current assets held-for- sale in the balance sheets (see Note 28)*

The above presented financial data which was available at the time of preparation of the Bank's financial statement come from the audited financial statements except for HANDLOWY- INVESTMENTS S.A. and HANDLOWY - INVESTMENTS II S.a.r.l.

The explanation of indirect relationships:

1/ Indirect relationship via Citileasing 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 S.A.	Warsaw	Leasing, rent and hire purchase of real estate	Subsidiary undertaking	100.00	3,125	711,115	703,731	7,384	58,136	10,083

2/ 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)

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

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
CITILEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	2.53	3,125	173,372	3,713	169,659	10,057	4,407
HANDLOWY HELLER S.A.	Warsaw	Factoring	Associated undertaking	25.00	3,558	495,402	463,172	32,230	44,525	7,459

The above presented financial data which was available at the time of preparation of the Bank's financial statement come from the audited financial statements except for HANDLOWY- INVESTMENTS S.A. and HANDLOWY - INVESTMENTS II S.a.r.l.

21. Loans and advances

Loans and advances (by category)

In thousands of PLN	**31.12.2006**	**31.12.2005**
Loans and advances to financial sector:		
Current accounts of banks	768,998	82,614
Loans, placements and advances, including:	8,540,214	6,947,008
placements in banks	*7,769,726*	*5,813,106*
Purchased receivables	45,918	17,566
Realised guarantees	245	274
Receivables subject to securities sale and repurchase agreements	302,405	-
Other receivables	3,589	2,130
	9,661,369	7,049,592
Impairment write-offs	(98,461)	(150,927)
	9,562,908	**6,898,665**
Loans and advances to non-financial sector:		
Loans and advances	10,667,940	10,398,796
Purchased receivables	234,666	166,182
Realised guarantees	50,720	63,069
Other receivables	1,491	2,307
	10,954,817	10,630,354
Impairment write-offs	(1,486,751)	(1,689,371)
	9,468,066	**8,940,983**
Loans and other receivables	**19,030,974**	**15,839,648**

Loans and advances - gross (by time to maturity)

In thousands of PLN	**31.12.2006**	**31.12.2005**
Loans and advances to financial sector:		
up to 1 month	7,194,704	4,196,299
1 month- 3 months	456,079	207,483
3 months- 1 year	1,100,478	1,895,316
1 year- 5 years	793,509	665,700
over 5 years	116,599	84,794
	9,661,369	**7,049,592**
Loans and advances to non-financial sector:		
up to 1 month	6,596,319	6,192,435
1 month- 3 months	694,672	731,571
3 months- 1 year	1,116,905	1,247,498
1 year- 5 years	2,413,086	2,388,932
over 5 years	133,835	69,918
	10,954,817	**10,630,354**
Loans and advances - gross	**20,616,186**	**17,679,946**

The Bank does not act as a lessor under finance leases

22. Impairment of loans and advances

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

In thousands of PLN	**2006**	**2005**
As at 1 January	**1,840,298**	**1,732,448**
Related to:		
Receivables from banks	11,332	9,751
Receivables from other customers of financial and non-financial sector	1,828,966	1,722,697
Effects of transition to IFRS*	-	210,671
1 January - after restatement of opening balance	**1,840,298**	**1,943,119**
Change of impairment write downs	(255,086)	(102,821)
Charges	570,301	716,228
Write-offs	(175,114)	(86,445)
Amounts released	(698,466)	(771,583)
Other	48,193	38,979
As at 31 December	**1,585,212**	**1,840,298**

*/IAS 32 and IAS 39

Related to:		
Receivables from banks	9,572	11,332
Receivables from other customers of financial, non-financial	1,575,640	1,828,966

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	383,236	417,890
Individual impairment loss	1,143,410	1,357,395
Incurred but not reported losses	58,566	65,013

23. Property and equipment

Land, buildings and equipment

In thousands of PLN	Land,and buildings	Vehicles	Other	Under construction	Total
Gross amount					
Balance as at 1 January 2005	**766,236**	**62,105**	**660,671**	**3,869**	**1,492,881**
Effects of transition to IFRS*	(41,249)	-	-	-	(41,249)
As at 1 January - after restatement of opening balance	**724,987**	**62,105**	**660,671**	**3,869**	**1,451,632**
Additions:					
Purchases	1,207	16	36,221	45,180	82,624
Other increases	-	-	4,380	-	4,380
Disposals:					
Disposals	(3,749)	(16,684)	(8,031)	-	(28,464)
Classified as "Non-current assets held-for-sale" (see Note 28)	-	(185)	(8,926)	-	(9,111)
Other decreases	(8,249)	(183)	(27,439)	(262)	(36,133)
Reclassification	15,737	15,772	9,838	(43,986)	(2,639)
Balance as at 31 December 2005	**729,933**	**60,841**	**666,714**	**4,801**	**1,462,289**

**/IAS 40*

In thousands of PLN	Land,and buildings	Vehicles	Other	Under construction	Total
Balance as at 1 January 2006	**729,933**	**60,841**	**666,714**	**4,801**	**1,462,289**
Additions:					
Purchases	636	514	18,936	34,688	54,774
Transfer from investment property	-	-	-	18,000	18,000
Other increases	-	-	2,179	-	2,179
Disposals:					
Disposals	-	(11,044)	(6,489)	-	(17,533)
Classified as “Non-current assets held-for-sale” (see Note 28)	(4,932)	-	-	-	(4,932)
Other decreases	(4,986)	(127)	(24,983)	-	(30,096)
Reclassification	15,968	10,233	7,402	(36,002)	(2,399)
Balance as at 31 December 2006	**736,619**	**60,417**	**663,759**	**21,487**	**1,482,282**
Depreciation and amortization					
Balance as at 1 January 2005	**206,864**	**25,851**	**546,765**	**-**	**779,480**
Effects of transition to IFRS*	(17,554)	-	-	-	(17,554)
Balance as at 1 January 2005 after restatement	**189,310**	**25,851**	**546,765**	**-**	**761,926**
Increases:					
Depreciation charge for the period	38,147	12,611	55,267	-	106,025
Other increases	59	-	4,667	-	4,726
Decreases:					
Disposals	(3,749)	(13,450)	(7,071)	-	(24,270)
Classified as “Non-current assets held-for-sale” (see Note 28)	-	(106)	(3,727)	-	(3,833)
Other decreases	(5,127)	-	(25,795)	-	(30,922)
Balance as at 31 December 2005	**218,640**	**24,906**	**570,106**	**-**	**813,652**
*/IAS 40					
Balance as at 1 January 2006	**218,640**	**24,906**	**570,106**	**-**	**813,652**
Increases:					
Depreciation charge for the year	37,829	11,572	45,847	-	95,248
Other increases	-	-	1,346	-	1,346
Decreases:					
Disposals	-	(9,971)	(6,590)	-	(16,561)
Classified as “Non-current assets held-for-sale” (see Note 28)	(752)	-	-	-	(752)
Other decreases	(3,462)	(39)	(24,245)	-	(27,746)
Balance at 31 December 2006	**252,255**	**26,468**	**586,464**	**-**	**865,187**
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	-	-	-	-	-

