REPORT ON ACTIVITIES

BANK HANDLOWY W WARSZAWIE S.A.

IN 2007

MARCH 2008

CONTENTS

I. Poland's Economy in 2007

1. Main macroeconomic trends

The combination of the improving labour market conditions and the favourable weather conditions contributed to the clear acceleration in domestic demand in the year 2007, with GDP growing by 6.5% in YOY terms. Investments and consumption were the engines of that robust growth, whereas balance of foreign trade restricted GDP growth.

The labour market clearly revived in the year 2007, with employment in the enterprise sector growing on average by 4.7% in YOY terms. At the same time growth of demand for labour combined with emigration of a part of the labour force also contributed to salaries in the enterprise sector increasing by 9.2%.

In spite of the deteriorating relationship between pay and labour productivity, and the strong domestic demand, in the first three quarters the year 2007 inflation remained relatively low, hovering below the target set by the Monetary Policy Council at 2.5%. CPI clearly rose in the fourth quarter, with December inflation reaching 4%. The inflation was fuelled primarily by substantial raise in food prices, which was related with the growing demand for foodstuffs coming from the emerging market and the development of the biofuels market. At the same time base inflation (CPI, net of food and fuel prices) remained at a low level – reaching average of 1.7% in December.

Responding to the mounting pay raise demand signals and the strong domestic demand, the Monetary Policy Council decided in April 2007 to commence a cycle of monetary tightening. By the end of the year 2007 interest rates increased overall by 100 basis points and the reference rate reached 5.00%. At the same time, in their commentaries the Monetary Policy Council members indicated that the increases on the year 2007 most probably do not complete the current monetary tightening cycle.

2. Money markets and FX markets

The central event of the year 2007 that impacted both the market interest rates and the FX markets was the sub-prime credit market crisis in the United States, which also hit the Eurozone. One of the effects of the widening crisis is the raise of investor uncertainty as to the scale of the losses actually suffered by the individual market participants, which led to escalation of liquidity problems in various banking systems. A visible sign of the market stress was the raise in short-term interest rates in the United States and the Eurozone; materially above the levels of consistency with the central bank rates. The uncertainty in respect of further developments in the financial markets had increased risk aversity, and thereby reduced investor interest in the emerging market assets, including Polish assets.

The past year brought evident strengthening of the Polish currency, both against the US dollar (by 16.3%) and the euro (6.5%). Appreciation of the złoty gained pace in the second half of the year in spite of the continuing volatility of the credit markets. Under conditions of the widening gap between the domestic and the international interest rates, and Poland's dynamic economic growth, the Polish currency gained in attractiveness. The factor that additionally supported the złoty was the revival of the investor expectations for Poland's early adoption of the euro, roused by the changes on the domestic political scene.

The cycle of interest rate increases, which the Monetary Policy Council initiated in the year 2007, had an impact on the bond market, with bond performance improving, particularly on the short end of the yield curve. The dampening debt market sentiment was sustained through the respective publications of macroeconomic data indicating rapid pay increases and the country's surprisingly strong GDP growth. Additionally the increased performance of the Polish government securities was driven by the evident escalation of price pressures at the end of the year, which led to CPI exceeded the upper end of the inflation target adopted by the Monetary Policy Council (1.5-3.5%).

3. Capital market

The year 2007 proved to be another growth year for the equities market, though not of the scale of the year earlier. WIG, the Polish capital market's main index, reached at the end of 2007 55,649 points (increase of 10.4%), with WIG20, the market's index of the largest companies, increasing by 5.2%.

The equities market in the year 2007 demonstrated two opposing trends. In the first half of the year the stock market performed very well. After a 10% adjustment in February, the following months brought substantial increases of its indices (WIG reached its historic maximum at 67,773 points). The trend reversed in the latter part of the year. The mortgage finance market crisis and the concerns over recession in the United States economy triggered strong revaluations in the capital markets (including of the Warsaw Stock Exchange). As a result of this global scale volatility the Warsaw WIG lost 18% from the July peak.

2007 abounded in stock market débuts. 81 new companies (including 12 foreign companies) entered the Warsaw Stock Exchange. Overall value of the public offerings on it grew to over PLN 18 billion, from PLN 4.16 billion in 2006, of which 85% were new share issues. However, we should note that the quoted value is overstated by the size of the public offering of Immoeast, an Austrian developer (though IPO value was PLN 10.7 billion, the Polish investors took up shares of PLN 463 million).

By the end of the year 2007 total of 351 companies (328 domestic and 23 foreign) traded on the Warsaw bourse's main market. The market capitalisation of the domestic companies exceeded PLN 509 billion (increase of 16% compared to the status at the end of 2006). Overall capitalisation (including foreign companies) rose from PLN 635.9 billion in 2006 to PLN 1,080 billion in the year 2007. The transaction which had a material impact on this substantial increase in market capitalisation was the listing on the Warsaw Stock Exchange of UniCredit, a company with capitalisation exceeding PLN 270 billion.

On the Warsaw Stock Exchange year 2007 also saw a launch of New Connect, an alternative share trading market for relatively small companies representing innovative sectors with major growth potential, but also higher risk profiles. At the end of the year 2007 the new market traded 24 equities with overall capitalisation of PLN 1.2 billion. Total value of trades executed on that new market since its launch reached PLN 303 million.

The Warsaw Stock Exchange (WSE) equity indices, as at 28 December 2007

Index	**28.12.2007**	**2007/2006 % change**	**29.12.2006**	**2006/2005 % change**	**30.12.2005**
WIG	55,648.54	10.4%	50,411.82	41.6%	35,600.79
WIG-PL	55,011.93	9.2%	50,361.39	42.8%	35,277.67
WIG20	3,456.05	5.2%	3,285.49	23.7%	2,654.95
mWIG40	4,028.37	7.9%	3,733.26	69.1%	2,207.74
sWIG80	15,917.92	25.2%	12,716.59	132.4%	5,471.33
TECHWIG	1,052.13	(12.4%)	1,201.50	42.3%	844.41
Sector sub-indices					
WIG-Banks	7,949.94	12.2%	7,085.84	51.4%	4,678.78
WIG-Construction	8,673.57	12.6%	7,703.50	148.4%	3,100.73
WIG-Developers*	4,788.89	-	-	-	-
WIG-IT	1,764.67	0.5%	1,756.58	34.8%	1,303.29
WIG-Media	4,911.01	22.4%	4,012.97	7.2%	3,743.23
WIG-Fuel industry	3,548.44	12.7%	3,149.10	(11.5%)	3,560.08
WIG-Food industry	3,317.96	(13.4%)	3,832.40	50.6%	2,544.41
WIG-Telecommunications	1,270.21	(5.2%)	1,340.01	8.2%	1,238.20

**** index calculated since 18 June 2007***

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

Volumes of trade in shares, bonds and derivative instruments on WSE, as at 28 December 2007

	2007	2007/2006 % change	2006	2006/2005 % change	2005
Shares (PLN m)	461,917	42.6%	323,920	84.7%	175,403
Bonds (PLN m)	3,264	(40.5%)	5,488	8.5%	5,059
Futures and options contracts (‘000 units)	9,478	48.4%	6,386	18.7%	5,378

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

Value of trading in shares in the year 2007 reached nearly PLN 462 billion, which represented an increase of over 42% compared to the year 2006. At the trading session of 21 December 2007 trading volume exceeded PLN 4.14 billion: the highest level in the history of the Warsaw bourse.

Volume of trading in futures and options contracts also reached a new record high, increasing by 48% compared to 2006.

The debt securities market in the year 2007 was characterised by sluggish investor activity as bonds trading declined by over 40% compared to a year earlier, and reached over PLN 3 billion.

