



INTERIM CONSOLIDATED FINANCIAL
STATEMENTS
OF THE CAPITAL GROUP OF
BANK HANDLOWY W WARSZAWIE S.A.
FOR THE SECOND QUARTER 2006

AUGUST 2006

Selected financial data

| | In PLN '000 | | In EUR '000 | |
|--|--|--|--|--|
| | Year to date period from 01/01/06 to 30/06/06 | Year to date period from 01/01/05 to 30/06/05 | Year to date period from 01/01/06 to 30/06/06 | Year to date period from 01/01/05 to 30/06/05 |
| Data related to summary consolidated financial statements | | | | |
| Interest income | 783,601 | 876,011 | 200,913 | 214,682 |
| Fee and commission income | 376,810 | 340,934 | 96,613 | 83,552 |
| Profit before tax | 443,814 | 401,350 | 113,793 | 98,358 |
| Net profit | 343,055 | 318,249 | 87,958 | 77,993 |
| Increase of net cash | 39,626 | 62,488 | 9,800 | 15,467 |
| Total assets* | 34,630,757 | 32,915,502 | 8,564,762 | 8,527,774 |
| Financial liabilities valued at amortized cost* | 24,859,311 | 23,084,589 | 6,148,121 | 5,980,773 |
| Shareholders' equity | 4,997,282 | 5,033,841 | 1,235,911 | 1,245,969 |
| Share capital | 522,638 | 522,638 | 129,257 | 129,363 |
| Number of shares | 130,659,600 | 130,659,600 | 130,659,600 | 130,659,600 |
| Book value per share (PLN / EUR) | 38.25 | 38.53 | 9.46 | 9.54 |
| Capital adequacy ratio (%)* | 14.78 | 14.63 | 14.78 | 14.63 |
| Capital adequacy ratio based on Tier 1 capital (%)* | 16.38 | 15.58 | 16.38 | 15.58 |
| Earnings per ordinary share (PLN / EUR) | 2.63 | 2.44 | 0.67 | 0.60 |
| Diluted net profit per ordinary share (PLN / EUR) | 2.63 | 2.44 | 0.67 | 0.60 |

| | | | | |
|---|-------------|-------------|-------------|-------------|
| Data related to summary financial statements of the Bank | | | | |
| Interest income | 767,125 | 858,593 | 196,689 | 210,414 |
| Fee and commission income | 334,048 | 289,915 | 85,649 | 71,049 |
| Profit before tax | 405,886 | 360,828 | 104,068 | 88,427 |
| Net profit | 312,009 | 281,466 | 79,998 | 68,978 |
| Increase of net cash | 39,688 | 62,572 | 9,816 | 15,488 |
| Total assets* | 34,079,518 | 32,669,425 | 8,428,431 | 8,464,020 |
| Financial liabilities valued at amortized cost* | 24,759,711 | 23,223,955 | 6,123,488 | 6,016,880 |
| Shareholders' equity | 4,872,918 | 4,930,879 | 1,205,154 | 1,220,484 |
| Share capital | 522,638 | 522,638 | 129,257 | 129,363 |
| Number of shares | 130,659,600 | 130,659,600 | 130,659,600 | 130,659,600 |
| Book value per share (PLN / EUR) | 37.29 | 37.74 | 9.22 | 9.34 |
| Capital adequacy ratio (%)* | 13.80 | 13.37 | 13.80 | 13.37 |
| Capital adequacy ratio based on Tier 1 capital (%)* | 16.32 | 15.41 | 16.32 | 15.41 |
| Earnings per ordinary share (PLN / EUR) | 2.39 | 2.15 | 0.61 | 0.53 |
| Diluted net profit per ordinary share (PLN / EUR) | 2.39 | 2.15 | 0.61 | 0.53 |
| Declared or distributed dividends per ordinary share (PLN / EUR)** | 3.60 | 11.97 | 0.89 | 2.96 |

* Comparable financial data is presented as at 31 December 2005

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

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Consolidated income statement

| <i>In thousands of PLN</i> | Second quarter period from 01/04/06 to 30/06/06 | Year to date period from 01/01/06 to 30/06/06 | Second quarter period from 01/04/05 to 30/06/05 | Year to date period from 01/01/05 to 30/06/05 |
|---|--|--|--|--|
| Interest and similar income | 402,778 | 783,601 | 437,874 | 876,011 |
| Interest expense and similar charges | (140,601) | (275,530) | (170,707) | (353,753) |
| Net interest income | 262,177 | 508,071 | 267,167 | 522,258 |
| Fee and commission income | 202,730 | 376,810 | 179,051 | 340,934 |
| Fee and commission expense | (45,775) | (74,434) | (30,392) | (57,217) |
| Net fee and commission income | 156,955 | 302,376 | 148,659 | 283,717 |
| Dividend income | 100 | 100 | 1,573 | 1,573 |
| Net income on financial instruments valued at fair value through profit and loss account | (4,317) | 5,937 | (3,570) | 15,062 |
| Net gain on investment (deposit) securities | 435 | 33,166 | 78,057 | 112,295 |
| Net profit on foreign exchange | 73,882 | 173,873 | 110,223 | 204,817 |
| Other operating income | 30,408 | 59,246 | 23,297 | 49,191 |
| Other operating expenses | (7,802) | (20,438) | (18,278) | (33,978) |
| Net other operating income | 22,606 | 38,808 | 5,019 | 15,213 |
| General administrative expenses | (343,396) | (681,687) | (353,897) | (697,066) |
| Depreciation expense | (33,063) | (66,407) | (35,405) | (69,990) |
| Profit / (loss) on sale of tangible fixed assets | 944 | 117,289 | (937) | (1,073) |
| Net impairment losses | 7,121 | 9,634 | 20,675 | 17,028 |
| Operating income | 143,444 | 441,160 | 237,564 | 403,834 |
| Share in profits / (losses) of undertakings accounted for under the equity method | (2,589) | 2,654 | (2,809) | (2,484) |
| Profit before tax | 140,855 | 443,814 | 234,755 | 401,350 |
| Income tax expense | (33,469) | (100,759) | (55,028) | (83,101) |
| Net profit | 107,386 | 343,055 | 179,727 | 318,249 |
| Weighted average number of ordinary shares | | 130,659,600 | | 130,659,600 |
| Net profit per ordinary share (in PLN) | | 2.63 | | 2.44 |
| Diluted net profit per ordinary share (in PLN) | | 2.63 | | 2.44 |

Consolidated balance sheet

| <i>In thousands of PLN</i> | 30/06/2006 | 31/12/2005 |
|--|-------------------|-------------------|
| ASSETS | | |
| Cash and balances with central bank | 834,819 | 922,649 |
| Financial assets held-for-trading | 5,341,743 | 5,883,358 |
| Debt securities available-for-sale | 8,092,338 | 7,171,157 |
| Equity investments valued at equity method | 64,540 | 61,884 |
| Other equity investments | 23,909 | 20,615 |
| Loans and advances | 17,447,785 | 16,074,250 |
| <i>to financial sector</i> | 7,380,661 | 6,467,157 |
| <i>to non-financial sector</i> | 10,067,124 | 9,607,093 |
| Property and equipment | 674,911 | 700,212 |
| <i>land, buildings and equipment</i> | 633,252 | 659,264 |
| <i>investment property</i> | 41,659 | 40,948 |
| Intangible assets | 1,300,664 | 1,313,799 |
| Deferred income tax assets | 309,868 | 299,290 |
| Other assets | 529,600 | 430,574 |
| Non-current assets held-for-sale | 10,580 | 37,714 |
| Total assets | 34,630,757 | 32,915,502 |
| LIABILITIES | | |
| Financial liabilities held-for-trading | 3,105,358 | 3,420,219 |
| Financial liabilities valued at amortized cost | 24,859,311 | 23,084,589 |
| <i>deposits from</i> | 24,099,492 | 22,485,156 |
| <i>financial sector</i> | 5,917,773 | 5,223,503 |
| <i>non-financial sector</i> | 18,181,719 | 17,261,653 |
| <i>other liabilities</i> | 759,819 | 599,433 |
| Provisions | 63,526 | 56,251 |
| Income tax liabilities | 12,530 | 163,311 |
| Other liabilities | 1,592,750 | 918,991 |
| Liabilities held-for-sale | - | 7,329 |
| Total liabilities | 29,633,475 | 27,650,690 |
| EQUITY | | |
| Issued capital | 522,638 | 522,638 |
| Share premium | 3,027,470 | 3,010,452 |
| Revaluation reserve | (204,764) | (64,554) |
| Other reserves | 1,336,878 | 1,128,860 |
| Retained earnings | 315,060 | 667,416 |
| Total equity | 4,997,282 | 5,264,812 |
| Total liabilities and equity | 34,630,757 | 32,915,502 |