In thousands of PLN	Land,and buildings	Vehicles	Other	Under construction	Total
Carrying amounts					
As at 1 January 2005	534,224	36,254	113,668	3,869	688,015
As at 31 December 2005	509,840	35,935	96,370	4,801	646,946
As at 1 January 2006	509,840	35,935	96,370	4,801	646,946
As at 31 December 2006	484,364	33,949	77,295	21,487	617,095

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 28)	-	(12,740)
Classified as Bank's properties	(18,000)	-
Revaluation	-	(10,645)
Closing balance as at 31 December	**9,386**	**40,948**

**/IAS 40*

In the opening balance sheet in 2005, the Bank 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.

24. Intangible assets

In thousands of PLN	Goodwill	Patents and trademarks	Software	Other intangible assets	Prepayments	Total
Gross amount						
Balance as at 1 January 2005	**1,448,907**	**740**	**204,155**	**-**	**107**	**1,653,909**
Additions:						
Purchases	4,876	-	10,172	20,589	6,536	42,173
Reclassification	-	-	4,531	-	-	4,531
Disposals:						
Classified as "Non-current assets held-for-sale" (see Note 28)	-	-	(195)	-	-	(195)
Other decreases	(2,545)	-	(788)	(2,347)	(4,543)	(10,223)
Balance as at 31 December 2005	**1,451,238**	**740**	**217,875**	**18,242**	**2,100**	**1,690,195**
Balance as at 1 January 2006	**1,451,238**	**740**	**217,875**	**18,242**	**2,100**	**1,690,195**
Additions:						
Purchases	-	-	6,666	-	1,976	8,642

In thousands of PLN	Goodwill	Patents and trademarks	Software	Other intangible assets	Prepayments	Total
Disposals:						
Reclassification	-	-	459	-	(3,722)	(3,263)
Balance as at 31 December 2006	**1,451,238**	**740**	**225,000**	**18,242**	**354**	**1,695,574**
Depreciation and amortization						
Balance as at 1 January 2005	**205,262**	**536**	**138,533**	**-**	**-**	**344,330**
Increases:						
Depreciation charge for the period	-	114	28,158	5,013	-	33,285
Decreases:						
Classified as “Non-current assets held-for-sale” (see Note 28)	-	-	(51)	-	-	(51)
Other decreases	-	-	(788)	-	-	(788)
Balance as at 31 December 2005	**205,262**	**650**	**165,852**	**5,013**	**-**	**376,777**
Balance as at 1 January 2006	**205,262**	**650**	**165,852**	**5,013**	**-**	**376,777**
Increases:						
Depreciation charge for the period	-	90	27,145	6,684	-	33,919
Decreases:						
Disposals	-	-	(5)	-	-	(5)
Balance as at 31 December 2006	**205,262**	**740**	**192,992**	**11,697**	**-**	**410,691**
Carrying amounts						
As at 1 January 2005	1,243,645	204	65,622	-	107	1,309,578
As at 31 December 2005	1,245,976	90	52,023	13,229	2,100	1,313,418
As at 1 January 2006	1,245,976	90	52,023	13,229	2,100	1,313,418
As at 31 December 2006	1,245,976	-	32,008	6,545	354	1,284,883

As at 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. as at 28 February 2001 and the amount of PLN 2,331 thousand as a result of the purchase of an organized part of enterprise from ABN AMRO Bank (Poland) S.A. as at 1 March 2005. As at 1 January 2004, as required by IFRS, the Bank ceased to make write-downs of goodwill, and replaced them with the impairment test.
In addition, PLN 13,229 thousand of other intangible assets were recognised in the balance sheet as a result of the purchase of an organized part of enterprise from ABN AMRO Bank (Poland) S.A.

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

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

26. Income tax assets and liabilities

In thousands of PLN	**31.12.2006**	**31.12.2005**
Income tax assets*		
Current tax	16,351	-
Deferred tax	256,865	300,162
	273,216	**300,162**
Income tax liabilities*		
Current tax	**-**	**162,788**

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

Positive and negative taxable and deductible temporary differences are presented below

Deferred tax assets are attributable to the following:

In thousands of PLN	**31.12.2006**	**31.12.2005**
Interest accrued and other expense	66,491	56,321
Loan loss provisions	107,648	158,357
Subordinated loans provisions	2,880	3,896
Unrealised premium	7,346	5,371
Unrealised financial instruments valuation expenses	637,361	652,171
Income collected in advance	26,339	9,737
Valuation of shares	6,891	7,846
Commissions	5,666	22,988
Debt securities available-for-sale	19,118	15,142
Unrealized cost related to asymmetric transaction	74,258	114,417
Other	16,416	24,871
Deferred tax assets	**970,414**	**1,071,117**

Deferred tax liability is attributable to the following:

In thousands of PLN	**31.12.2006**	**31.12.2005**
Interest accrued (income)	70,977	63,564
Unrealised premium from options	8	40
Unrealised financial instruments valuation income	618,827	673,440
Unrealised securities discount	910	380
Investment relief	22,377	23,054
Other	450	10,477
Deferred tax liability	**713,549**	**770,955**