4. Banking sector

The year 2007 proved to be another in a series of good years for the Polish banking sector, a situation that was unequivocally influenced by the country’s robust economic standing. The banking sector achieved a record high net financial result of over PLN 13 billion, as much as 23% higher than that generated in 2006. The higher than a year earlier sector profitability is a combined effect of the substantial increase in the net income on banking activity, which reached PLN 38 billion (mainly through an increase in net interest income and net commission income), of the slower increase in costs of banking activity (at 4%) and of the moderate increase in loan loss provisions (at 6%).

The factors driving the revenue growth here were evidently the growing loan and deposit volumes. The growth in lending to the corporate section in 2007 reached 24% in YOY terms, a result that is substantially better than that achieved a year earlier. The substantial increase in corporate deposits – of the order of 15% – achieved in the year 2007 is nonetheless lower than that achieved a year earlier. This testifies of the continuing good financial condition of the enterprise sector as well as of their need to raise capital for further development.

The overall portfolio of loans to individual customers, as at the end of the year 2007, increased by 42%, with mortgage loans growing by 51% YOY. The overall value of deposits placed in the banking sector increased by only 9%, a result of a shift in the structure of savings. Nonetheless, material deposit volume growth was registered in the second half 2007, as an effect of the growing uncertainty in the capital markets and the raising interest rates, which in turn was reflected in the higher attractiveness of bank deposits and savings accounts. Driven by the changes occurring in the retail market, the net balance of the non-financial sector (liabilities less receivables) declined by PLN 61 billion and at the end of 2007 stood at only PLN 6 billion.

II. Selected financial data of the Bank

1. Summary financial data of the Bank

In millions	2007	2006
Total assets	38,008.4	35,095.9
Equity	5,476.1	5,304.6
Loans*	11,398.4	9,468.1
Deposits*	19,758.0	18,361.8
Net profit	808.2	620.4
Earnings per ordinary share (in PLN)	6.19	4.75
Dividend per ordinary share (in PLN)	-	4.10
Capital adequacy ratio	12.06%	13.40%

** Due from and to the non-financial and the public sector.*
*** As at the date of this report the Bank's Management Board has not made a decision concerning the amount of dividend for 2007 profit.*

2. Financial result of the Bank for the year ended 31 December 2007

2.1 Income Statement

The Bank's net profit for the year 2007 reached PLN 808.2 million and was PLN 187.8 million or 30.3% up from a year earlier. Its profit before taxation for the year 2007 exceeded one billion złotys and reached PLN 1,010.0 million, an increase of PLN 209.2 million or 26.1% compared to a year earlier.

In 2007 the Bank's operating income, which includes net interest and commission income, dividend income, net gains/losses on financial instruments held for trading and on revaluation, net gains/losses on investment debt securities and on equity securities, net other operating gains/losses, was PLN 361.7 million or 17.6% higher than a year earlier.

Achievement of the revenue growth was accompanied by a relatively small increase in costs of banking activity, overheads and general administrative expenses and depreciation: overall by PLN 22.1 million or 1.5% over 2006.

Change in net impairment losses of financial assets, which in the year 2007 reached PLN 83.1 million, had a positive impact on net profit, however, the year earlier change in net impairment losses of financial assets had an even greater positive impact on the result (by PLN 15 million). Another contributor to the stepped up net profit growth was the reduction in effective tax rate: in 2007 this was 20.0%, with income tax of PLN 201.9 million, whereas in 2006 it reached 22.5%, with income tax of PLN 180.4 million.

Selected income statement items

PLN '000	2007	2006	Change PLN '000	Change %
Net interest income	1,170,039	1,004,234	165,805	16.5%
Net commission income	694,249	572,098	122,151	21.4%
Dividend income	27,222	34,202	(6,980)	(20.4%)
Net gains on financial instruments held for trading and on revaluation	416,834	313,351	103,483	33.0%

PLN '000	2007	2006	Change PLN '000	Change %
Net gains on investment debt securities	30,086	36,571	(6,485)	(17.7%)
Net gains on investment equity securities	10,454	44	10,410	23659.1%
Net other operating income	62,532	89,187	(26,655)	(29.9%)
Total income	**2,411,416**	**2,049,687**	**361,729**	**17.6%**
Overheads and general administrative expenses and depreciation	(1,485,103)	(1,463,030)	(22,073)	(1.5%)
Overheads and general administrative expenses	(1,377,561)	(1,333,863)	(43,698)	(3.3%)
Depreciation/amortisation of tangible and intangible fixed assets	(107,542)	(129,167)	21,625	16.7%
Net gains on sale of fixed assets	598	116,064	(115,466)	(99.5%)
Net change in impairment losses	83,113	98,097	(14,984)	(15.3%)
Profit before taxation	**1,010,024**	**800,818**	**209,206**	**26.1%**
Income tax expense	**(201,856)**	**(180,426)**	**(21,430)**	**(11.9%)**
Net profit for the year	**808,168**	**620,392**	**187,776**	**30.3%**

2.1.1 Revenue

Operating income in 2007 reached PLN 2,411.4 million and was 17.6% higher than operating income of 2006 (PLN 2,049.7 million), and was driven mainly by the following factors:

- Increase of PLN 165.8 million or 16.5% in net interest income, primarily resulting from an increase in income on retail and corporate loans, credit card borrowing and income on interbank deposits, this in spite of a decline in the portfolio of debt securities available for sale and the higher costs of financing the non-financial sector deposits;
- Increase of PLN 122.2 million or 21.4% in net commission income, primarily coming from commissions on investment and insurance products in the Consumer Bank;
- Increase of PLN 103.5 million or 33% in net gains on financial instruments held for trading and on revaluation, achieved both through active sale of products to clients and effective management of the Bank's own position. Volumes of FX transactions with non-banking clients, option transactions and sales of market linked deposit products increased.

2.1.2 Expenses

PLN '000	2007	2006	Change PLN '000	Change %
Personnel costs	**683,447**	**679,959**	**3,488**	**0.5%**
General administrative expenses, including (selected)	**694,114**	**653,904**	**40,210**	**6.1%**
Telecommunication fees and IT hardware	179,858	174,197	5,661	3.2%
Building maintenance and rent	108,313	110,192	(1,879)	(1.7%)
Advisory, audit, consulting and other external services	104,348	106,324	(1,976)	(1.9%)
Total overheads	**1,377,561**	**1,333,863**	**43,698**	**3.3%**
Depreciation	107,542	129,167	(21,625)	(16.7%)
Total expenses	**1,485,103**	**1,463,030**	**22,073**	**1.5%**

Throughout the year 2007 the Bank continued to pursue its cost discipline policy. Compared to 2006, expense increased by only 1.5%, i.e. by PLN 22.1 million. Depreciation and personnel costs in the Corporate Bank fell, primarily due to lower cost of valuation of the employee stock option benefit schemes, within which the employees are offered Citigroup shares or share options. At the same time costs in the Consumer Bank escalated, driven primarily through intensification of marketing activities (particularly in the media of television and press) and increases in personnel costs, both variable (consequence of good sales results) and fixed (increased employment in distribution informed by business development and expansion of the distribution channels).

2.1.3 Net impairment losses of financial assets and difference in the value of provisions for off-balance sheet liabilities

Net Impairment Losses

PLN '000	2007	2006	Change PLN '000	%
Net impairment losses incurred but not reported (IBNR)	17,823	17,198	625	3.6%
Net impairment losses on loans and off-balance sheet liabilities	47,101	78,438	(31,337)	(40.0%)
accounted for individually	76,725	79,103	(2,378)	(3.0%)
accounted for collectively (on a portfolio basis)	(29,624)	(665)	(28,959)	(4354.7%)
Impairment of investments	18,074	2,191	15,883	724.9%
Other	115	270	(155)	(57.4%)
Total change in impairment losses	**83,113**	**98,097**	**(14,984)**	**(15.3%)**

Total change in impairment losses of PLN 83.1 million (PLN 15 million or 15.3% less than in 2006) at the end of the year 2007 was mainly influenced by improvement in the loan portfolio quality, the general improvement in financial standing of borrowers and actual higher repayment of the impaired corporate loans. The achieved net change in impairment losses testifies of stable loan portfolio quality, effectiveness of the restructuring and collection activities and of favourable macroeconomic conditions..