Consolidated statement of changes in equity

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

*in respect of IAS 32 and IAS 39

| <i>In thousands of PLN</i> | Share capital | Share premium | Revaluation reserve | Other reserves | Retained earnings | Total equity |
|--|----------------|------------------|---------------------|------------------|-------------------|------------------|
| Balance as at 1 January 2006 | 522,638 | 3,010,452 | (64,554) | 1,128,860 | 667,416 | 5,264,812 |
| Valuation of financial assets available-for-sale | - | - | (139,934) | - | - | (139,934) |
| Transfer of valuation of sold financial assets available-for-sale to profit and loss account | - | - | (33,166) | - | - | (33,166) |
| Deferred income tax on valuation of financial assets available-for-sale | - | - | 32,890 | - | - | 32,890 |
| Net profit | - | - | - | - | 343,055 | 343,055 |
| Dividends to be paid | - | - | - | - | (470,375) | (470,375) |
| Transfers to capital | - | 17,018 | - | 208,018 | (225,036) | - |
| Closing balance as at 30 June 2006 | 522,638 | 3,027,470 | (204,764) | 1,336,878 | 315,060 | 4,997,282 |

Summary consolidated statement of cash flows

| <i>In thousands of PLN</i> | Year to date period from 01/01/06 to 30/06/06 | Year to date period from 01/01/05 to 30/06/05 |
|--|---|---|
| Cash at the beginning of reporting period | 1,005,340 | 972,156 |
| Cash flows from operating activities | (194,608) | 482,325 |
| Cash flows from investing activities | 151,452 | (75,189) |
| Cash flows from financing activities | 82,782 | (344,648) |
| Cash at the end of reporting period | 1,044,966 | 1,034,644 |
| Increase / (decrease) in net cash | 39,626 | 62,488 |

Supplementary notes to the consolidated financial statements**1. General information about the Bank's Capital Group**

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

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

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

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

- brokerage operations,
- lease services,
- investment operations.

The Group consists of the following subordinated entities:

| Subsidiaries | Registered office | % of votes at the General Meeting of Shareholders | |
|---|-------------------|---|------------|
| | | 30.06.2006 | 31.12.2005 |
| Entities fully consolidated | | | |
| Dom Maklerski Banku Handlowego S.A. | Warsaw | 100,00 | 100,00 |
| Handlowy - Leasing Sp. z o.o. * | Warsaw | 100,00 | 100,00 |
| Citileasing Sp. z o.o. | Warsaw | - | 100,00 |
| Handlowy Zarządzanie Aktywami S.A. | Warsaw | - | 100,00 |
| Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A. | Warsaw | - | 100,00 |
| PPH Spomasz Sp. z o.o. (in liquidation) | Warsaw | 100,00 | 100,00 |
| Entities accounted for under the equity method | | | |
| Handlowy Inwestycje Sp. z o.o. | Warsaw | 100,00 | 100,00 |
| Handlowy Investments S.A. | Luxembourg | 100,00 | 100,00 |
| Handlowy Investments II S.a.r.l. | Luxembourg | 100,00 | 100,00 |
| Bank Rozwoju Cukrownictwa S.A. | Poznań | 100,00 | 100,00 |

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

| Associates | Registered office | % of votes at the General Meeting of Shareholders | |
|---|-------------------|---|------------|
| | | 30.06.2006 | 31.12.2005 |
| Associates accounted for under the equity method | | | |
| Handlowy-Heller S.A. | Warszawa | - | 50,00 |

In the second quarter of 2006 there were no changes in the holding of shares in subordinated and associated entities.

2. Basis of preparation of the report

The interim consolidated financial statements of the Group for the reporting period ending on 30 June 2006 have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and in respect to matters that are not regulated by the above standards, in accordance with the requirements of the Accounting Act dated 29 September 1994 (Official Journal from 2002, No. 76, item 694 with amendments) and respective bylaws and regulations, and the requirements for issuers of securities admitted or sought to be admitted to trading on an official stock-exchange listing market. These interim consolidated financial statements comply with IAS 34 on the preparation of interim financial statements.

The interim consolidated financial statements of the Group have been prepared in accordance with accounting principles adopted and summarized in the annual consolidated financial statements of the Group for 2005.

The interim consolidated financial statements of the Group have been prepared for the period from 1 January 2006 to 30 June 2006. Comparable financial data for the balance sheet is presented as at 31 December 2005, while for the income statement, statement of changes in equity and statement of cash flows are presented for the period from 1 January 2005 to 30 June 2005.

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

Selected financial data presented at the beginning of the consolidated quarterly report has been quoted in two currencies – in PLN and EUR. The principles of translating PLN into euro are as follows:

1. Individual items of balance sheet assets and liabilities are translated into euro based on the average exchange rate on the balance sheet date, as announced by the National Bank of Poland, at PLN 4.0434 as at 30 June 2006, PLN 3.8598 as on 31 December 2005 and PLN 4.0401 as at 30 June 2005;
2. Individual items of the income statement are translated into euro according to the exchange rate representing the arithmetic mean of average exchange rates announced by the National Bank of Poland, on the last day of each completed month of the periods covered by the quarterly report which, in relation to the second quarter of 2006, was PLN 3.9002 on an aggregate basis; in relation to the second quarter of 2005 was PLN 4.0805 on an aggregate basis.

3. Segmental reporting

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

- Corporate and Investment Bank

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

- Consumer Bank

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

- CitiFinancial

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

The valuation of segment assets and liabilities, income and segment results is based on the Group's accounting policies.

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

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

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

| <i>In thousands of PLN</i> | Corporate and Investment Bank | Consumer Bank | CitiFinancial | Total |
|---|--|--------------------------|----------------------|----------------|
| Net interest income | 221,476 | 210,126 | 76,469 | 508,071 |
| Net fee and commission income | 160,833 | 133,979 | 7,564 | 302,376 |
| Dividend income | 100 | - | - | 100 |
| Net income on financial instruments valued at fair value through profit and loss | 3,227 | 2,710 | - | 5,937 |
| Net gain on investment (deposit) securities | 33,166 | - | - | 33,166 |
| Net profit on foreign exchange | 157,526 | 16,347 | - | 173,873 |
| Net other operating income | 30,807 | 7,899 | 102 | 38,808 |
| General administrative expenses | (337,762) | (282,567) | (61,358) | (681,687) |
| Depreciation expense | (48,538) | (17,231) | (638) | (66,407) |
| Profit/ (loss) on sale of tangible fixed | 105,295 | 11,994 | - | 117,289 |
| Net impairment losses | 23,050 | 3,185 | (16,601) | 9,634 |
| Operating income | 349,180 | 86,442 | 5,538 | 441,160 |
| Share in profits / (losses) of undertakings | 2,654 | - | - | 2,654 |
| Profit before tax | 351,834 | 86,442 | 5,538 | 443,814 |
| Income tax expense | | | | (100,759) |
| Net profit | | | | 343,055 |

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

| <i>In thousands of PLN</i> | Corporate and Investment Bank | Consumer Bank | CitiFinancial | Total |
|---|--|--------------------------|----------------------|--------------|
| Assets including: | 31,266,491 | 2,622,520 | 741,746 | 34,630,757 |
| <i>Non-current assets held-for-sale</i> | 10,580 | - | - | 10,580 |
| Liabilities | 28,521,067 | 5,984,848 | 124,842 | 34,630,757 |