Movement in temporary differences during the year

In thousands of PLN	**Balance 31 December 2004**	**IFRS Adjustments**	**Balance 1 January 2005**	**Adjustments recognised in income**	**Recognised in equity**	**Balance 31 December 2005**
Interest accrued and other expense	43,855	-	43,855	12,466	-	56,321
Loan loss provisions	168,504	18,991	187,495	(29,138)	-	158,357
Subordinated loans provisions	5,403	-	5,403	(1,507)	-	3,896
Unrealised premium	5,629	-	5,629	(258)	-	5,371
Unrealised financial instruments valuation expenses	738,782	-	738,782	(86,611)	-	652,171
Income collected in advance	11,556	-	11,556	(1,819)	-	9,737
Valuation of shares	33,354	-	33,354	(25,508)	-	7,846
Commission	14,542	4,304	18,846	4,142	-	22,988
Debt securities available-for-sale	2,198	-	2,198		12,944	15,142
Unrealized cost related to asymmetric transaction	48,092	-	48,092	66,325	-	114,417
Other	4,279	(1,530)	2,749	22,122	-	24,871
	1,076,194	**21,765**	**1,097,959**	**(39,786)**	**12,944**	**1,071,117**

In thousands of PLN	**Balance 31 December 2004**	**IFRS Adjustments**	**Balance 1 January 2005**	**Adjustments recognised in income**	**Balance 31 December 2005**
Interest accrued (income)	27,060	25,617	52,677	10,887	63,564
Unrealised premium from options	26	-	26	14	40
Unrealised financial instruments valuation income	775,058	-	775,058	(101,618)	673,440
Unrealised securities discount	2,383	-	2,383	(2,003)	380
Investment relief	23,754	-	23,754	(700)	23,054
Other	10,708	-	10,708	(231)	10,477
	838,989	**25,617**	**864,606**	**(93,651)**	**770,955**

In thousands of PLN	Balance 31 December 2005	IFRS Adjustments recognised in income	Recognised in equity	Balance 31 December 2006
Interest accrued and other expense	56,321	10,170	-	66,491
Loan loss provisions	158,357	(50,709)	-	107,648
Subordinated loans provisions	3,896	(1,016)	-	2,880
Unrealised premium	5,371	1,975	-	7,346
Unrealised instruments valuation expenses	652,171	(14,810)	-	637,361
Income collected in advance	9,737	16,602	-	26,339
Valuation of shares	7,846	(955)	-	6,891
Commission	22,988	(17,322)	-	5,666
Debt securities available-for-sale	15,142	-	3,976	19,118
Unrealized cost related to asymmetric transactions	114,417	(40,159)	-	74,258
Other	24,871	(8,455)	-	16,416
	1,071,117	**(104,679)**	**3,976**	**970,414**

In thousands of PLN	Balance 31 December 2005	Adjustments recognised in income	Balance 31 December 2006
Interest accrued (income)	63,564	7,413	70,977
Unrealised premium from options	40	(32)	8
Unrealised instruments valuation income	673,440	(54,613)	618,827
Unrealised securities discount	380	530	910
Investment relief	23,054	(677)	22,377
Other	10,477	(10,027)	450
	770,955	**(57,406)**	**713,549**

27. 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
Accounts receivable	58,932	15,812
Staff loans out of the Social Fund	32,723	38,943
Sundry debtors	74,634	75,364
Prepayments	46,519	36,877
Other assets	170	282
	233,237	**199,221**

28. Non-current assets held-for-sale

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

	Shares in subordinated entities	Training and holiday centers	Organized part of Bank's enterprise	Total
Non-current assets held-for-sale				
Equity investments	49,752	-	-	49,752
Tangible fixed assets	-	12,740	5,278	18,018
Intangible assets	-	-	144	144
Other assets	-	-	4,434	4,434
Liabilities held-for-sale				
Other liabilities	-	-	(4,370)	(4,370)
Net assets held-for-sale	**49,752**	**12,740**	**5,486**	**67,978**

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 Bank'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 subordinated entities Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A. ("TFI") and Handlowy Zarządzania Aktywami S.A. ("HANZA"), which were sold on 1 February 2006, and in the associated entity Handlowy Heller S.A. that was sold on 2 February 2006 (see Note 40).
- Organized part of Bank's enterprise that consists of card's transactions settlements within the Consumer Banking Sector. The Bank rents POS terminals and provides service as a settlement agent in accordance with Electronic Payment Instruments Act of 12 September 2002. The sale was completed on 31 January 2006.
- Organized part of the Bank's enterprise that consists of holiday resorts located in Dźwirzyna, Rowy, Skubianka, Łeba and Wisła. In the 2006 resorts in Dźwirzyna, Skubianka and Łeba were sold. Resort in Rowy was sold in January of 2007 and the sale plan of holiday resort in Wisła is currently highly advanced.

29. 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:	1,365,733	942,547
current accounts of banks	*1,196,869*	*724,947*
Term deposits, including:	5,072,080	4,839,585
term deposits of banks	*2,462,685*	*1,624,486*
Accrued interest	43,959	26,659
	6,481,772	**5,808,791**
Deposits from non-financial sector		
Current accounts, including:	5,595,423	5,402,290
corporate customers	*3,353,436*	*3,370,841*
individual customers	*1,718,548*	*1,456,282*
Term deposits, including:	12,746,671	11,537,911
corporate customers	*9,281,629*	*7,715,382*
individual customers	*2,494,239*	*3,033,451*
Accrued interest	19,725	19,014
	18,361,819	**16,959,215**
Deposits	**24,843,591**	**22,768,006**
Other liabilities		
Loans and advances received	152,831	142,598
Liabilities in respect of securities subject to sale and repurchase agreements	223,329	8,174
Other liabilities, including:	306,202	302,121
cash collateral	238,030	*240,075*
Accrued interest	3,484	3,056
Other liabilities	**685,846**	**455,949**
	25,529,437	**23,223,955**

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

In thousands of PLN	**31.12.2006**	**31.12.2005**
Financial liabilities valued at amortized cost, of which		
Financial sector		
up to 1 month	4,105,926	4,663,665
1 month - 3 months	1,160,183	34,338
3 months - 1 year	1,202,016	1,076,675
1 year - 5 years	134,124	97,396
over 5 years	3,922	85,207
Accrued interest	45,859	27,846
	6,652,030	**5,985,127**

In thousands of PLN	**31.12.2006**	**31.12.2005**
Non-financial sector		
up to 1 month	17,402,480	15,412,493
1 month - 3 months	887,357	912,471
3 months - 1 year	505,005	811,412
1 year - 5 years	60,826	81,104
over 5 years	430	465
Accrued interest	21,309	20,883
	18,877,407	**17,238,828**
	25,529,437	**23,223,955**