2.1.4 Ratio analysis

Profitability and cost efficiency ratios

	2007	2006
Return on equity (ROE)*	16.7%	13.1%
Return on assets (ROA)**	2.1%	1.8%
Net interest margin (NIM)***	3.1%	2.9%
Net profit per 1 ordinary share (in PLN)	6.19	4.75
Cost/Income****	61.6%	71.4%

* *Net profit to average equity (excluding net profit for the current year) calculated on a quarterly basis*

** *Net profit to average total assets calculated on a quarterly basis*

*** *Net interest income to average total assets calculated on a quarterly basis*

**** *Overheads, general administrative expenses, depreciation and amortisation to operating income*

All of the financial indicators presented above confirm substantial improvements in efficiency and effectiveness having taken place in the year 2007. Worth underscoring are the following YOY improvements: ROE by 3.6 p.p. and ROA by 0.3%. Both of these ratio increases were driven by the relatively high net profit growth: by PLN 187.8 million or 30.3%.

The Bank was also effective on the cost effectiveness improvement front, with cost/income ratio declining by 9.8 p.p.

As at 31 December 2007, total assets of the Bank reached PLN 38,008.4 million and were 8.3% higher than at the end of 2006.

Balance Sheet

	As at		Change	
PLN '000	**31.12. 2007**	**31.12.2006**	**PLN '000**	**%**
ASSETS				
Cash and balances with central bank	3,321,503	535,623	2,785,880	520.1%
Financial assets held for trading	5,132,265	4,551,094	581,171	12.8%
Debt securities available-for-sale	6,467,638	8,247,313	(1,779,675)	(21.6%)
Equity investments	302,321	300,534	1,787	0.6%
Loans and advances	20,309,005	19,030,974	1,278,031	6.7%
to financial sector	8,910,556	9,562,908	(652,352)	(6.8%)
to non-financial sector	11,398,449	9,468,066	1,930,383	20.4%
Property and equipment	601,088	626,481	(25,393)	(4.1%)
land, buildings and equipment	576,060	617,095	(41,035)	(6.6%)
investment property	25,028	9,386	15,642	166.7%
Intangible assets	1,282,811	1,284,883	(2,072)	(0.2%)
Deferred income tax assets	368,497	273,216	95,281	34.9%
Other assets	210,588	233,237	(22,649)	(9.7%)
Non-current assets available-for-sale	12,645	12,539	106	0.8%
Total assets	**38,008,361**	**35,095,894**	**2,912,467**	**8.3%**
LIABILITIES				
Liabilities towards the central bank	-	250,113	(250,113)	-
Financial liabilities held for trading	4,373,146	3,316,847	1,056,299	31.8%
Financial liabilities valued at amortized cost	27,443,267	25,529,437	1,913,830	7.5%
Deposits from	27,001,251	24,843,591	2,157,660	8.7%
financial sector	7,243,219	6,481,772	761,447	11.7%
non-financial sector	19,758,032	18,361,819	1,396,213	7.6%
other liabilities	442,016	685,846	(243,830)	(35.6%)
Provisions	35,331	47,023	(11,692)	(24.9%)
Income tax liabilities	93,351	-	93,351	-
Other liabilities	587,188	647,910	(60,722)	(9.4%)
Total liabilities	**32,532,283**	**29,791,330**	**2,740,953**	**9.2%**
EQUITY				
Issued capital	522,638	522,638	-	-
Share premium	2,944,585	2,944,585	-	-
Revaluation reserve	(182,451)	(81,501)	(100,950)	(123.9%)
Other reserves	1,382,238	1,297,175	85,063	6.6%
Retained earnings	809,068	621,667	187,401	30.1%
Total equity	**5,476,078**	**5,304,564**	**171,514**	**3.2%**
Total liabilities and equity	**38,008,361**	**35,095,894**	**2,912,467**	**8.3%**

2.1.5 Assets

Gross loan receivables*

PLN '000	As at 31.12.2007	31.12.2006	Change PLN '000	%
Banks and other monetary financial institutions	8,268,115	8,891,294	(623,179)	(7.0%)
Non-banking financial institutions	718,930	770,075	(51,145)	(6.6%)
Non-financial sector entities	7,891,046	7,034,289	856,757	12.2%
Individuals	4,766,179	3,630,587	1,135,592	31.3%
Government units	60,464	286,361	(225,897)	(78.9%)
Other receivables	7,848	3,581	4,267	119.2%
Total	**21,712,582**	**20,616,187**	**1,096,395**	**5.3%**

** receivables with payable interest*

In the year 2007 loan receivables of the Bank increased by 5.3% compared to a year earlier and reached PLN 21,712.6 million. It is for a second time in succession that the Bank posts an increase in the portfolio of loans to non-financial sector entities, both corporates and retail customers. At the end of the year the balance of loans granted to business entities reached PLN 7,891 million and was 12.2% higher than at the end of 2006 whereas the balance of loans granted to private individuals reached PLN 4,766.2 million, which represented an increase of 31.3%.

In spite of a 22.7% decline in the debt securities portfolio in the year 2007, it remains the second largest component of the Bank's assets.

Debt securities portfolio

PLN '000	As at 31.12.2007	31.12.2006	Change PLN '000	%
Treasury bonds	6,849,596	9,149,124	(2,299,528)	(25.1%)
NBP bonds	377,428	378,413	(985)	(0.3%)
Treasury bills	69,035	73,153	(4,118)	(5.6%)
Certificates of deposit and banks' bonds	85,883	125,679	(39,796)	(31.7%)
Issued by non-financial entities	50,771	54,476	(3,705)	(6.8%)
Issued by financial entities	158,981	43,834	115,147	262.7%
Total	**7,591,694**	**9,824,679**	**(2,232,985)**	**(22.7%)**

2.1.6 Liabilities

Financial liabilities valued at amortised cost

PLN '000	As at 31.12.2007	31.12.2006	Change PLN '000	%
Due to financial sector	**7,202,342**	**6,437,813**	**764,529**	**11.9%**
- banks and other monetary financial institutions	3,893,554	3,659,554	234,000	6.4%
- due to non-banking financial sector	3,308,788	2,778,259	530,529	19.1%
Due to non-financial sector including:	**19,745,256**	**18,342,094**	**1,403,162**	**7.6%**
- corporate clients	13,133,986	12,635,065	498,921	3.9%
- individuals	5,161,621	4,212,787	948,834	22.5%
Other liabilities including accrued interest	**495,669**	**749,530**	**(253,861)**	**(33.9%)**
Total	**27,443,267**	**25,529,437**	**1,913,830**	**7.5%**

The key position funding the Bank's assets were liabilities due to non-financial sector clients. Compared with the end of 2006, strongest growth occurred in amounts due to individuals (by PLN 948.8 million or 22.5%) and deposits non-banking financial sector entities (by PLN 530.5 million or 19.1%). Also liabilities due to non-financial sector corporate clients demonstrated an increase by PLN 499 million or 3.9%.