Consolidated income statement by business segment in the second quarter 2006

| <i>In thousands of PLN</i> | Corporate and Investment Bank | Consumer Bank | CitiFinancial | Total |
|--|--|--------------------------|----------------------|--------------|
| Net interest income | 119,845 | 104,357 | 37,975 | 262,177 |
| Net fee and commission income | 81,552 | 71,278 | 4,125 | 156,955 |
| Dividend income | 100 | - | - | 100 |
| Net income on financial instruments valued at fair value through profit and | (5,360) | 1,043 | - | (4,317) |
| Net gain on investment (deposit) | 435 | - | - | 435 |
| Net profit on foreign exchange | 65,420 | 8,462 | - | 73,882 |
| Net other operating income | 15,269 | 7,239 | 98 | 22,606 |
| General administrative expenses | (172,567) | (136,478) | (34,351) | (343,396) |

| <i>In thousands of PLN</i> | Corporate and Investment Bank | Consumer Bank | CitiFinancial | Total |
|---|--|--------------------------|----------------------|----------------|
| Depreciation expense | (24,213) | (8,521) | (329) | (33,063) |
| Profit/ (loss) on sale of tangible fixed | 1,041 | (97) | - | 944 |
| Net impairment losses | 26,003 | (10,783) | (8,099) | 7,121 |
| Operating income | 107,525 | 36,500 | (581) | 143,444 |
| Share in profits / (losses) of undertakings | (2,589) | - | - | (2,589) |
| Profit before tax | 104,936 | 36,500 | (581) | 140,855 |
| Income tax expense | | | | (33,469) |
| Net profit | | | | 107,386 |

Assets and liabilities of the Group by business segment for the first half of 2005

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

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

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

Consolidated income statement by business segment in the second quarter 2005

| <i>In thousands of PLN</i> | Corporate and Investment Bank | Consumer Bank | CitiFinancial | Total |
|---|--|--------------------------|----------------------|----------------|
| Net interest income | 128,934 | 114,241 | 23,992 | 267,167 |
| Net fee and commission income | 87,829 | 59,159 | 1,671 | 148,659 |
| Dividend income | 1,573 | - | - | 1,573 |
| Net income on financial instruments valued at fair value through profit and loss | (4,007) | 437 | - | (3,570) |
| Net gain on investment (deposit) securities | 78,057 | - | - | 78,057 |
| Net profit on foreign exchange | 100,319 | 9,904 | - | 110,223 |
| Net other operating income | 4,777 | 242 | - | 5,019 |
| General administrative expenses | (182,177) | (145,532) | (26,188) | (353,897) |
| Depreciation expense | (24,960) | (10,122) | (323) | (35,405) |
| Profit/ (loss) on sale of tangible fixed | (442) | (495) | - | (937) |
| Net impairment losses | 20,010 | 5,316 | (4,651) | 20,675 |
| Operating income | 209,913 | 33,150 | (5,499) | 237,564 |
| Share in profits / (losses) of undertakings | (2,809) | - | - | (2,809) |
| Profit before tax | 207,104 | 33,150 | (5,499) | 234,755 |
| Income tax expense | | | | (55,028) |
| Net profit | | | | 179,727 |

4. Financial highlights

For the first half of 2006, the Group reported profit before tax of PLN 444 million, which is an increase of PLN 42 million (i.e. 10.6%) compared to the first half of 2005. At the same time profit before tax in the second quarter of 2006 amounted to PLN 141 million in comparison with PLN 235 million in the same period in the previous year.

Consolidated net profit for the period from January 2006 to June 2006 amounted to PLN 343 million, which is an increase of PLN 25 million (i.e. 7.8%) compared to the corresponding period in the previous year, whereas net profit in the second quarter of 2006 amounted to PLN 107 million compared to PLN 180 million of net profit in the same period in the previous year.

During the first half of 2006, the Group's operating income, including net interest and commission income, net dividend income, net income on financial instruments, net profit on foreign exchange, net other operating income and profit or loss on sale of tangible fixed assets increased by PLN 26 million in comparison with the first half of 2005. The income growth was accompanied by a decrease in operating expenses of PLN 12 million (i.e. 1.5%), which indicates a positive trend for the operating result of the Group.

Additionally, the following factors influenced the Group's operating result for the current period compared to the second quarter 2005:

- net interest and commission income of PLN 419 million compared to PLN 416 million in the second quarter 2005, which was due to an increase of PLN 8 million (i.e. 5.6%) in commission income mainly on investment and insurance products in the Consumer Bank and CitiFinancial, more than offsetting the lack of revenues from subsidiaries that were sold in the first quarter of 2006 (HanZA and TFI). A decrease in net interest income of PLN 5 million (i.e. 1.9%) was due to lower market interest rates and a reduction in credit card interest rates in July 2005, partially offset by a significant growth in interest income in CitiFinancial. The amendment of the Civil Code and other acts to limit

maximum interest rates on 7 July 2005, which took effect on 14 February 2006, resulted in an interest rate cap on the Bank's products and had a significant negative influence on net interest income.

- net income on financial instruments (derivatives and debt securities) and net profit on foreign exchange totaled PLN 70 million compared to PLN 185 million achieved in the second quarter 2005, mainly as a result of a significant drop in sales of debt securities that was due to the growth of interest rates in the second quarter 2006. The realized gain on debt securities was the significant component of net profit in the corresponding period in 2005.
- an increase in net other operating income of PLN 18 million, as a result of lower costs of provisions for litigations, increase in revenues from data processing services provided by the Bank to Citigroup entities and from shares granted by MasterCard in the Consumer Bank .
- a decrease in general administrative expenses and amortization costs of PLN 13 million (i.e. 3.3%), primarily due to lower employment costs as a result of restructuring of employment and the branch network alignment in the Corporate and Investment Bank and Consumer Bank, even with the dynamically developing CitiFinancial network including 86 branches and 9 points of sale compared to 56 branches at the end of June 2005. The decreased level of costs was achieved despite incurring significantly higher marketing costs in comparison with the corresponding period in 2005.
- net impairment losses of PLN 13 million, mainly in relation to loans and borrowings measured at amortized cost in the Consumer Bank and CitiFinancial.

5. Activities of the Group in the second quarter of 2006

1. Corporate and Investment Banking

- *Summary of Results*

In the second quarter of 2006, Corporate and Investment Banking (CIB) reported profit before tax of PLN 105 million as compared to PLN 207 million in the corresponding period in 2005. The difference was mainly due to high income realized on the sale of bonds in the second quarter of 2005.

CIB's net interest income in the second quarter of 2006 amounted to PLN 120 million representing a 7% decrease in relation to the second quarter of 2005. This change was the outcome of lower market interest rates together with a lower loan portfolio effect.

CIB reported net fee and commission income of PLN 82 million in the second quarter of 2006 compared to PLN 88 million in the corresponding period in 2005. The decrease in net fee and commission income was mainly a consequence of lack of revenues generated by subsidiaries that were sold in the first quarter of 2006 (HanZA and TFI) and despite a dynamic growth in commission income generated by custody services.

In the second quarter of 2006, net income in treasury products amounted to PLN 60 million as compared to PLN 174 million in the second quarter 2005. This result includes net profit on foreign exchange, net income on financial instruments held-for-trading (derivatives and selected debt securities) and net income on investment (deposit) debt securities. When compared to the second quarter of 2005, the second quarter of 2006 was characterized by significantly different macro-economic conditions. The increase of interest rates in the second quarter 2006 influenced negatively the price of investment securities, preventing a repetition of the high profit from sale generated in the second quarter of 2005. Such movements in interest rates and yield curves also brought about a loss on financial instruments held-for-trading. The net profit on foreign exchange was driven by revaluation adjustments of balance sheet items, however the

volatility of the foreign exchange market encouraged customers to increase activity in hedging transactions.

Other net operating income and costs in the second quarter of 2006 amounted to PLN 15 million and increased from PLN 5 million posted in the second quarter of 2005. The difference results from an increase in revenues obtained from data processing services for Citigroup entities in other countries and from lower costs of provisions for litigations.

CIB's costs in the second quarter of 2006 amounted to PLN 173 million, which is a 4% decrease as compared to the corresponding period in 2005. CIB's costs were further optimized and despite the rise in salaries the effect of the employment restructuring as well as the branch network alignment are visible. A decrease in costs related to the sale of HanZA and TFI was partially offset by higher costs of incentive programs.