30. Provisions

In thousands of PLN	**31.12.2006**	**31.12.2005**
For disputes	19,339	18,306
For off-balance sheet commitments	27,684	38,939
	47,023	**57,245**

The movement in provisions is as follows:

In thousands of PLN	**2006**	**2005**
Balance as at 1 January	**57,245**	**216,717**
Provisions for:		
Disputes	18,306	13,365
Off-balance sheet commitments	38,939	39,352
General risk	-	164,000
Effects of transition to IFRS*	-	(156,935)
As at 1 January after restatement	**57,245**	**59,782**
Movements in provisions:		
Charges to provisions:	92,545	54,346
for litigations	7,372	12,177
for off-balance sheet liabilities	85,173	42,169
Use of provisions	(630)	(146)
Release of provisions:	(102,137)	(56,737)
for litigations	(5,709)	(7,090)
for off-balance sheet liabilities	(96,428)	(49,647)
Balance as at 31 December	**47,023**	**57,245**

**/IAS 32 and IAS 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.

31. Other liabilities

In thousands of PLN	**31.12.2006**	**31.12.2005**
Staff benefits	63,482	65,434
Interbank settlements	86,522	82,648
Interbranch settlements	598	1,386
Settlements with Tax Office and National Insurance (ZUS)	7,684	2,858
Sundry creditors	106,762	134,465
Accruals	278,727	245,449
Provision for employee payments	147,097	113,643
Provision for employees retirement and jubilee payments	56,128	47,287
Other	75,502	84,519
Deferred income	104,135	97,114
	647,910	**629,354**

32. Capital and reserves

Share capital

Issued share capital

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

Par value of 1 share = PLN 4.00

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

The Bank has not issued preference shares.

Up to 1996, the Bank 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 earning by PLN 1,025,126 thousands.

Principal shareholders

The following table presents the shareholders who, as at 31 December 2006, held at least 5% of the total number of votes in the General Assembly or at least 5% of Bank's share capital:

	Value of stocks	Number of stocks	% stocks	Number of votes at GA	% votes at GA
Citibank Overseas Investment Corporation, USA	391,979	97,994,700	75,0	97,994,700	75,0
Other stockholders	130,659	32,664,900	25,0	32,664,900	25,0
	522,638	**130,659,600**	**100.0**	**130,659,600**	**100.0**

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 at the day of exclusion of all or part of financial assets available-for-sale. In connection with this, retained earnings that were previously presented in "Issued capital" are now presented in the profit and loss account.

Other reserves

In thousands of PLN	**31.12.2006**	**31.12.2005**
Reserve capital	907,175	711,418
General risk reserve	390,000	390,000
	1,297,175	**1,101,418**

Reserve capital

Reserve capital is created from the distribution of profits or from other sources, independently of the supplementary capital.
Reserve capital is designated for offsetting the Bank's balance sheet losses or for other purposes, including payment of dividends to the shareholders. The General Shareholders' Meeting makes decisions on utilization of the reserve capital.

General risk reserve

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

Dividends

Dividends paid in 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 a payment of 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 results in a dividend per ordinary share of 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 results in a dividend per ordinary share amounts to PLN 4.1. 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.

33. Repurchase and reverse repurchase agreements

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

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

As at 31 December 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

For the period from 1 January 2006 to 31 December 2006 the total interest expense on repurchase agreements was PLN 2,621 thousand (31 December 2005: PLN 3,672 thousand).

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

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

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

* including interest

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

For the period from 1 January 2006 to 31 December 2006 the total interest income on reverse repurchase agreements was PLN 94 thousand (31 December 2005: PLN 346 thousand).

34. Fair value information

Fair value of financial assets and liabilities

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

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

	31.12.2006		31.12.2005	
In thousands of PLN	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Assets				
Equity investments including:	300,534	400,451	284,304	372,675
Unlisted minority equity	*20,599*	*20,599*	*20,605*	*20,605*
Loans and other receivables	19,030,974	19,023,503	15,839,648	15,835,474
Net fixed assets available-for-sale including:	12,539	12,539	67,978	183,001
Equity investments	-	-	*49,752*	*150,540*
Liabilities				
Financial liabilities valued at amortized cost	25,529,437	25,538,429	23,223,955	23,243,813

Fair Value Definition

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

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

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

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

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

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

35. 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 Bank's shareholders' equity, were pending before any court, administrative authority or an arbitration court.
The total value of all pending court proceedings involving the Bank or its subsidiaries and related to their receivables exceeded 10% of the Bank's shareholders' equity and amounted to PLN 1,232,706 thousand.

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

Parties to Proceedings	Litigation Value (in thousands of PLN)	Proceedings Commencement Date	Description of Case
Creditor: Bank Handlowy w Warszawie S.A.	158,534	8 August 1996 – declaration of bankruptcy.	Case pending. The Bank submitted the receivable to repay it from the bankrupt's assets for arrangement on 14 October 1996. The Bank realized all the collateral. The Bank will probably not receive its receivables. The official receiver expects to complete the bankruptcy proceeding by the end of 2006.
Creditor: Bank Handlowy w Warszawie S.A.	65,947	In 2000, the court declared the borrower bankrupt.	Within the framework of the pending proceedings, the Bank submitted a receivable. The Bank's receivable is classified as category VI and may remain unpaid.
Creditor: Bank Handlowy w Warszawie S.A.	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 repay it from the bankrupt's assets for arrangement. Case pending (loan-related receivable).

The Bank in accordance with the 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 Bank or its subsidiaries, the value of which would correspond to at least 10% of the Bank's shareholders' equity, were pending before any court, administrative authority or an arbitration court.
The total value of all pending court proceedings involving the Bank or its subsidiaries and related to their receivables exceeded 10% of the Bank's shareholders' equity and amounted to PLN 696,512 thousand.