2.1.7 *Sources and uses of funds*

PLN '000	31.12.2007	31.12.2006
Source of funds		
Funds of banks and other monetary financial institutions	3,937,146	3,849,661
Funds of customers and government units	23,506,121	21,679,776
Own funds with net income	5,476,078	5,304,564
Other external funds	5,089,016	4,261,893
Total source of funds	**38,008,361**	**35,095,894**
Use of funds		
Receivables from banks and other monetary financial institutions	8,266,228	8,881,722
Receivables from customers and government units	12,042,777	10,149,252
Securities, shares and other financial assets	11,902,224	13,098,941
Other uses of funds	5,797,132	2,965,979
Total use of funds	**38,008,361**	**35,095,894**

2.2 *Equity and Capital Adequacy Ratio*

Compared to 2006 equity in the year 2007 declined slightly (by PLN 16.3 million or 0.3%). This was primarily due to reduction of the revaluation reserve fund by PLN 101 million related to deterioration in valuations of some financial assets available for sale.

Equity

	As at		**Change**	
PLN '000	**31.12.2007**	**31.12.2006**	**PLN '000**	**%**
Issued capital	522,638	522,638	-	-
Share premium	2,944,585	2,944,585	-	-
Supplementary capital	992,238	907,175	85,063	9.4%
Revaluation reserve	(182,451)	(81,501)	(100,950)	(123.9%)
General risk reserve	390,000	390,000	-	-
Retained earnings	900	1,275	(375)	(29.4%)
Total equity	**4,667,910**	**4,684,172**	**(16,262)**	**(0.3%)**
Tier 1 capital	4,849,461	4,764,398	85,063	1.8%
Tier 2 capital	(182,451)	(81,501)	(100,950)	(123.9%)
Other equity	900	1,275	(375)	(29.4%)

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

As at 31 December 2007, capital adequacy ratio of the Bank stood at 12.06%, down by 1.34 percentage points compared with the end of 2006. This was driven primarily by a PLN 196.9 million or 10.5% capital requirement increase, which resulted mainly from an increase in risk-weighted off-balance sheet assets and contingent liabilities by 1,828.4 million or 12.5%.

2.2.1 Capital adequacy ratio

PLN '000	31.12.2007	31.12.2006
Own funds, as stated on the balance sheet	**4,666,416**	**4,684,172**
Less:	1,555,090	1,557,497
- goodwill	1,245,976	1,245,976
- other intangible assets	36,835	38,907
- interests in subordinated financial entities	272,279	272,614
Own funds for the calculation of capital adequacy ratio	**3,111,326**	**3,126,675**
Risk-weighted assets and off-balance sheet liabilities (bank portfolio)	**16,450,740**	**14,622,331**
Total capital requirement, including:	**2,063,406**	**1,866,531**
- capital requirement to cover credit risk	1,316,059	1,169,786
- capital requirement to cover excess exposure concentration and large	362,264	332,146
- total capital requirements to cover market risk	252,850	248,415
- other capital requirements	132,233	116,184
Capital adequacy ratio	**12.06%**	**13.40%**

III. Activities of Bank Handlowy w Warszawie S.A. in the year 2007

1. Lending and other risk exposures

1.1 Lending

The Bank's lending policy is based on active portfolio management and precisely specified target markets, designed to facilitate exposure and credit risk analysis within the framework of a given industry of the client. In addition, individual borrowers are continuously monitored so that any signs of deterioration in creditworthiness can be detected promptly and appropriate corrective measures untaken as needed. In the year 2007 the Bank had continued developing its credit policy rules and credit offer for small and medium-sized enterprises (SMEs).

The portfolio of receivables from individuals is managed on the basis of scoring models that calculate risk and return on respective segments of the loan portfolio. In its credit risk assessment process and its scorecard assessments, the Bank draws on the information available from a Credit Information Bureau. In the years 2006-2007 the Bank implemented scorecard assessment models for its cash loans portfolios and unsecured credit lines.

Lending to non-bank customers, gross

	As at		**Change**	
PLN '000	**31.12.2007**	**31.12.2006**	**PLN '000**	**%**
Loans in PLN	12,300,972	10,363,246	1,937,726	18.7%
Loans in foreign currency	1,143,496	1,361,646	(218,150)	(16.0%)
Total	**13,444,468**	**11,724,892**	**1,719,576**	**14.7%**
Loans to non-financial sector	12,665,074	10,668,456	1,996,618	18.7%
Loans to financial sector	718,930	770,075	(51,145)	(6.6%)
Loans to public sector	60,464	286,361	(225,897)	(78.9%)
Total	**13,444,468**	**11,724,892**	**1,719,576**	**14.7%**

	As at		Change	
PLN '000	**31.12.2007**	**31.12.2006**	**PLN '000**	**%**
Non-financial corporates	7,891,047	7,034,288	856,759	12.2%
Individuals	4,766,179	3,630,587	1,135,592	31.3%
Financial entities	718,930	770,075	(51,145)	(6.6%)
Public entities	60,464	286,361	(225,897)	(78.9%)
Other non-financial receivables	7,848	3,581	4,267	119.2%
Total	**13,444,468**	**11,724,892**	**1,719,576**	**14.7%**

As at December 2007, gross credit exposure to the non-financial sector amounted to PLN 13,444.5 million, representing an increase of 14.7% as compared with 31 December 2006. The largest part of the non-financial sector credit portfolio, being loans to non-financial corporates (59%), increased by 12.2%, a result of expansion in the Bank's landing, including increased working capital funding and increased development investment activity of the corporate clients responding to the country's favourable macroeconomic climate. Loans to individuals grew in comparison with the end of 2006 by 31.3% to PLN 4,766.2 million. Growth in loans to individuals came from development of the offer addressed to retail customers and the intensification of the promotional and sales activity.

As at 31 December 2007, the currency structure of loans outstanding changed slightly as compared with the end of 2006. The share of foreign currency loans, which as at 31 December 2006 stood at 11.6%, decreased to 8.5% by 31 December 2007. Worth noting is the fact that the Bank grants foreign currency loans to clients and customers who have foreign currency cash flows or those who, in the Bank's opinion, are able to predict or absorb the currency risk without significant deterioration of their financial position. To individual borrowers only cash secured overdrafts were offered in foreign currency, this on selective basis.

Loans granted to its subsidiaries represent a substantial part of the Bank's loan exposure to non-bank financial entities. As of 31 December 2007, the largest exposure amounting to PLN 494.2 million was the funding granted to Handlowy-Leasing Sp. z o.o., the Bank's subsidiary.

The Bank monitors the concentration of its exposures on a regular basis, seeking to avoid a situation where the portfolio is exposed to a limited group of clients. As at 31 December 2007, the Bank's portfolio exposure to non-bank entities did not exceed the exposure concentration limits required by the law.

Concentration of exposures to non-financial borrowers

PLN '000		**31.12.2007**			**31.12.2006**	
	Balance Outstanding*	**Off-Balance Outstanding**	**Total Outstanding**	**Balance Outstanding***	**Off-Balance Outstanding**	**Total Outstanding**
GROUP 1	132,638	473,595	606,233	124,929	474,429	599,358
GROUP 2	443,585	159,694	603,279	327,613	144,832	472,445
CLIENT 3	228,211	266,025	494,236	292,447	195,460	487,907
GROUP 4	186,218	298,882	485,100	180,299	360,088	540,387
CLIENT 5	49	400,000	400,049	57,607	-	57,607
GROUP 6	21	360,522	360,543	255,437	130,836	386,273
CLIENT 7	199,913	150,087	350,000	127,231	302,773	430,004
GROUP 8	167,690	141,592	309,282	1,982	105,839	107,821
GROUP 9	36,406	255,205	291,611	5	309,856	309,861
GROUP 10	16,273	270,564	286,837	36,440	50,468	86,908
Total 10	**1,411,004**	**2,776,166**	**4,187,170**	**1,403,990**	**2,074,581**	**3,478,571**

*) *Excluding equity and other securities exposures*

1.2 Loan Portfolio Quality

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

At 31 December 2007, the share of loans at risk of impairment constituted 12.0% of the total portfolio while as at 31 December 2006 it constituted 15.9% of the total portfolio. The decrease came mainly from the classifiable portfolio accounted for individually and was related to both the repayment of outstanding amounts in that customer group and general growth of the Bank's portfolio.