In the second quarter of 2006, CIB posted a reduction in its net provisions for loan losses in the amount of PLN 26 million, mostly due to payments on loans at risk. In the corresponding period in 2005, CIB posted a reduction in its net provisions by PLN 20 million.

a) Global Transaction Services

- *Trade Finance Products*

The main focus in the second quarter of 2006, as regards trade finance products, was the continuation of marketing activities, including the launch of a comprehensive products promotion in the mass media (for example, through sponsored press releases and announcements in the Internet) and the launch of a promotional campaign to encourage more customers to use the offer proposed by the Bank concerning trade finance products.

An important supplementary element of these marketing activities was the introduction of new lending terms for customers from the Corporate Bank who want to obtain funds on the basis of the assignment of receivables and the transfer of rights under insurance policies for receivables.

In addition, the offer was further extended by solutions offered to vendors, based on factoring services.

As regards export/import letters of credit and export/import collection services, the Bank developed its co-operation with Millennium Bank.

One of the most significant transactions in the second quarter of 2006 was the launch of a program for the financing of the construction of two ships for one of the Polish shipyards, for a Norwegian company, which includes advance repayment guarantees and payment guarantees.

- *EU Products*

In response to customer demand, in May 2006, the Bank introduced EU advisory services to its product offer, both for corporate and local self-government entities to provide assistance in the preparation of subsidy requests, project management and settlement, and technical assistance for EU institutions in the scope of pre-financing EU investments.

- *Payments and Transfers*

In May 2006, the Bank launched an innovative and highly important solution in relation to products used for servicing mass payments. A new functionality called 'Intraday SpeedCollect' allows for delivering mass payment data to customers on the same day. Previously, data on mass payments effected by the Bank had been made available on the following business day.

The above-mentioned solution offers a new quality in payment products and enhances the offer addressed to the Bank's strategic customers.

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

- *Cash Management Products*

In the second quarter of 2006, the Bank enhanced its cash product mix by providing training to its customers, entitled 'Monetary Units and Forgery'. The training is designed to increase the security of cash accepted by the Bank's customers.

Bank Handlowy w Warszawie S.A. is the first bank on the Polish market to offer this type of service to customers.

- *Card Products*

As at 30 June 2006, the number of issued business cards amounted to over 14,600, representing a 9% increase against the corresponding period in 2005.

The number of prepaid cards issued in the second quarter of 2006 increased by 28% in relation to the number of cards issued in the second quarter of 2005. As at the end of June 2006, the number of issued prepaid cards amounted to more than 160,000.

In the second quarter of 2006, the Prepaid Social Benefit and Scholarship Cards (*Przedpłacone Karty Zasiłkowe i Stypendialne*) were distinguished and awarded a prestigious prize granted by the international magazine 'The Banker' in the Investment Banking Projects category. This is the second prize already granted this year for the Prepaid Social Benefit and Scholarship Cards. Earlier, in the first quarter of 2006, this product was distinguished and awarded a second prize for the most innovative product of 2005 in corporate banking in Europe, granted by the European Payments Consulting Association (EPCA) and the European Card Review (ECR).

b) Capital Markets and Corporate and Investment Bank

- *Treasury Products*

At the turn of the first and the second quarter 2006, investors were withdrawing in a global scale from investments in emerging markets in the face of major uncertainty linked with interest rates hikes in the leading world economies. A gradual reversal of this process turned out to be specifically advantageous to Central and Eastern Europe countries. In mid April, the zloty strengthened at the quickest pace among currencies in the entire region, which was also possible due to very good macro-economic data and greater political stability.

The situation on the local bond market was quite different. Due to the weakness of the world debt markets, Polish securities failed to cover losses from May by the end of June.

The unstable situation in the world economy also discouraged investors from buying bonds in the following months, all the more so because after the series of good macro-economic data chances for further interest rates cuts in Poland were dragged further down to zero.

These events resulted in a decrease in market values in both the trading and available-for-sale debt securities portfolio. It was impossible to generate the same level of profits recognized in previous quarters when interest rates were decreasing.

In May, rapid drops on stock exchanges worldwide triggered another withdrawal of capital from emerging markets. The peak of such deterioration of the local market was in June, caused by unfavorable external factors and investors' concerns for public finances in the wake of dismissal of the head of the Ministry of Finance.

In the second quarter of 2006, the Bank strongly enforced its position on the FX derivatives market in all its offered products and customer segments. This strengthening concerned not only standard FX transactions but also notably the Bank posted an impressive 60% growth in option products trading compared to the corresponding period in the previous year.

The Bank was the leading player on the structured derivatives market and provided corporate customers with commodity and interest rate hedging products. The diversified product mix of structured products consolidated the Bank's position on the market. The Bank provided institutional investors in Poland with structured interest rate derivatives based on the USD yield curve. The Bank also concluded the sale transaction of twenty-year zero-coupon bonds of the European Investment Bank with embedded call options.

In addition, a large success was the implementation of a platform to facilitate access to FX transactions via the Internet. The product is consistently popular on the market and allows customers to manage their cash in a more effective manner.

The volume of transactions in Polish bonds concluded with financial institutions, despite deteriorating market conditions, increased by 74% in relation to the first half of 2005, and by 76% as compared to the second quarter of 2005. The Bank maintained its role as market maker in the area of both FX and interest rate products, which evidences the Bank's significant contribution to the liquidity of the market and the stability of the financial system.

- *Dom Maklerski Banku Handlowego S.A. ('DM BH') – subsidiary*

In the second quarter of 2006, the total value of equity turnover realized through DM BH amounted to PLN 10.9 billion, which ranked the Bank second on the brokerage houses market. It should be highlighted that in the second quarter of 2006, the Warsaw Stock Exchange observed a record turnover in equities in the amount of more than PLN 86 billion. In nominal terms, the turnover realized through DM BH in the second quarter of 2006, increased by 60% in relation to the second quarter of 2005. DM BH's share in the total equity turnover in the second quarter of 2006 was 12.6%.

The value of turnover generated by DMBH on the bond market totaled PLN 46.5 million, which accounted for 3.7% of the total market turnover.

c) Corporate Finance

In the second quarter of 2006, Commercial Bank Risk continued its project of implementing changes to the loan granting process. The underlying objective of the project is a further development of the Bank's competitiveness through improved customer credit services, increased efficiency and cost-effectiveness through a further automation and simplification of selected elements in the loan granting process, and the centralization of certain operations processes. An important element of the introduced changes is also a better customization of the Bank's credit product mix from the perspective of Commercial Bank customers requirements.

In the second quarter of 2006, CIB acquired more than 200 new customers.

Apart from basic credit instruments offered to Corporate Finance customers, the Bank through the Corporate and Investment Bank offers sophisticated financial instruments including project finance and advisory services on capital markets.

In May 2006, the Bank in collaboration with Citigroup Global Markets Limited signed an advisory services agreement for one of the leading companies in the power supply industry. The Bank is the leading party in this agreement.

Also in May 2006, the Bank issued twenty-year public bonds for the European Investment Bank (EIB) for the amount of PLN 215 million. This was the largest issue of non-treasury bonds in the first half of 2006 in the Polish market. It should be highlighted that this is the only public issue of non-treasury bonds introduced to trading on an exchange and the EIB bonds have the longest maturity of any security currently listed on the stock exchange.

The Bank along with Citigroup Global Markets Limited is a financial adviser to ComputerLand in the takeover and merger transaction with Emax. This has been one of the largest M&A transactions on the public market and one of the most important transactions in the IT industry, which creates the number two company in this industry.

As at 30 June 2006 (Fitch Ratings 6 Bulletin), the Bank was the leader in the distribution of short-term debt securities (i.e. up to one year) and the Bank's share accounted for about 20%.

As at 30 June 2006, the Bank serviced 27 issue programs, 2 of which were public bond issue programs.

- *Handlowy-Leasing Sp. z o.o. – subsidiary*

In the second quarter of 2006, the company continued to develop its after-sale product offer. A new insurance broker was selected and in collaboration with the broker, since the beginning of June the centre has been operated to service Handlowy-Leasing customers' claims.