The most significant legal actions that are pending in relation to the 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 takes exception that the Bank abuses the law by notice of the termination of the contract that caused the paralysis of the business activity of the plaintiff. The damage was an effect and resulted in significant loss of profits. On 19 December 2006 the court of first instance dismissed the plaintiff claim. Plaintiff has right to lodge an appeal. 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 2005 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 requested 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. On 8 December 2006 the court of first instance disallowed the complaint entirely. The plaintiff has a right to appeal. Case pending.
Plaintiff: Entrepreneur **Defendant:** Bank Handlowy w Warszawie S.A.	387,400	11 April 2006	The claimant requests the payment of compensation. 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 lodged an appeal.

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

Off-balance sheet commitments

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

In thousands of PLN	**31.12.2006**	**31.12.2005**
Off-balance sheet commitments granted		
Letters of credit	195,947	154,888
including to related parties	*381*	*5,207*
Guarantees granted	2,781,785	2,781,872
including to related parties	*2,367*	*3,274*
Credit lines granted	9,459,737	8,933,061
including to related parties	*282,161*	*236,302*
Deposits to be issued	24,860	15,439
Issue guarantees	217,000	-
	12,679,329	**11,885,260**

In thousands of PLN	**31.12.2006**	**31.12.2005**
Letters of credit by categories		
Import letters of credit issued	155,677	137,423
including to related parties	*381*	*5,207*
Export letters of credit confirmed	40,270	17,465
	195,947	**154,888**

In thousands of PLN	**31.12.2006**	**31.12.2005**
Contingent liabilities received	**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 Bank makes specific provisions for off-balance sheet commitments when it has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. As at 31 December 2006, the specific provisions created for off balance sheet commitments amounted to PLN 27,684 thousand, including provisions for off-balance sheet commitments granted to subordinated undertakings amounting to PLN 3,426 thousand (31 December 2005: PLN 38,939 thousand, including off-balance sheet commitments to subordinated undertakings – PLN 2,441 thousand).

36. 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 the 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
Other assets		
settlements related to operations on derivative instruments	3,347	18,687
	266,480	**54,123**

37. Trust activities

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

38. Operating leases

Leases where the Bank is the lessee

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

In thousands of PLN	**31.12.2006**	**31.12.2005**
Less than 1 year	41,697	41,692
Between 1 and 5 years	86,226	114,827
More than 5 years	4,696	7,937
	132,619	**164,456**
Total operating leasing rentals for unprescribed time	**1,272**	**2,344**

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

The Bank uses cars under operating lease contracts, which were signed with its subsidiary in 2005. The contracts have been signed for 3 years. Lease payments are determined at a fixed interest rate for the entire lease period. In 2006 the Bank incurred payments amounting to PLN 567 thousand (in 2005: PLN 332 thousand). These payments are presented in the income statement in “General expenses”.

Leases where the Bank is the lessor

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

In thousands of PLN	**31.12.2006**	**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	**2,630**	**3,263**

Part of the Bank'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 year. Lease payments are under one year indexation. The income related to these contracts amounted in 2006 to PLN 3,604 thousands (in 2005: PLN 4,697 thousands). These payments are presented in the income statement in the item "Other operating income".

39. Cash flow statement

Additional information:

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 (nostro, overdrafts on loro accounts)	768,998	82,614
	1,304,621	**1,005,263**

40. Related parties

Transactions with related parties

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

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

Transactions with entities of Citigroup Inc.

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

In thousands of PLN	**31.12.2006**	**31.12.2005**
Receivables, including:	1,185,672	2,460,884
Placements	1,155,110	2,403,679
Liabilities, including:	1,602,682	398,593
Deposits	1,602,682	398,526
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	126,204
Interest and commission expense	14,529	4,540

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

The costs arising and accrued in 2006 from concluded agreements amounted in total to PLN 138,209 thousand (in 2005: PLN 158,954 thousand) and related in particular to the costs arising from the provision of services related to the maintenance of the Bank's information systems and advisory support for the Bank; income in the amount of PLN 75,515 thousand (in 2005: 62,435 thousand) arose from the provision of data processing and other services by the Bank.

Transactions with subordinated entities

	31.12.2006		31.12.2005	
In thousands of PLN	**Subsidiaries**	**Associates**	**Subsidiaries**	**Associates**
Loans, advances and other receivables				
Current accounts	288,122	-	441,103	103,385
Loans granted	47,866	-	12,774	-
Subordinated loans	16,168	-	72,755	-
	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	342 916	-	375,951	349
Term deposits	29 329	-	263,743	-
	372 245	**-**	**639,694**	**349**
Deposits				
Opening balance	639,694	349	540,519	314
Closing balance	372,245	-	639,694	349
Off-balance sheet commitments granted				
Letters of credit	381	-	5,207	-
Guarantees granted	2,367	-	3,274	-
Credit lines granted	282,161	-	212,110	24,193
	284,909	**-**	**220,591**	**24,193**
Interest and commission income	22,645	-	41,243	6,677
Interest and commission expenses	9,516	-	20,296	-

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 in the Bidding Company – 6,000 votes at Meeting of Partners. Handlowy - Inwestycje holds 2.53% of shares in the Bidding Company - 156 votes at Meeting of Partners. The Target Company used purchased assets to conduct lease activity. The Bidding Company is going to use these assets in the same way.

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

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

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

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

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

- 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

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	84,800	1,041	11	76,210	873	-
Staff benefits	32,723	-	-	38,943	-	-
Prepayments	52	3	-	154	1	-
	117,575	**1,044**	**11**	**115,307**	**874**	**-**
Deposits						
Current accounts	26,530	611	184	21,572	83	948
Term deposits	43,545	1,943	862	41,357	2,490	515
	70,075	**2,554**	**1,046**	**62,929**	**2,573**	**1,463**
Guarantees issued	84	-	-	367	-	-

41. Employee benefits

Employee benefits are divided into the following categories:

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

- benefits after termination of employment – including severance pay (see Note 2) and pension plans presented below offered by the Bank to its staff.
A provision is created for future pension severance pay that is shown in the balance sheet in "Other liabilities". An independent actuary in accordance with IFRS rules calculates the provision.

The Bank's pension plan is a pre-determined-premium program in accordance with IAS 19. The Bank pays contributions for its staff to a separate organization and, after they are paid, has no other payment liabilities. Premiums are shown as employee benefit expenses 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 Bank’s own funds in the amount of 6% of individual salary of the employee. Each employee who participates in the Plan can also make additional premium contributions to the Plan.
The total of premiums paid to Plan is invested in units of LM Senior SFIO.