Loans to non-financial sector by risk of impairment, gross

PLN '000	As at 31.12. 2007		As at 31.12.2006	
Loans to non-banking sector, gross		Share in %		Share in %
Not at risk of impairment	11,837,219	88.0%	9,861,134	84.1%
At risk of impairment	1,607,249	12.0%	1,863,758	15.9%
accounted for individually	1,156,383	8.6%	1,402,387	12.0%
accounted for collectively, on a portfolio basis	450,866	3.4%	461,371	3.9%
Total loans to non-banking sector, gross	**13,444,468**	**100.0%**	**11,724,892**	**100.0%**

The Management Board believes that provisions for receivables represent the best estimate of the actual impairment of the portfolio, taking into account the discounted forecast of future cash flows associated with repayment of the receivables. Moreover, the provisions are estimated for each individual receivable, irrespective of their portfolio attribution or the incurred, but not reported losses.

As at 31 December 2007, the impairment of the portfolio was PLN 1,401.7 million, down from PLN 1,575.6 million in December 2006, mainly due to repayment of outstanding amounts and write-down of a certain part of non-recoverable loans.

Impairment of the non-bank loan portfolio

PLN '000	As at 31.12. 2007	As at 31.12.2006	Change PLN '000	Change %
Impairment due to incurred but not reported (IBNR) losses	48,964	58,484	(9,520)	(16.3%)
Impairment of receivables	1,352,727	1,517,156	(164,429)	(10.8%)
accounted for individually	991,210	1,133,919	(142,709)	(12.6%)
accounted for collectively, on a portfolio basis	361,517	383,237	(21,720)	(5.7%)
Total impairment	**1,401,691**	**1,575,640**	**(173,949)**	**(11.0%)**
Total provision coverage index	10.4%	13.4%		
Provision coverage index for receivables at risk */	87.2%	84.5%		

**/ Including IBNR provision*

1.3 Off-Balance Sheet exposures

As at 31 December 2007, off-balance sheet exposures amounted to PLN 13,700.8 million, representing an increase by 8.1% as compared with 31 December 2006. The largest change related to undisbursed committed loans, which represented 81.7% of off-balance sheet contingent liabilities and which increased by PLN 1,744.5 million or 18.4%. The committed loans line represents the committed but undisbursed current account overdrafts or credit lines.

Off-balance sheet exposures

	As at		Change	
PLN '000	**31.12. 2007**	**31.12.2006**	**PLN '000**	**%**
Guarantee	2,160,288	2,781,785	(621,497)	(22.3%)
Letters of credit issued	151,186	155,677	(4,491)	(2.9%)
Third-party confirmed letters of credit	13,131	40,270	(27,139)	(67.4%)
Committed loans	11,204,214	9,459,737	1,744,477	18.4%
Underwriting	172,000	217,000	(45,000)	(20.7%)
Forward placements	-	24,860	(24,860)	-
Total	**13,700,819**	**12,679,329**	**1,021,490**	**8.1%**
Provisions for off-balance sheet liabilities	13,574	27,684	(14,110)	(51.0%)
Provision coverage index	0.10%	0.22%		

As at 31 December 2007, the total amount of collateral or assets held on accounts of the Bank's borrowers amounted to PLN 3,980 million whereas as at 31 December 2006 it stood at PLN 5 032 million.

In the year 2007 the Bank issued 4,869 enforcement titles amounting to PLN 60.7 million while in 2006 the enforcement titles numbered 4,246 and stood as PLN 118.7 million.

2. External funding

As at 31 December 2007, overall external funds held by the Bank reached PLN 27,443.3 million, which was PLN 1,913.8 million (or 7.5% higher than at the end of the year 2006. The main impact on this change in the sources of external funding for the Bank's operations came from liabilities to non-financial sector, which grew by PLN 1,396.2 million or 7.6%, primarily a result of an increase in the balance of current account deposits of individual customers.

External funding

	As at		Change	
PLN '000	**31.12. 2007**	**31.12.2006**	**PLN '000**	**%**
Due to financial sector	**7,243,219**	**6,481,772**	**761,447**	**11.7%**
Funds on current accounts, including:	2,369,149	1,365,733	1,003,416	73.5%
- funds on current accounts of banks and other monetary financial institutions	*2,188,118*	*1,196,869*	*991,249*	*82.8%*
Deposits, including:	4,833,193	5,072,080	(238,887)	(4.7%)
- deposits of banks and other monetary financial institutions	*1,705,436*	*2,462,685*	*(757,249)*	*(30.7%)*
Accrued interest	40,877	43,959	(3,082)	(7.0%)
Due to non-financial sector	**19,758,032**	**18,361,819**	**1,396,213**	**7.6%**
Funds on current accounts, including:	8,010,795	5,595,423	2,415,372	43.2%
- corporate clients	*3,933,764*	*3,353,436*	*580,328*	*17.3%*
- individual	*3,466,163*	*1,718,548*	*1,747,615*	*101.7%*
Deposits, including:	11,734,461	12,746,671	(1,012,210)	(7.9%)
- corporate clients	*9,200,222*	*9,281,629*	*(81,407)*	*(0.9%)*

	As at		Change	
PLN ‘000	**31.12. 2007**	**31.12.2006**	**PLN ‘000**	**%**
- individual	*1,695,458*	*2,494,239*	*(798,781)*	*(32.0%)*
Accrued interest	12,776	19,725	(6,949)	(35.2%)
Other liabilities, including:	**442,016**	**685,846**	**(243,830)**	**(35.6%)**
Sell-Buy-Backs	69,155	223,329	(154,174)	(69.0%)
Accrued interest	3,009	3,484	(475)	(13.6%)
Total external funding	**27,443,267**	**25,529,437**	**1,913,830**	**7.5%**

In the year 2007 the Bank recorded substantial increase in liabilities to financial sector (by 11.7% or PLN 761.5 million), primarily due to an increase of PLN 1,003.4 million or 73.5% in funds on current accounts of banks and other monetary financial institutions. In liabilities to non-financial sector the highest growth (of 101.7%) occurred in funds on current accounts of individuals (increase of PLN 1.747.6 million). The Bank ascribes this substantial increase in funds on current accounts of individuals primarily to the positive response of its customers to the Citibank Savings Account product launched in the year 2007. In the corporate segment of the non-financial sector clients the funds deposited on current account also increased: by PLN 580.3 million or 17.3%. Notable is the decline in term deposits of individual customers in the year 2007, which was compensated by sales of investment products and increases in the savings account balances (e.g. Citibank Savings Account).

Liabilities to non-bank customers and clients

	As at		Change	
PLN ‘000	**31.12. 2007**	**31.12.2006**	**PLN ‘000**	**%**
Liabilities towards:				
Individuals	5,193,920	4,284,044	909,876	21.2%
Non-financial economic entities	13,757,808	13,290,396	467,412	3.5%
Non-profit institutions	374,503	442,064	(67,561)	(15.3%)
Non-bank financial institutions	3,440,062	2,779,472	660,590	23.8%
Public sector	557,377	561,534	(4,157)	(0.7%)
Other liabilities	94,215	68,173	26,042	38.2%
Total	**23,417,885**	**21,425,683**	**1,992,202**	**9.3%**
PLN	18,706,250	16,333,807	2,372,443	14.5%
Foreign currency	4,711,635	5,091,876	(380,241)	(7.5%)
Total	**23,417,885**	**21,425,683**	**1,992,202**	**9.3%**

3. Corporate Banking

3.1 Transaction Services

The Bank offers comprehensive, differentiated and modern products in the area of trade and transaction services to corporate customers. In parallel with the traditional banking services, such as current accounts, domestic and international money transfers, accepting deposits, granting overdrafts, the Bank offers state-of-the-art solutions in liquidity management (Consolidated Account, Cash Pool), mass payments and receivables management (Speedcollect, Direct Debit, Unikasa). The Bank has also broadened extensively its product offer and carried out acquisition of customers in the scope of more sophisticated transaction services, including electronic and web-based banking solutions.