The net value of assets leased in the second quarter of 2006 amounted to PLN 80.1 million and was by 22% higher than the net value of assets leased in the corresponding period in 2005. 77% of leased assets are road transport vehicles, while industrial machinery and equipment account for 22%.

2. Consumer Bank

- *Summary of Results*

In the second quarter of 2006, the Consumer Bank reported profit before tax of PLN 37 million, which represents a 10% increase compared to the second quarter of 2005.

Net interest income amounted to PLN 104 million, which is 9% lower than in the corresponding period in 2005. The decrease is a result of a reduction in the interest rates charged within the credit card portfolio in July 2005, which is mitigated by volume growth. An additional factor was a decrease in market interest rates.

Commission income accounted for PLN 71 million representing 20% growth compared to the second quarter of 2005. This is a result of the significant increase in sales of insurance and investment products.

Net other operating income totaled PLN 7 million, which largely relates to the profit of PLN 6 million from MasterCard shares.

General and administrative expenses of the segment amounted to PLN 136 million, representing a 6% decrease compared to the corresponding period of 2005. The expense reduction was the result of restructuring of employment and the branch network alignment.

In the second quarter of 2006, there was an increase in provisions for loan losses of PLN 11 million. During the period the methodology was reviewed and the movement in the provisions in 2006 reflects actual impairment for the half year.

In the first half of 2006 net impairment losses decreased by PLN 3 million whereas in the corresponding period in 2005 net provisions on loan losses increased by PLN 9 million.

a) Credit Cards

At the end of June 2006, the number of issued credit cards totaled 613,000. This was a 12% increase compared to the same period in the previous year.

In the second quarter of 2006, the Bank obtained very good results in the sale of MasterCard FIFA 2006 Credit Cards issued on the occasion of the FIFA World Cup.

During this period there was an increase in the value of transactions under the "Komfort" Installment Repayment Plan. In addition the Bank's offer to increase the credit limit for one-off cash transactions from the card account split into repayment installments (i.e. cash loan linked to credit card) was successful.

b) Other Consumer Bank products

- *Credit Products*

Beginning from 1 June 2006, the interest rate on Citibank Credit was reduced. Presently, the rate is one of the most attractive rates on the market, predominantly for CitiGold customers (13.95%). The unique feature of the credit line has been maintained, as customers may use a free of charge credit up to 7 days a month.

In order to intensify the acquisition of Citibank Credit, a lower required minimum income was required from the customer who applies for the credit under a pilot program and teachers could apply for a credit without presenting any income documentation.

- *Bank Accounts*

In the second quarter of 2006, the Bank conducted a range of marketing activities under a common slogan “Spring Promotions” (“Promocje Wiosenne”). In the area of bank accounts, the aim of such activities was the acquisition of new well-off and quite well-off customers who actively use Citibank personal account as their basic account. Another aim of equal importance was an increase in the volume of savings from customers by offering them modern saving products on attractive conditions, such products combining advantageous properties of deposits and investments.

Owing to “Spring Promotions”, the Bank managed to acquire a considerable number of new and active customers. The volume of savings grew very significantly, both in the form of deposits and investment products.

Due to the change in the manner in which transactions are being confirmed on web page Citibank Online the security of using the Internet services was enhanced. It resulted in the greater usage of the distribution channel.

- *Investment Products*

In the second quarter of 2006, 7 subscriptions were organized for investment deposits in PLN, USD and EUR. As regards structured bonds, there were 16 subscriptions for various market variables-based bonds, 7 of which were prepared on the special request of CitiGold customers (Segment G3 – Investment Center customers).

In April 2006, the offer of foreign funds was developed by such funds as Merrill Lynch International Investments Funds (MLIIF) managed by Merrill Lynch Investment Managers (Luxembourg) S.A. In this offer, 9 subfunds are made available by the Bank: MLIIF Emerging Europe Fund, MLIIF United Kingdom Fund, MLIIF Latin American Fund, MLIIF US Flexible Equity Fund, MLIIF Japan Opportunities Fund, MLIIF US Opportunities Fund, MLIIF World Energy Fund, MLIIF World Financials Fund, MLIIF World Mining Fund. They are available in two currencies: EUR and USD.

At the end of May 2006, together with Towarzystwo Funduszy Inwestycyjnych Union Investment S.A., a new version of the Capital Accumulation System - the SAK (*System Akumulacji Kapitału*) was launched on the market. In order to adapt the SAK to customers’ needs, two changes were implemented advantageous to the System Participants:

1. Possible delivery of the request for repurchasing a part of participation units raised in the SAK register at every time in the life of the Agreement, taking into account the minimum required balance which amounts to PLN 3,000.
2. Possible conversion of all participation units once in every 6 months, such units being raised in a particular fund, to another fund accessible in the SAK

In accordance with the new terms and conditions, the participants of the Capital Accumulation System were granted an opportunity to invest in UniStoProcent Plus FIO fund thanks to their presence in the SAK. Also a new possibility was added: a 15-year term for contributing payments to the SAK.

At the end of April, together with Towarzystwo Funduszy Inwestycyjnych Union Investment S.A. an investment workshop for the best Citigold advisors that sell investment products, and at the end of June, in cooperation with Towarzystwo Funduszy Inwestycyjnych ING S.A., a workshop for the best CitiBlue advisors were organized.

In the second quarter of 2006, three cross-selling actions were organized, addressed to almost 12,000

investors. Several seminars on investment issues for existing and potential CitiGold and CitiBlue customers were also arranged.

- *Insurance Products*

In April 2006, the insurance product mix was enhanced by annuity assurance *SuperEmerytura*. This is a unique solution on the Polish market that guarantees the payment of the whole life benefit after the customer has reached the age of 65. After the premium payment period, monthly benefits are paid or the entire capital raised is paid in one-off payment, increased by obtained profit. Sopockie Towarzystwo Ubezpieczeń na Życie Ergo Hestia SA. provides the insurance cover.

In May 2006, the offer of the investment funds was broadened in *Portfel Inwestycyjny* (AEGON) insurance. The existing funds were enlarged by five Arka BZ WBK's funds from every asset category. Arka BZ WBK's funds have been the most profitable local funds over a two-year period.

Also in May 2006 the Bank's offer was enlarged by life and pure endowment assurance: *Polisa Gwarancyjna*. A premium is payable in U.S. dollars and the insurance period covers 3 years. Insurance is based on U.S. bonds and provides the customer with competitive and guaranteed returns. MetLife TUnŻ SA provides the insurance cover.

- *Electronic Banking*

The number of customers who used Citibank Online for the first time exceeded 397,000 at the end of the second quarter 2006 and increased by 41% in relation to the corresponding period in the previous year. In June 2006 the number of transactions concluded via Citibank Online accounted for 80% of all financial transactions of the Consumer Bank. The activation of this distribution channel is supported by a respective price policy and special offers, also as regards the Bank's retail products.

The Bank also promotes actively the service called *Wyciąg Online* (Online Statement of Account) and registers more and more users of the service, which allows for considerable savings. At the end of June 2006, the number of users exceeded 44,000. In the second quarter 2006, the Bank also launched a new service, CitiAlerts, which substituted the existing one: CitiGSM. This facility offers more possibilities, such as, among other facilities, providing information about an account balance by an sms online. The number of users amounted to 67,000 at the end of the second quarter of 2006 and increased by 13% as compared to the second quarter of 2005.

3. CitiFinancial

- *Summary of Results*

In the second quarter of 2006, CitiFinancial recorded a loss of PLN 0.6 million compared to the loss of PLN 5.5 million in the second quarter of 2005.

Net interest income of PLN 38 million represented an increase of 58% compared to the second quarter of 2005 despite the significant influence of changes in the pricing structure following from the amendment of the Civil Code and other acts to limit maximum interest rates on 7 July 2005, which took effect on 14 February 2006. The increase in net interest income derives from the increase in the loan portfolio by 68% in the same period.

Net fee income in the second quarter of 2006 amounted to PLN 4 million, which represented a significant 247% increase in comparison with the corresponding period of 2005.