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

Provisions for the above employee benefits are as follows:

In thousands of PLN	**31.12.2006**	**31.12.2005**
Provision for remuneration	111,346	85,895
Provision for employees’ retirement and jubilee payments	53,051	47,287
Provision for employees’ equity compensation	38,828	27,748
Provision for personnel restructuring expense	-	10,501
	203,225	**171,431**

In 2006, the Bank’s expenses in respect of premiums for the employee pension plan amounted to PLN 13,217 thousand (in 2005: PLN 13,317 thousand).
In 2006, the average number of employees in the Bank was 5,426 (in 2005: 5,460).
Description and principles of employee stock benefits

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

Within the framework of the SOP, eligible employees receive options to buy stock at the NYSE 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 acquisition. Options may be exercised by purchase of stocks or cash settlements of a difference between the strike price and the current market price in the period from the acquisition date of the right to an option to the expiry date of the option.
Within the framework of the CAP, eligible employees receive so-called “deferred shares” of Citigroup. Deferred shares within the framework of the CAP are granted at the NYSE average closing price as at the 5 days prior to the grant date. Deferred shares give the right to equivalents of dividends, but without voting rights, and must not be sold prior to their conversion into stocks. Deferred shares are converted into stocks after the end of a period that is determined in the Program Rules, which commences on the CAP award allocation date, provided, however, that an eligible employee is still with Citigroup. Deferred shares granted during 2005 and 2006 will be transferred partially in 25% every year for the next four years, starting from the first anniversary of option acquisition.

Assumptions of valuation of the employee equity benefit programs

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

	Grant date	Exercise price/ stock price at grant date	Number of eligible employees	Number of options / shares
SOP Program				
(1)	13-02-2002	42.11 or 41.90	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)	30-09-2005	45.36	1	2,000
(12)	17-01-2006	48.92	2	2,426

	Grant date	Exercise price/ stock price at grant date	Number of eligible employees	Number of options / shares
CAP Program				
(1)	12-02-2003	24,70	1	1,619
(2)	20-01-2004	37.27-49.69	31	25,577
(3)	18-01-2005	35.96-47.95	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	36.58-48.77	215	111,606
(7)	21-11-2006	50.73	1	2,957

Program	**SOP**	**CAP**
Period to acquire the title (in years)	(1) 20% after the each of the following years (2)-(9) 33.33% after the each of the following years (10)-(12) 25% after the each of the following years	(2) after 3 years (1), (3)-(7) 25% after the 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 – 26.65	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	-	-	-

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

	31.12.2006		31.12.2005	
	Number ('000)	Weighted average price of share	Number ('000)	Weighted average price of share
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 in the period	42,989	-	77,723	-
At the end of the period	217,022	40,29	145,448	39,10

42. 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.

43. Risk management

Derivative instruments

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

Detailed financial data related to derivatives, as at the balance sheet date is included in Note no 18.

As at 31 December 2006, the Bank 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, the Bank received collateral totalling PLN 6,072 thousand (31 December 2005: PLN 6,072 thousand).

Forward and swap FX contracts

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

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

Currency option contracts

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

Interest rate contracts

The Bank's interest rate transactions include interest rate swaps (IRS), currency interest rate swaps (CIRS), and forward rate agreements (FRA).

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

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

Interest rate option contracts

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

Securities term contracts

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

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

Commodities derivatives

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

Market risk

The Bank manages market risk in line with principles and procedures approved by the Assets and Liabilities Committee, the Bank's Management Board and reflect the requirements of the Polish supervision 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 Bank failing to meet the financial obligations due to its customers and partners.

Pricing risk is defined as the risk of the negative impact on the Bank's results 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 Bank'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 of foreign currency exchange. The report is prepared daily. The report covers the aggregate Bank's 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 the banking system crisis and the related limitations to the market liquidity. Additionally, in order to assess the 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 31 December 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	28,501,376
Liabilities	4,241,140	944,312	1,370,351	31,317	28,802,129
Balance sheet gap in the period	1,217,794	(580,470)	(399,787)	63,216	(300,753)
Off-balance sheet transactions - inflows	20,006,340	4,970,988	5,669,392	1,490,991	3,928,360
Off-balance sheet transactions - outflows	19,665,812	4,940,719	5,644,507	1,494,484	4,237,106
Off-balance sheet gap in the period	340,528	30,269	24,885	(3,493)	(308,746)
Cumulative gap	1,558,322	1,008,121	633,219	692,942	83,443

The liquidity gap as at 31December 2005 in real terms

In thousands of PLN	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**More than 1 year**	**More than 2 years**
Assets	5,016,654	154,146	1,598,442	58,703	27,094,162
Equity and liabilities	4,183,916	51,737	1,093,801	19,244	28,573,409
Balance sheet gap in the period	832,738	102,408	504,642	39,459	(1,479,247)
Off-balance sheet transactions - inflows	11,400,062	3,041,963	12,306,672	750,570	6,274,824
Off-balance sheet transactions - outflows	11,411,081	3,070,666	12,505,880	722,633	6,317,732
Off-balance sheet gap in the period	(11,018)	(28,703)	(199,207)	27,937	(42,908)
Cumulative gap	821,720	895,425	1,200,859	1,268,255	(253,900)

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-sale	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	Non related

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 type 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 Bank. 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) 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 charged by risk (connected with interest rate):
    - Debt securities with fix rate and discount securities
    - Loans and deposits with fix rate,

- Cash flows charged by risk (connected with interest rate):
  - Debt securities with variable rate,
  - Loans and deposits with variable rate,

- Not directly charged by risk of interest rate:
  - Fixed assets,
  - Equity investments,
  - Intangible assets.