The Bank complements its fund management offer with trade finance products, the key elements of which include factoring and the more sophisticated products which support the Bank's clients in efficient working capital management. The Bank is also a major player in the foreign trade market, with such transaction security instruments as e.g. export and import letters of credit and guarantees.

Other important components of the transactional banking offer are the custody and depositary services. The Bank provides its custody services to foreign institutional investors and the depositary bank services to domestic financial entities, particularly the pension funds, investment funds and investing insurance funds. The Bank has maintained a position of leadership in this market segment for years.

3.1.1 Transaction servicing

a) Cash management products

In the year 2007 the Bank undertook actions aimed at adjusting its offer structure further to expectations of the public sector and the small and medium-sized enterprises (SME) segment clients.

Among the solutions addressed to the public sector we need to mention:

- Mikrowpłaty (or MicroPayments) – a product providing processing capability support to the courts and the prosecution administration in the area of calculation of bail and other deposits of private individuals and legal persons in the course of court proceedings;
- Virtual consolidation – a solution that supports corporate liquidity management by providing presentations of current account balances in a consolidated form, without the need for actual transfers between accounts;
- Prepaid cards – application of the electronic payment facility to the process of dispensing social transfers to private individuals;
- WorldLink – comprehensive servicing of foreign retirement and disability pension benefits.

The above solutions were instrumental to the substantial revenue growth achieved in the public sector client segment.

Among the solutions addressed to the SME segment special mention is due to the new account documentation approach, as it streamlines the formalities of account opening to the necessary minimum. This simplification of procedures translates primarily into improved customer satisfaction as it contributes to improved efficiency of the acquisition and implementation processes in the Bank.

It was with the aim of responding to the changing requirements of the SME sector entities that the Bank modified its transaction servicing offer, particularly in the area of foreign currency payments. The Bank continued to work on a uniform Euro payments processing project, which covers all of the European Union (SEPA project). SMEs were also provided with a uniquely attractive offer for utilisation of their cash surpluses. Clients of that segment can now negotiate terms and conditions of depositing funds with the Bank on case by case basis.

More generally, the Bank has modified its product implementation process, which in the long-term will translate into improved quality of operation and satisfaction of customers from collaboration with the Bank.

The market has responded favourable to the transaction servicing offer. A number of the Bank's products in this area gained sector-wide recognition. To cite some examples:

- the Europroduct title for the Unikasa Payments Servicing Network;
- the Europroduct title for the MicroPayments product;
- a special mention of the European Payment Consulting Association and the European Card Review for the MicroPayments product; and
- the Euro Leader title for the Reserved Account.

- *Current Account*

Compared to a year earlier, in 2007 the Bank registered an increase in average balances on current accounts and term deposits. This was an effect of a launch of a number of innovative product solutions.

In the year 2007 the Bank came out with a new bank account proposition with the commercial name of Deposit Account. The product was developed for public sector entities and private enterprises that hold substantial cash surpluses and had not as yet benefited for the Bank's Current Account services. The Deposit Account is a facility for placement of cash surpluses on individually negotiated terms, which offers an added benefit of unconstrained access to the deposited funds without the loss of the accruing interest.

Account Plus is an offer which the Bank directed to a select target audience. Account Plus is a solution that permits servicing of a client's business account, with simultaneous preservation of competitive interest on the funds deposited on that account. Interest is set on individual basis and depends on the value of the funds maintained on the account.

Since the year 2007 the Bank's clients have used new account opening documentation. In response to the expectations and suggestions of the clients, the account documents have now been made transparent, easy to understand and fill out. For its corporate clients the Bank developed the Consolidated Bank Account Agreement, which allows the client to activate three additional products in process of account opening: Electronic Banking, Debit Cards and access to Online Trading, an internet-based FX trading platform; all three on the basis of a single Agreement. It includes the elements which enable fast and efficient account opening. Since April 2007 this new documentation was used to open over 800 accounts.

- *Reserved Account*

Reserved Account which the Bank offers won the Market Leader Award in the year 2007 in the Best Service in Poland category and received a special mention and the Euro Leader 2007 title. The competition identifies, singles out and promotes firms, services and products that are innovative in technical, technological, organisational and quality terms. The award constitutes a guarantee of the highest quality of service and a proof of the provider's high market standing.

In the year 2007, Reserved Accounts were used to secure a series of transactions, including some of the largest in the market; involving corporate takeovers and property acquisitions.

With the aim of promoting Reserved Account and of further strengthening its market position, the Bank ran an advertising campaign of the product in December 2007, focused on trade press. The campaign aimed at reaching legal counsel entities, small enterprises and large corporates, and bringing out the security gains at implementation of Reserved Account, including in the context of the largest transactions.

The product's characteristic feature is its structure, under which the funds deposited on a Reserved Account are released to one of the transaction parties only at fulfilment of specific contractual conditions. The Bank prevents any unauthorised withdrawal of funds from the account.

b) Liquidity management products

In the second half the year 2007 the Bank added to its offer Actual Cash Pooling, a new liquidity management structure based on a subrogation mechanism. Subrogation involves entry into the rights of a satisfied creditor through repayment of another party's debt. The benefit accruing from implementation of the new solution is the actual netting of balances on accounts of individual participants of a group. This means that at the end of each business day all negative balances of the structure participants are replenished up to nought level, with surpluses from accounts of the remaining participants transferred to a single designated account. This solution minimises interest costs and creates offers the advantages accruing from physical consolidation of funds. Thereby the Bank expanded the offer addressed to capital groups seeking effective management of liquidity.

c) Electronic Banking

The Bank collaborates with the largest suppliers of Enterprise Resource Planning (ERP) systems in Poland. As a result it has improved compatibility between the financial and accounting systems its clients use and its CitiDirect electronic banking platform. This has facilitated distribution of the platform among potential clients and automation of the order submission process.

In 2007 the Bank activated 1,250 clients in the CitiDirect electronic banking system. By the end of the year 2007 75% of these activations in the system were performed within 48 hours of the client signing a relevant agreement. The high quality of service and customer satisfaction are the Bank's priorities. Rapid activation of the electronic banking system systems is an important element of achieving those objectives.

Overall 4,250 clients use the CitiDirect system. In the entire year 2007 the CitiDirect system processed 21 million transactions in an amount of over PLN 830 billions of Polish złotys. The total number of transactions processed by the electronic banking systems in Poland exceeded 37 million, which was 4 million more than in 2006.

The number of paper-based transfers was reduced to 10,000 transactions per month, which represents a decline of 5,000 transfers per month compared to December 2006.

The average monthly share of electronically delivered bank statements in 2007 reached 85%, compared to 81% in 2006. As a result of the conversion from the paper-based to the electronic statements, the monthly savings in 2007 reached on average 60,000 fewer statement pages per month: a decline from 313,000 per month in 2006 to 251,000 in the year 2007.

d) Payments and receivables

- *Unikasa*

In the process of developing of its Unikasa Payment Processing Network in the year 2007, the Bank offered its customers a new "Unikasa over the Internet" service. Individual customers can pay for the purchases they make on the Internet at the network service points. The new solution has expanded the target market, by including in it young people who are active Internet users.