In the analyzed period, CitiFinancial's costs increased only by 31% to PLN 34 million despite the dynamic development of the distribution network. The number of branches has increased since June 2005 by 34 to 86 branches of which 15 were opened in June 2006.

CitiFinancial is in the process of developing its branch network through the launch of points of sale, which are smaller and cheaper branches, located in smaller towns. This would improve the availability of CitiFinancial products for customers living outside big residential areas. As at 30 June 2006, 9 such points of sale have been opened.

It is necessary to emphasize the highly positive operating leverage during such dynamic investment phase, such leverage being the difference between the growth in revenues and growth in costs.

Net write-offs for the credit risk in the second quarter of 2006 amounted to PLN 8 million while in the corresponding period in 2005 such write-offs amounted to PLN 5 million. The increase of write-offs resulted from the considerable growth of CitiFinancial's loan portfolio without exceeding budgeted write-offs compared to the size of the portfolio.

- Marketing / Expansion

The second quarter of 2006 was another period of growing sales in cash loans.

CitiFinancial conducted a spring campaign *Centrum Redukcji Rat* (The Installment Reduction Centre) supporting sales of debt consolidation loans. The debt consolidation offer is very popular among customers and has resulted in the growth of the average value of loan granted by this segment.

In the second quarter of 2006 a campaign promoting cash loans was conducted. During that period CitiFinancial promoted its products in branches, local and regional mass media (i.e. press, radio) and by taking part in many local events.

In May 2006 "Your friend - the customer of CitiFinancial" (programme awarding the best customers, who recommend services and products of CitiFinancial to other people) offer was enhanced.

In the second quarter of 2006 campaigns supporting the development of CitiFinancial product sales in the Internet via on-line applications were also pursued. Furthermore, CitiFinancial continued a further development of its mortgage loan product, which has already been made available in 41 CitiFinancial branches.

4. Restructuring of the Branch Network

In the second quarter of 2006, the Bank continued the development and restructuring of its branch network aimed at optimizing costs and accessibility to retail and corporate customers. An additional 13 branches as compared to the first quarter of 2006 enlarged the Bank's network and at the end of June 2006 it covered 211 branches, including:

- Corporate Bank's 40 branches and sub-branches, 23 of which service retail costumers.
- Consumer Bank's 85 branches, including 1 Investment Centre, 12 outlets dedicated to CitiGold Wealth Management customers and 72 multi-functional outlets. Consumer Bank's 13 branches service Corporate Bank customers.
- CitiFinancial's 86 branches located in town centers in the close vicinity of residential areas.

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

The number of corporate outlets fell in the second quarter of 2006 to 40 (a fall by 1 outlet) after the closure of an unprofitable sub-branch in Żywiec. The number of retail outlets that service corporate customers did not change in the analyzed period and amounts to 13. Corporate customers are serviced currently in 53 outlets.

The Consumer Bank's branch network in the second quarter of 2006 decreased by 1 and as of the end of June 2006 comprised 85 branches. One CitiBanking branch in Warsaw was closed temporarily. It will be opened in October 2006, as a CitiGold branch. In addition, 22 corporate outlets service retail customers.

CitiFinancial's network in the second quarter of 2006 was still being developed at an intensive pace. At the end of June 2006 it totaled 95 outlets (including an increase of 15 branches as compared to the end of the first quarter of 2006 and the opening of 9 points of sale).

6. Seasonality or cyclical nature of business activity

The business activity of the Group is not significantly influenced by seasonal or cyclical factors.

7. Issue, buyout and repayment of debt and equity securities

No debt or equity securities were issued, bought out or repaid in the second quarter of 2006.

8. Paid or declared dividends

In accordance with Resolution No. 10 of the Ordinary General Meeting of the Bank of 22 June 2006 on the distribution of 2005 profit and dividend payment, the profit for 2005 was allocated, a resolution for the payment of dividends was adopted, the dividend date and the date of dividend payment were determined. The Bank proposed to pay out PLN 470,374,560 as a dividend (in 2005 dividend was paid out from 2004 profit: PLN 414,190,932 and retained earnings: PLN 1,149,804,480). This means that the dividend per one ordinary share amounts to PLN 3.60 (in 2005 appropriately: PLN 3.17 and PLN 8.80)

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

The Bank has not issued preference shares.

9. Changes in the Group's structure

In the second quarter of 2006 an organized part of the Bank's enterprise, consisting of holiday resorts in Dźwirzyna and Skubianka, was sold.

Out of the other training and holiday centers classified as at 31 December 2005 to "Non-current assets held-for-sale", the holiday resort in Łeba was sold in July 2006. An active program to locate buyers and complete the sale plan, concerning the remaining centers in Rowy and Wisła, is highly advanced. The Extraordinary General Meeting agreed on the sale of the organized part of the Bank's enterprise, mentioned above in a resolution dated 22 December 2005. These assets are presented in the balance sheet as "Non-current assets held-for-sale".

10. Major events after the balance sheet date not included in the financial statements

There were no major events after the balance sheet date not included in the financial statements that could have a significant influence on the net result of the Group.

11. Movements in off-balance sheet commitments

As at 30 June 2006 there were no material changes in respect of off-balance sheet contingent liabilities in relation to the end of 2005.

Changes in off-balance sheet items in comparison with the end of 2005 were associated especially with liabilities related to the execution of purchase/sale operations i.e. growth in the volume of term transactions relating to FRAs and IRS and increase in volume of current FX swaps.

The off-balance sheet commitments are as follows:

| <i>In thousand of PLN</i> | 30.06.2006 | 31.12.2005 |
|---|--------------------|--------------------|
| Contingent liabilities | | |
| Granted liabilities | | |
| a) financial | 8,753,945 | 8,868,606 |
| <i>Import letters of credit issued</i> | 149,320 | 132,216 |
| <i>Lines of credit granted</i> | 8,381,753 | 8,720,951 |
| <i>Deposits to be distributed</i> | 222,872 | 15,439 |
| b) guarantees | 2,227,414 | 2,796,063 |
| <i>Guarantees</i> | 2,206,558 | 2,778,598 |
| <i>Export letters of credit confirmed</i> | 20,856 | 17,465 |
| | 10,981,359 | 11,664,669 |
| Received liabilities | 2,499,536 | 2,341,400 |
| Current off-balance sheet transactions | 6,753,268 | 782,183 |
| Term of balance sheet transactions | 327,585,264 | 275,918,731 |
| | 347,819,427 | 290,706,983 |

12. Achievement of 2006 forecast results

The Bank, as the dominant entity, did not disclose its forecast results for the year 2006.

13. Information about shareholders

As at 30 June 2006, the following shareholders of the Bank held, directly or indirectly through subsidiaries, a minimum of 5% of votes at the General Meeting of Shareholders of Bank Handlowy w Warszawie S.A.:

1) Citibank Overseas Investment Corporation (COIC), a subsidiary of Citibank N.A., held 75% of votes at the General Meeting of Shareholders of Bank Handlowy w Warszawie S.A. and 97,994,700 shares, i.e. 75% of the authorized share capital of the Bank.

2) International Finance Associates (IFA), a subsidiary of COIC, held 11.80% of votes at the General Meeting of Shareholders of Bank Handlowy w Warszawie S.A. and 15,415,009 votes, i.e. 11.80% of the authorized share capital of the Bank.

The structure of major shareholdings has altered since the submission of the previous quarterly report. The change was due to the decrease of IFA's ownership. Previously IFA held 14.33% of votes at the General Meeting of Shareholders of Bank Handlowy w Warszawie SA and 18,722,874 votes, i.e. 14.33% of the authorized share capital of the Bank.

14. Ownership of issuer's shares by managing and supervising officers

As at the submission date of the consolidated quarterly report, to the best knowledge of the Bank, Mr Andrzej Olechowski, a Member of the Supervisory Board, held 1,200 shares of the Bank. Other managing persons did not declare ownership of Bank's shares.

The number of Bank shares held by managing and supervising persons has increased by 448 since the previous consolidated quarterly report. During that period Mr Andrzej Olechowski, a Member of the Supervisory Board, issued a statement that he had purchased an additional 448 shares for the total price of PLN 30,076.99 and that he then owned 1,200 shares of the Bank (current report No 33/2006 from 27 June 2006).