Measurement of the banking portfolios pricing risk

The Bank 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 bp for the basic currencies (PLN, USD, EUR), in which the Bank's assets and liabilities are denominated in the 1-year and 5- 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 gap 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 rate gap on 31 December 2006

Presentation of interest rate gap for balance exposures nominated in PLN

In million PLN	**With revaluation date**					**Non-interest bearing**	**Total**
	1M	**1M - 3M**	**3M – 1Y**	**1Y – 5Y**	**over 5Y**		
Cash and balances with central bank	(381)	568	25	245	-	-	458
Receivables from other bank's	1,047	45	30	-	-	-	1,122
Receivables from customers – loans	6,432	410	393	430	13	-	7,677
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						5,294	5,294
Total assets	***7,249***	***2,498***	***943***	***2,764***	***1,113***	***5,294***	***19,861***
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						5,227	5,227
Other liabilities	-	-	-	-	-	2,901	2,901
Total liabilities	***13,292***	***1,260***	***1,439***	***2,418***	***3***	***8,128***	***26,540***
Gap	***(6,043)***	***1,237***	***(496)***	***346***	***1 110***	***(2,834)***	***(6,679)***

Presentation of interest rate gap for balance exposures nominated in USD

In million PLN	With revaluation date					Non-interest bearing	Total
	1M	1M - 3M	3M – 1Y	1Y – 5Y	over 5Y		
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	123	7	28	38	-	-	196
Debt securities available-for-sale							
Treasury bonds*	9	58	361	189	96	-	713
Other assets	-	-	-	-	-	142	142
Total assets	***4,752***	***177***	***1,227***	***640***	***118***	***142***	***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	***3,682***	***79***	***472***	***158***	***118***	***(3)***	***4,507***

Presentation of interest rate gap for balance exposures nominated in EUR

In million PLN	With revaluation date					Non-interest bearing	Total
	1M	1M - 3M	3M – 1Y	1Y – 5Y	over 5Y		
Cash and balances with central bank	(180)	-	-	-	-	-	(180)
Receivables from other bank's	631	81	67	309	33	-	1,122
Receivables from customers – loans	771	98	74	10	-	-	953
Debt securities available-for-sale							
Treasury bonds*	52	-	395	1,099	621	-	2,168
Other assets	-	-	-	-	-	159	159
Total assets	***1,274***	***179***	***537***	***1,418***	***654***	***159***	***4,221***
Due to banks	155	53	29	70	-	-	308
Due to non – banking customers	1,857	48	190	841	1	-	2,938
Other liabilites	-	-	-	-	-	143	143
Total liabilites	***2,012***	***102***	***219***	***911***	***1***	***143***	***3,388***
Gap	***(738)***	***78***	***318***	***507***	***653***	***16***	***833***

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

Presentation of interest rate gap on 31 December 2005

Presentation of interest rate gap for balance exposures nominated in PLN

In million PLN	With revaluation date					Non-interest bearing	Total
	1M	1M - 3M	3M – 1Y	1Y – 5Y	over 5Y		
Cash and balances with central bank	1,851	503	22	240	-	-	2,616
Receivables from other bank's	1,433	17	36	-	-	-	1,486
Receivables from customers – loans	3,678	1,058	641	853	5		6,235
Debt securities available-for-sale	-	-	-	-	-	-	
Treasury bills	14	15	11	-	-	-	40
Treasury bonds*	172	994	250	375	1,486		3,277
Other assets	-	-	-	-	-	4,577	4,577
Total assets	***7,148***	***2,587***	***960***	***1,468***	***1,491***	***4,577***	***18,231***
Due to banks	1,222	20	1,064	-	-	-	2,306
Due to non – banking customers	11,693	382	661	1,794	5	-	14,535
Own funds	-	-	-	-	-	5,166	5,166
Other liabilites	-	-	-	-	-	1,686	1,686
Total liabilites	***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
	1M	1M - 3M	3M – 1Y	1Y – 5Y	over 5Y		
Cash and balances with central bank	(10)	-	-	-	-	-	(10)
Receivables from other bank's	788	77	1,540	476	47	-	2,928
Receivables from customers – loans	192	72	47	42	16	-	369
Debt securities available-for-sale	-	-	-	-	-	-	-
Treasury bonds*	7		62	640	369	-	1,078
Other assets	-	-	-	-	-	119	119
Total assets	***977***	***149***	***1,649***	***1,158***	***432***	***119***	***4,484***
Due to banks	24	13	-	-	-	-	37
Due to non – banking customers	1,202	163	196	650	11	-	2,222
Other liabilites	-	-	-	-	-	112	112
Total liabilites	***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
	1M	1M - 3M	3M – 1Y	1Y – 5Y	over 5Y		
Cash and balances with central bank	(106)	-	-	-	-	-	(106)
Receivables from other bank's	1,242	19	50	58	-	-	1,369
Receivables from customers – loans	958	177	18	85	8	-	1,246
Debt securities available-for-sale	-	-	-	-	-	-	-
Treasury bonds*	52		314	41	529	-	936
Other assets	-	-	-	-	-	104	104
Total assets	***2,146***	***196***	***382***	***184***	***537***	***104***	***3,549***
Due to banks	99	100	3	67	17	-	286
Due to non – banking customers	1,914	45	52	521	2	-	2,534
Other liabilites	-	-	-	-	-	75	75
Total liabilites	***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 trading banking portfolios pricing risk

The ratio of sensitivity of the financial result to changes in market risk factors (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 Bank. 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, and
- global financial crisis.

The two 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 year ending 31.12.2006		
			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

Equity instruments risk

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

Effective interest rate

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

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	5.27	3.96	5.04	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

From 1 January 2005 financial instruments are valued at amortized cost by using the effective interest rate. The Bank did not restate the comparable data.

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	5.63	3.12	4.08	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

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

In thousands of PLN	**31.12.2006**	**31.12.2005**
Assets		
PLN	23,140,091	24,188,639
EUR	4,294,961	3,520,229
USD	7,042,912	4,474,889
GBP	82,287	136,257
CHF	202,470	306,569
Other currencies	333,173	42,842
	35,095,894	**32,669,425**
Liabilities		
PLN	28,616,299	27,204,678
EUR	3,511,454	2,882,876
USD	2,579,123	2,316,092
GBP	160,302	182,900
CHF	81,969	47,665
Other currencies	146,747	35,214
	35,095,894	**32,669,425**

Credit risk management

By decision of the Bank's Management Board dated 11 May 2005, the Risk Management Head was authorized to assign responsibility for risk management control functions.

The Bank's Management Board also delegated other Credit Policy Committee functions per the Bank's credit policy manuals.

Additional risk regulations may be issued in the form of the Credit Instructions for Corporate Banking, Financial Institutions, Public Sector and Restructuring as well as in Credit Programs.