In order to promote "Unikasa over the Internet" the Bank carried out a marketing campaign, aimed at promotion of the new service and further strengthening of the brand on the market. The information campaign on the new functionality the Unikasa network gained 2.5 million web surfers, which translated into a material increase in the number of internet purchase transactions executed in the Unikasa network.

In the year 2007 the Bank continued actions aimed at expansion of the customer base of the network. Unikasa added 100 new internet shops and invoice issuers representing such segments as media, insurance, publishing, energy and the public sector.

The Minister of Economy recognised Unikasa Payment Processing Network with Euro-product of the Year 2007, a prestigious prize awarded to products deemed the best in terms of quality, modern technology and security.

- *Direct Debit*

Compared to a year earlier, in 2007 the Bank processed 18% more direct debit transactions. In November it executed 780,000 transactions, which represents the top monthly result in the product's history. As a result the Bank gained market leadership in this field for the first time. At present approximately 42% of all direct debit orders in Poland are processed by the Bank. The substantial increase in processing of direct debit orders in 2007 is a result of the Bank's efforts at active popularisation of Direct Debit. The Bank collaborated with its clients with the aim of acquiring an additional number of payers. Also, the Bank's clients were offered seminars and conferences that promoted the product.

- *SpeedCollect*

In 2007 the Bank developed Integrated Receivables Processing, which brings into a single package three receivables related products: Direct Debit, Unikasa and SpeedCollect. The new package was structured to offer corporate clients a single, consistent receivables management product offer, which includes comprehensive servicing of mass payments at substantially streamlined formal and implementation processes.

The SpeedCollect product, which currently services only domestic mass payments, is being upgraded with the view of launching currency payments servicing, both for incoming foreign transfers and local currency settlements.

- *Electronic Postal Money Transfers*

Electronic Postal Money Transfers are a product addressed to corporate clients transferring funds in cash form to private individuals. In the year 2007 the Bank achieved an 85% increase in the executed money transfers compared to a year earlier.

Moreover, the Bank expanded its product offer to include a facility addressed to expatriate Poles wishing to send cash funds to Poland. The product, referred to as Workers Remittances, enables transfer of cash in a safe, fast and inexpensive way.

- *Domestic transfers*

In the year 2007 the Bank processed 3 million domestic currency payments more compared to a year earlier. In keeping with the strategy of promoting electronic payment channels, the Bank reduced by 50% the number of transaction executed in the paper form and achieved 99.63% effectiveness of the electronically processed domestic payments in 2007.

- *Foreign transfers*

In the year 2007 the Bank achieved a 15% increase in the number of payments in foreign currencies compared to a year earlier.

In keeping with the European Union recommendations for introduction of a uniform euro currency payments system in the European Union, the Bank has worked on the Single European Payment Area (SEPA) project. Following the best practices, the Bank adjusted its process of foreign payments to the requirements formulated by the Financial Action Task Force (FATF), an international organisation with the mission of combating money laundering and financing of terrorism.

In 2007 the Bank substantially expanded its offer of currencies accessible to clients executing foreign transfers as it increased the number of currencies from 10 plus to 70. It now provides settlements in non-standard “exotic” currencies. The offer was addressed to clients whose business involves trade relations with partners in countries of Eastern Europe (Bulgaria, Croatia, and Ukraine), Asia (Singapore, South Korea, and India), America (Mexico) or Africa (Egypt, Morocco). The solution is unique in market terms, as it facilitates previously inaccessible cross-border settlement functionalities.

Substantial changes were introduced in the field of servicing nostro accounts, which substantially reduced settlement costs. As it continued developing and promoting new channels of initiating payment instructions, the Bank provided its clients with access to payments within the SWIFT system, which has been traditionally perceived as an international payment tool mainly.

e) Card products

From the beginning of the year 2007 the Bank actively promoted its prepaid cards at many conferences and seminars. The Bank became a strategic partner of the Marketing Directors Forum and the Golden Arrow Competition. It took part in conferences for Social Assistance Centres and organised a series of regional conferences for potential clients. In 2007 the number of Social Assistance Centres cooperating with the Bank doubled in the area of dispensing social transfers with the use of prepaid cards.

The Bank issued the first prepaid insurance card; the first prepaid medical card and the first prepaid gift card in its history. The Bank's prepaid cards were also used in promotional campaigns of many companies. The Bank also entered into cooperation with one of the leading bonus incentive system and gift supply operators on the Polish market, which entity issued over 70,000 electronic vouchers. All of the above actions enabled the Bank to double the number of issued prepaid cards, as at the end of 2007, compared to the number of these cards issued at the end of 2006.

To date the Bank issued total of over 340,000 prepaid cards while the number active prepaid cards, as at the end of 2007, reached over 230,000. The Bank's market share in the prepaid cards market reached 70%.

As at the end of 2007 the number of issued business cards reached 16,300, which was a 6% increase compared to the number cards issued at the end of the year 2006. In the year 2007 the Bank was the second in Poland to launch the Visa Cash Back service linked with its Citibank Business Debit Cards.

In 2007 the Bank developed cooperation with IT companies – suppliers of software solutions to courts and prosecution administrations. This led to integration of the IT platforms used by courts and prosecution administrations with the MicroPayments platform. This solution enabled the Bank to enter into MicroPayments service agreements with respective courts and prosecution administrations.

The MicroPayments product received in 2007 the prestigious Europroduct award and a special mention of the European Payment Consulting Association and of the European Card Review as the most innovative product in the Payment Processing Solution category.

f) Cash products

In the year 2007 the Bank developed cooperation with another transport of valuables and cash handling firm. The new agreement ensures diversification of the risk related to commitment of cash counting functions to external entities. This also reduces costs of that service. The network of locations accepting cash payments of the Bank's clients was also expanded. The new points on the cash handling map translated into increased quality of the services and customer satisfaction.

2007 was a record year in terms of the volumes of counted cash: the 50 billion złoty threshold was exceeded, representing a 13% YOY increase.

In order to strengthen further its competitive position in the market and to expand the scope of its financial services, the Bank added a new product to its offer: a service involving procurement and sale of bank notes and coins to/from other banks. It is addressed to domestic and foreign banks that do not hold an agreement with the National Bank of Poland (NBP) for purchase and sale of legal tender. Essentials of operation of financial institutions include sourcing of cash (in PLN and foreign currencies) for the purpose of replenishing reserves in branch and ATM networks, and for customer disbursements as well as the capability of picking up cash surpluses from branch networks. Banks have limited options for entering into direct agreements with NBP for buying and selling legal tender, which is why they seek alternative solutions. In response to expectations of such banks, the Bank is able to act as buyer or seller and supplier of cash respectively.

From the year 2007 the Bank enabled budgetary units to take advantage of substitute cash servicing. The Bank accepts and executes payments (open from cheques) from accounts of budgetary units maintained by NBP on the basis of an agreement signed by the Bank and the relevant NBP branch.

The substitute cash servicing can be provided for budgetary units. A certain part of settlements between these entities and the State Treasury needs to be performed via NBP. Accounts with NBP are the primary accounts of these entities, which are maintained in accordance with relevant regulations. For a unit under contract for substitute cash servicing it is convenient to use the Bank's outlet located in the location in which the unit has its seat.

g) EU Office

In early 2007 the EU Office began to implement a growth strategy based on utilisation of funds of the previous budgeting period of 2004-2006 and the budget allocated for Poland for the years 2007-2013. In January the process of accepting applications for projects within the New investments in enterprises Measure were commenced, in effect of which the Bank intensified issuance of financing commitments for such projects.

In the third quarter of 2007 the Bank began an information campaign on the possibilities of financing investments with European Union funds. In the course of the campaign the Bank participated in a series of four conferences organised for Municipal Social Assistance Centres in Łódź, Szczecin, Poznań and Białystok. These meetings focused on the role that the structural funds can play in improving the work of public administration and role of the Bank in that process.