15. Information on pending proceedings

In the second quarter 2006 there were no proceedings regarding debts of the Bank or a subsidiary of the Bank pending before court, public administration authority or an arbitration authority, the value of which would equal at least 10% of the Bank's equity.

The total value of all court proceedings with the participation of the Bank and subsidiaries of the Bank regarding debts exceeded 10% of the Bank's equity and equaled PLN 1,373 million.

The amount of debts of the Bank and its subsidiaries decreased in relation to the end of the first quarter 2006 as a result of closing some cases with the participation of the Bank as the claimant or the applicant for assigning the court enforcement clause to bank collection title and bankruptcy proceedings. The amount of debts of the Bank and subsidiaries results mainly from voluntary arrangement proceedings and bankruptcy proceedings in which the Bank or its subsidiaries participate as creditors. It should be emphasized that the court proceedings, especially bankruptcy and voluntary arrangement proceedings, are long-lasting and protracted. Due to the lengthiness of proceedings, only a few voluntary arrangement and bankruptcy proceedings result in a final and legally valid court decision within a period shorter than two years (and a majority of them last for a period of four and more years). The report includes some proceedings that started several years ago.

In accordance with applicable regulations, the Group recognizes impairment losses for loans subject to court proceedings.

At the same time, as a rule, as a result of closed bankruptcy proceedings and proceedings for granting the court enforcement clause to bank collection title, at least a part of debts due is recovered, which provides a basis for reversing previous impairment losses in part or in whole. The situation is the same in the case of finalized voluntary arrangement proceedings, when after reducing debt; the debtor repays non-reduced part of his debts.

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

| Parties to Proceedings | Litigation Value (in thousands of PLN) | Proceedings Commencement Date | Description of Case |
|---|---|--|---|
| Creditor: Bank Handlowy w Warszawie S.A. | 158,534 | 8 August 1996 – declaration of bankruptcy. | Case pending. The Bank submitted the receivable to obtain repayment from the bankrupt's assets for arrangement on 14 October 1996. The Bank realized all the collateral. The Bank will probably not receive its receivables. The official receiver expects to complete the bankruptcy proceeding by the end of 2006. The Bank expects to receive a resolution on completion of the bankruptcy proceeding. |

| Parties to Proceedings | Litigation Value (in thousands of PLN) | Proceedings Commencement Date | Description of Case |
|---|---|--|--|
| 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. |
| Plaintiff: Bank Handlowy w Warszawie S.A. | 33,976 | Suit for payment under loan liability from 29 June 2003 | Case pending. The writ of payment was issued on 8 September 2003. The defendant has raised objections to the writ for payment. On 30 May 2005 the court held the legal force of the writ of payment. The defendant lodged an appeal. As at 4 April 2006 the appeal court disallowed the appeal. The defendant is planning to petition for annulment. |
| 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. |

In the second quarter 2006, there were no proceedings regarding liabilities of the Bank or a subsidiary of the Bank, the value of which would equal at least 10% of the Bank's equity, pending before court, public administration authority or an arbitration authority. The total value of all court proceedings with the participation of the Bank and subsidiaries of the Bank regarding liabilities exceeded 10% of the Bank's equity and equaled PLN 987 million.

The amount of liabilities of the Bank and its subsidiaries subject to court proceedings increased compared to the end of the first quarter 2006 as a result of instituting court proceedings with a high value of the subject of litigation, against the Bank in the second quarter 2006. It requires a lot of time to obtain a verdict before business and civil courts. The report includes some proceedings that started a few years ago. Only a few court proceedings result in a final and legally valid court decision within a period shorter than two years (and many of them last for a period of four and more years). Appropriate provisions are created in the case of court proceedings related to a risk of inflows of resources due to fulfilling a liability by the Group.

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

| Parties to Proceedings | Litigation Value (in thousands of PLN) | Proceedings Commencement Date | Description of Case |
|---|--|--------------------------------------|---|
| Plaintiff: shareholder of company – the client of the Bank Defendant: Bank Handlowy w Warszawie S.A. | 276,508 with interest from the date of the suit | 8 April 2003 | The plaintiff submitted a suit as a majority shareholder of the company for which the Bank organized an issue of bonds. The claim is that the Bank violated the agreement from 20 June 1999 for the issue of bonds. On 15 February 2005 the court of first instance disallowed the complaint entirely. On 2 |

| 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 | <p>June 2006 the court disallowed the plaintiff's appeal. The claimant is planning to petition for annulment.</p> <p>The plaintiff takes exception that the Bank abused the law by notice of the termination of the contract that resulted in the paralysis of the business activity of the plaintiff. The damage was an effect and resulted in significant loss of profits. Case pending.</p> |
| Plaintiff: Borrower of the Bank Defendant: Bank Handlowy w Warszawie S.A. | 42,306 with interest from 1 March 2002 | 23 May 2003 | The suit concerns the irregularities of the Bank's activity during the restructuring of its client's debt – the plaintiff who bears a loss. On 3 February the court suspended 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. The response to the statement of claim was filed on 20 February 2006. The court has not set the date of the first trial yet. |
| Plaintiff: Entrepreneur Defendant: Bank Handlowy w Warszawie S.A. | 387,400 | 11 April 2006 | The claimant requests the payment of compensation. In plaintiff's opinion the Bank infringed copyright law. The petitioner claims that the Bank violated copyright law by applying a strategy in a marketing campaign, to which the claimant was entitled. |

16. Information about significant transactions with related entities

In the second quarter of 2006, the Bank and its subsidiaries did not enter into any transactions with related entities, which were on non-market terms. Transactions with related entities result from the ongoing operating activities of the Bank and its subsidiaries.

17. Information about guarantee agreements

At the end of the second quarter of 2006, the total value of sureties and guarantees extended by the Bank or its subsidiaries to a single entity and its subsidiary did not exceed 10% of the Bank's consolidated shareholders' equity.

18. Other material information

Personnel changes in the Bank in the second quarter 2006

On 19 June 2006 Mr. Frederic F. Seegers resigned from the position of a Member of the Supervisory Board of Bank Handlowy w Warszawie SA.

On 22 June 2006 the Ordinary General Meeting of the Bank appointed Mr. Todd Gravino as a Member of the Supervisory Board of Bank Handlowy w Warszawie SA.

19. Description of Factors and Events that Might Affect the Group's Future Financial Performance

The most important factors that may affect the Group's financial performance in the future are as follows:

- Continuing growth in the economy based more than ever on the growth of consumption and investments. A higher demand and a low level of interest rates should further generate a higher demand for credits and loans on the part of enterprises and households.
- Despite a gradual boom on the labor market and a higher rate of economic growth, pricing pressure should remain under control. The inflation index will probably be much below the inflation level desired by the Monetary Policy Council (2.5% per annum), which will allow the monetary regulator to maintain the central bank's base rate at the existing level of 4.00%. The low level of interest rates will continue to weaken individual customer interest in depositing their funds with the Bank but is a factor that generates interest in alternative savings.
- The stabilization on the debt securities market and easing of the downward trend on the stock market in the second quarter 2006 may improve investor sentiment, which will result in capital inflow and improvement of the Group's results from brokerage services on the stock market.
- The main risk factor for the Polish economy is the uncertainty as to the future political situation in Poland. The lack of any clear information about the profile of the government's fiscal policy in the future may cause volatility on the FX market and diminish demand for new investment projects.
- Better economic situation in the euro zone, particularly in Germany, will be advantageous to Polish exports, which will grow. At the same time, the growth of the domestic demand should have a positive impact on the growth of imports in the second half of the year. However, all this may be accompanied by the volatility of the PLN rate as a result of the uncertainty as to the future political situation in Poland. These tendencies will generate customer interest in products that protect them against adverse changes in the foreign exchange market.