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 authorised persons. Larger loans, carrying higher risk, require approval from more senior persons of authority;
-Independent Audit Department regularly inspects activities related to risk management;

-each borrower is assigned a rating, based both on financial and quality criteria. Risk ratings help the Bank to ensure that the credit portfolio overall is at an acceptable risk level;

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

-the Bank manages risk concentration within its portfolio with approved limits as well as capital requirements for the portfolio. Credit risk limits are set for individual obligors;

-the Bank defined principles for periodic monitoring of customers' results from their activities and identification of negative changes in their standing which require immediate communication to upper level management. This also includes opinions of specialised restructuring units;
The Bank defines credit risk guidelines related to products offered to Consumer Banking customers for each of the product 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 bank. Under article 71 paragraph 1 of the Act, which came into force as at 1 January 2002, total balance sheet and off-balance sheet exposure from one or more capital and organisationally related entities cannot exceed 20 % of the Bank's equity when one of the entities is a parent entity or subsidiary undertaking of the Bank or is a subsidiary undertaking to a parent entity of the Bank or cannot exceed 25 % of the Bank's equity when there is no such relationship between the Bank and the borrower. Pursuant to provisions of the Resolution No. 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 Bank is allowed to maintain exposure exceeding concentration limits, as defined in article 71 paragraph 1 of the Banking Act, on condition that the excess exposure relates only to transactions classified to trading portfolio. Equity for the purpose of setting concentration limits specified in the Banking Act, has been established in accordance with resolution No. 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 Bank had an exposure to a related party from the banking sector exceeding the statutory debt concentration limits. The excess exposure arose by virtue of derivative transactions. As a consequence, an additional capital requirement for excess exposure was factored into the calculation of the Bank's capital adequacy ratio as at 31 December 2006.
The Bank sets out to limit its exposure to a group of customers. As at 31 December 2006, the Bank's exposure in banking portfolio transactions with customers, which exceeded 10 % of the Bank's equity, amounted to PLN 3,419,685 thousand i.e. 109.4% of these funds (31 December 2005: PLN 3,087,587 thousand i.e. 106,1 %).

In M 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
Customer 2	292,447	195,460	487,907	447,722	98,454	546,176
Group 3	327,613	144,832	472,445	234,461	113,661	348,122
Customer 4	127,231	302,773	430,004	15	55,211	55,226
Customer 5	241,001	159,164	400,165	241,396	160,000	401,396
Group 6	255,437	130,836	386,273	257,342	286,903	544,245
Group 7	106,960	260,442	367,402	112,108	75,540	187,648
Group 8	60,792	274,310	335,102	18	60,914	60,932
Group 9	5	309,856	309,861	6	211,303	211,309
Group 10	38,568	244,209	282,777	38,848	212,455	251,303
Total 10	**1,630,353**	**2,381,970**	**4,012,323**	**1,541,099**	**1,535,775**	**3,076,874**

*Excluding outstanding on commercial papers.

Concentration of exposure in individual industries

To avoid excessive concentration of credit risk, the Bank monitors its exposure in individual industry sectors, defining the areas where the Bank's exposure should grow and the areas where chances 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 Corporate Bank while the Commercial Bank exercises a similar function with respect to small and medium-sized enterprises.

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, 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 in %**	**31.12.2005 in %**
Wholesale and sale on commission basis, except for trade with vehicles and motorcycles	15.6	16.3
Financial intermediation, except for insurance and retirement fund business	12.2	10.3
Provision of power, gas, steam and hot water	9.3	9.2
Production of food and beverages	5.7	6.4
Production of chemicals	5.3	5.2
Postal services and telecommunications	5.0	2.0
Production of coke, oil refinery and atomic fuel	3.9	2.2
Construction	3.6	3.2
Retail trade, except for trade with vehicles and motorcycles; servicing and repair of personal commodities	3.6	3.6
Production of rubber and plastic goods	3.1	2.3
Top 10 business sectors	**67.2**	**60.7**

Sector of the economy according to Polish Classification of Economic Activity (PKD)	31.12.2006 in %	31.12.2005 in %
Production of equipment, otherwise unclassified	2.6	2.4
Other business services	2.4	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	2.6
Production of other transportation equipment	1.7	2.2
Production of metallic goods, except for machines and equipment	1.5	1.3
Production of radio, television and telecommunications equipment	1.4	1.4
Production of goods out of other non-metallic resources	1.3	1.5
Production of tobacco goods	1.2	0.7
Top 20 business sectors	**18.4**	**19.0**
Other sectors	**14.4**	**20.3**
	100.0	**100.0**

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

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 operational risk has been managed by the Bank using various tools and techniques (primarily through self assessment, checklists, limits, continuity of business plans). Following developments of the Basel Committee recommendations as well as applicable supervisory regulations Bank's Management 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 Bank's operational risk. Issues, events and indicators pertaining to operational risk are being regularly reported to appropriate Committee. At the same time the management of risks (including the self assessment process) within the Bank's organizational units are subject to rated internal audit review.

As part of 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 system and technology flaws;
- Losses resulting from defective process and products.

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

44. 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	1,866,531	1,731,032
Funds held by the entity, including:	3,126,675	2,892,068
Primary funds (including reductions)	3,480,790	3,333,385
Counterpart funds	(81,501)	(64,554)
Reductions of the total primary and counterpart funds	272,614	376,763
Capital adequacy ratio	13.40	13.37

45. Statement of the Bank's Management Board

Accuracy and fairness of the statements presented

To the best knowledge of the Bank's Management Board, the annual financial data and the comparative data presented in the "The Annual Financial Statements of Bank Handlowy w Warszawie S.A. as at 31 December 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 Management Board contained in this document is a true representation of the development, achievements and situation (together with a description of the main risks) of the Bank in 2006.

Selection of the entity authorized to examine financial statements

The entity authorized to examine financial statements KPMG Audyt Sp. z o.o., reviewing "The Annual Financial Statements of Bank Handlowy w Warszawie S.A. as at 31 December 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 Sikora	President of Management Board	
16.03.2007	Edward Wess	Vice- President of Management Board	
16.03.2007	Sonia Wędrychowicz-Horbatowska	Vice- President of Management Board	
16.03.2007	Witold Zielniński	Vice- President of Management Board	
16.03.2007	Lidia Jabłonowska - Luba	Member of Management Board	
16.03.2007	Michał H. Mrożek	Member of Management Board	