Summary financial statements of the Bank – parent company**Income statement of the Bank – parent company**

| <i>In thousands of PLN</i> | Second quarter period from 01/04/06 to 30/06/06 | Year to date period from 01/01/06 to 30/06/06 | Second quarter period from 01/04/05 to 30/06/05 | Year to date period from 01/01/05 to 30/06/05 |
|--|--|--|--|--|
| Interest and similar income | 392,744 | 767,125 | 428,458 | 858,593 |
| Interest expense and similar charges | (139,776) | (276,283) | (173,294) | (357,263) |
| Net interest income | 252,968 | 490,842 | 255,164 | 501,330 |
| Fee and commission income | 180,822 | 334,048 | 153,161 | 289,915 |
| Fee and commission expense | (37,929) | (61,090) | (22,460) | (44,797) |
| Net fee and commission income | 142,893 | 272,958 | 130,701 | 245,118 |
| Dividend income | | | 1,563 | 2,146 |
| Net income on financial instruments valued at fair value through profit and loss account | (4,906) | 4,872 | (3,759) | 14,459 |
| Net gain on investment (deposit) securities | 435 | 33,166 | 78,057 | 112,295 |
| Net profit on foreign exchange | 74,144 | 173,423 | 107,347 | 202,379 |
| Other operating income | 31,047 | 57,811 | 23,751 | 47,264 |
| Other operating expenses | (6,163) | (16,736) | (17,001) | (30,869) |
| Net other operating income | 24,884 | 41,075 | 6,750 | 16,395 |
| General administrative expenses | (334,655) | (664,465) | (342,767) | (673,525) |
| Depreciation expense | (32,815) | (65,913) | (35,194) | (69,637) |
| Profit / (loss) on sale of tangible fixed assets | 944 | 115,037 | (967) | (1,272) |
| Net impairment losses | 1,398 | 4,891 | 17,165 | 11,140 |
| Profit before tax | 125,290 | 405,886 | 214,060 | 360,828 |
| Income tax expense | (30,216) | (93,877) | (51,578) | (79,362) |
| Net profit | 95,074 | 312,009 | 162,482 | 281,466 |
| Weighted average number of ordinary shares | | 130,659,600 | | 130,659,600 |
| Net profit per ordinary share (in PLN) | | 2.39 | | 2.15 |
| Diluted net profit per ordinary share (in PLN) | | 2.39 | | 2.15 |

Balance sheet of the Bank – parent company

| <i>In thousands of PLN</i> | 30/06/2006 | 31/12/2005 |
|--|-------------------|-------------------|
| ASSETS | | |
| Cash and balances with central bank | 834,819 | 922,649 |
| Financial assets held for trading | 5,341,402 | 5,878,624 |
| Debt securities available-for-sale | 8,092,338 | 7,171,157 |
| Equity investments | 285,818 | 284,304 |
| Loans and advances | 17,016,990 | 15,839,648 |
| <i>to financial sector</i> | 7,639,001 | 6,898,665 |
| <i>to non-financial sector</i> | 9,377,989 | 8,940,983 |
| Property and equipment | 662,996 | 687,894 |
| <i>land, buildings and equipment</i> | 621,337 | 646,946 |
| <i>investment property</i> | 41,659 | 40,948 |
| Intangible assets | 1,300,330 | 1,313,418 |
| Income tax liabilities | 311,952 | 300,162 |
| Other assets | 222,293 | 199,221 |
| Non-current assets held-for-sale | 10,580 | 72,348 |
| Total assets | 34,079,518 | 32,669,425 |
| LIABILITIES | | |
| Financial liabilities held for trading | 3,105,358 | 3,420,219 |
| Financial liabilities valued at amortized cost | 24,759,711 | 23,223,955 |
| <i>deposits from</i> | 24,282,775 | 22,768,006 |
| <i>financial sector</i> | 6,194,654 | 5,808,791 |
| <i>non-financial sector</i> | 18,088,121 | 16,959,215 |
| <i>other liabilities</i> | 476,936 | 455,949 |
| Provisions | 66,390 | 57,245 |
| Income tax liabilities | 11,764 | 162,788 |
| Other liabilities | 1,263,377 | 629,354 |
| Liabilities held-for-sale | - | 4,370 |
| Total liabilities | 29,206,600 | 27,497,931 |
| EQUITY | | |
| Issued capital | 522,638 | 522,638 |
| Share premium | 2,944,585 | 2,944,585 |
| Revaluation reserve | (204,764) | (64,554) |
| Other reserves | 1,297,175 | 1,101,418 |
| Retained earnings | 313,284 | 667,407 |
| Total equity | 4,872,918 | 5,171,494 |
| Total liabilities and equity | 34,079,518 | 32,669,425 |

Statement of changes in equity of the Bank – parent company

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

* in respect of IAS 32 and IAS 39

| | Share capital | Share premium | Revaluation reserve | Other reserves | Retained earnings | Total equity |
|--|----------------|------------------|---------------------|------------------|-------------------|------------------|
| Balance as at 1 January 2006 | 522,638 | 2,944,585 | (64,554) | 1,101,418 | 667,407 | 5,171,494 |
| Valuation of financial assets available-for-sale | - | - | (139,934) | - | - | (139,934) |
| Transfer of valuation of sold financial assets available-for-sale to profit and loss account | - | - | (33,166) | - | - | (33,166) |
| Deferred income tax on valuation of financial assets available-for-sale | - | - | 32,890 | - | - | 32,890 |
| Net profit | - | - | - | - | 312,009 | 312,009 |
| Dividends to be paid | - | - | - | - | (470,375) | (470,375) |
| Transfers to capital | - | - | - | 195,757 | (195,757) | - |
| Closing balance as at 30 June 2006 | 522,638 | 2,944,585 | (204,764) | 1,297,175 | 313,284 | 4,872,918 |

Summary statement of cash flows of the Bank – parent company

| <i>In thousands of PLN</i> | Year to date | Year to date |
|--|--|--|
| | Period from 01/01/06 to 30/06/06 | Period from 01/01/05 to 30/06/05 |
| Cash at the beginning of reporting period | 1,005,263 | 972,013 |
| Cash flows from operating activities | (93,882) | 352,726 |
| Cash flows from investing activities | 151,396 | (73,304) |
| Cash flows from financing activities | (17,826) | (216,850) |
| Cash at the end of reporting period | 1,044,951 | 1,034,585 |
| Increase / Decrease in net cash | 39,688 | 62,572 |

Notes to the Abbreviated Financial Statements of Bank Handlowy w Warszawie S.A (“the Bank”) for the second quarter of 2006

The abbreviated financial statements of the Bank for the second quarter of 2006 have been prepared in accordance with accounting principles adopted and summarized in the annual financial statements of the Bank.

The notes to these interim consolidated financial statements for the second quarter of 2006 contain all material information and explanatory data also relevant to the Bank’s abbreviated financial statements.

Below is presented in supplement a summary of the Bank’s financial results for the second quarter of 2006.

The Bank’s financial results

For the first half of 2006, the Bank reported profit before tax of PLN 406 million, which is an increase of PLN 45 million (i.e. 12.5%) compared to the first half of 2005. At the same time profit before tax in the second quarter of 2006 amounted to PLN 125 million in comparison with PLN 214 million in the same period in the previous year.

Net profit year to date (i.e. for the period from January 2006 to June 2006) amounted to PLN 312 million, which is an increase of PLN 31 million (i.e. 10.9%) compared to the corresponding period of the previous year whereas the net profit in the second quarter 2006 amounted to PLN 95 million in relation with PLN 162 million of net profit in the same period in the previous year.

An increase in net interest and commission income of PLN 10 million (2.6%), an increase in other operational revenues and costs net of PLN 18 million, a total drop in operational costs as well as general and administrative costs and depreciation of PLN 10 million (2.8%), a decrease in net income on financial instruments (derivatives and debt securities) and net income on exchange positions of PLN 112 million in total, as well as an increase in net impairment provisions on financial assets of PLN 16 million had a significant impact on the Bank’s net profit in the second quarter 2005.

The consolidated quarterly report for the second quarter of 2006 will be made available on the website of Bank Handlowy w Warszawie SA at www.citibankhandlowy.pl

Signature of the Financial Reporting and Control
Department Deputy Director
Date and signature

09.08.2006

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Signature of the Management Board Member
Chief Financial Officer
Date and signature

09.08.2006

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