In September 2007 the European Commission conducted a mission monitoring implementation of the local government financing programme. The Bank is authorised to provide funds of that programme for financing investments in development of municipal infrastructure. The key benefit from the use of that financing source for local governments is the low cost of loan servicing (low interest).

In the fourth quarter of 2007 the EU Office conducted a number of promotion and information campaigns addressed to the Bank's current and potential clients, which focused on the new EU funding programming period for the years 2007–2013 and included the following:

- Promotion and information campaign on submission of applications within the framework of the Rural Development Program for the years 2007–2013 addressed to food processing sector enterprises, with outreach to over 600 firms of the sector;
- Nationwide press information campaign on the availability of EU funding for the enterprise sector in the years 2007–2013, which took the form of a series of articles discussing the possibilities of obtaining grant funding from EU funds and presenting the Bank's role in the process;
- Commencement of a series of 16 regional conferences devoted to corporate social responsibility and the role of EU funding in advancing voluntary employee activity. The seminar participants included representatives of regional self-government administrations and enterprise sectors of respective voivodships;
- EU Advisory Open Days organised in the Bank's Gdańsk, Białystok, Rzeszów and Wrocław branches, a campaign aimed to provide information on financing investment projects with the use of EU funding and addressed to 2,500 small and medium enterprise sector firms.

3.1.2 Trade finance products

The Bank's turnover in factoring finance in the year 2007 increased by 12% compared to 2006, with the number of discounted invoices increasing by 8%. In 2007 the Bank continued the growth trend in issuance of letters of credit. In its course the Bank opened 23% more import letters of credit than a year earlier, which translated into a 28% increase in the value of these instruments. The trend has further strengthened the Bank's position in the field of trade finance transactions.

The key tasks, achievements, transactions and programs in trade finance implemented in the year 2007 include:

- The Bank becomes the leading provider of finance for the Polish construction sector suppliers, the expression of which is the growing number of programs the Bank underwrites and the value of financing provided within them. In 1H 2007, the Bank implemented a supplier financing program for one of the leading cement manufacturers in Poland and acquired as its client one more leading construction company;
- Launch of a supplier finance program for one of the largest global trade companies, involving discounting of trade receivables documented with invoices without recourse to the ceding party; based on a tailored e-commerce platform solution;
- Introduction to the offer of the innovative solution of discounting debt with limited recourse to the ceding party. The benefit of this new form of factoring financing is not only that it provides suppliers with early access to funds for the goods they sell, but primarily because it effectively transfers the counterparty solvency risk on to the Bank;
- Implementation of early finance programs involving discounting of limited recourse domestic and foreign receivables for one of the Polish market's leading manufacturers of household goods and appliances and tow representatives of the chemical sector;
- Launch of a program of discounting invoice documented trade receivables, with transfer of payment risk, for a global leader in manufacture of construction materials;
- Launch of a program of discounting invoice documented no recourse trade receivables for one of the largest car equipment manufacturers;
- Active presentation of own trade finance solutions at a banking seminar organised for global clients with operations in the eastern markets.

3.1.3 Custody and depositary services

The Bank provides custody services in compliance with Polish legislative regulations and the international custody services standards – able to meet the requirements of the largest and the most demanding institutional clients.

The Bank is a market leader among depositary banks in Poland. It offers custody services to foreign institutional investors and depositary services to Polish financial institutions, particularly pension funds, investment funds and investing insurance funds.

Within this regulated activity, pursued on the basis of a permit issued by the Polish Securities and Exchange Commission (now the Financial Supervision Authority), the Bank operates securities accounts, settles securities trades, handles dividend and interest payments, performs asset portfolio valuations, prepares individual reports and arranges for customer representation at general shareholder meetings of public listed companies. It also maintains registers of foreign securities, which also involves intermediation in the settlement of transactions for domestic clients on foreign markets.

The Bank also processes transactions closed by its corporate clients on the electronic debt securities trading platform operating under the name of MTS-Poland organised by MTS-CeTO S.A., and processes transaction in securities for the remote members of the Warsaw Stock Exchange (WSE) and MTS-CeTO S.A. We continue to note substantial increase in activity of foreign brokers acting as remote members of WSE, which is likely to translate into growing transaction volumes settled by the Bank in the near term.

In the past period the Bank continued its activities aimed at honing the effective legislation regulating the securities market and through its delegated representatives participated in the work of the Council of Depositary Banks at the Association of Polish Banks and of the advisory committee at National Depository for Securities (NDS). The Bank's experts have worked on the possibility of introduction to the Polish legal system of the joint account concept, which could function at the level of the NDS participants (so called omnibus account), as well as on new legal solutions for securities lending and short selling.

Completion of the project types cited here is going to bring the local market practices and rules into line with international standards. Drawing on its experience and expertise the Bank has cooperated with the Polish Financial Supervision Authority, NDS and WSE at introduction of new systemic solutions.

As at 31 December 2007, the Bank maintained 11,690 securities accounts.

In the year 2007 the Bank was the depositary for seven Open Pension Funds:

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

and for two employee pension funds:

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

The Bank also acted as the depositary of 38 investment funds and sub-funds managed by the following investment companies:

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

3.2 Treasury

In the year 2007 the Bank retained its position of leadership in the market of foreign exchange transactions with non-banking customers. The FX transaction volumes in this segment increased by over 29% compared to a year earlier and as much as by 55% compared to 2005.

The Bank's clients interested in FX transactions were very active in using the internet trading platform delivered by the Bank. Volume of transactions executed with intermediation of the platform kept on a strong grow trend, which in YOY terms was near 390%. Moreover, the platform proves a perfect tool for acquisition of new clients, as it offers attractive FX transaction prices combined with the opportunity for hedging FX risk exposures.

The year 2007 was a period of further reinforcement of the Bank's position in the foreign exchange market of derivative instruments. Clients reach for these instruments with growing regularity for the purpose of hedging their FX risk exposure. The near 21% YOY transaction volume growth confirms that clearly. This has been paralleled by strong growth in turnover volumes. In 2007 the level of turnover on FX options rose by 121% compared to the equivalent period a year earlier. the Bank's income on this product grew in the same measure.

The year 2007 was also a good period for market-linked deposits. Turnover volumes in that product grew substantially: by over 79% YOY.

The Bank also recorded strong volume increase in the compound derivative products market. In YOY terms the volumes rose by near 79%. Corporate clients were ever more interested in using the Bank's solutions for hedging commodity transaction risk and interest rate risk clients, as confirmed by a 45% increase in the number derivative transaction YOY. With its diversified offer of structured products and novel corporate finance solutions involving derivatives, which structure elements of FX and interest rate risk, Bank was able to retain its strong position in the market.

Liquidity of global markets at the end of 2007 had no bearing on the structure of the Bank's balance sheet. It remains over-liquid, with the end of the year notable for an increased volume of deposits accepted from customers.

3.3 Commercial Banking

The Bank is the leader of the commercial banking market in Poland. Its share in total corporate loans reached 4.2% at the end of the year 2007, as compared with 4.6% at the end of 2006, while its share in total corporate deposits was 8.5% as compared with 9.5% at the end of 2006.

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

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

3.3.1 Corporate Bank

In the corporate banking business, the Bank delivers comprehensive financial services to Poland's largest corporates and selected medium-sized enterprises with strong capacity for growth as well as the largest financial institutions and public sector companies.

One common characteristic of the Corporate Bank clients is their need for advanced financial products and financial engineering advisory. The Bank provides in that area coordination of treasury and cash management products, and prepares loan offers involving diverse forms of financing. The innovativeness and competitiveness of the novel financing structures on offer comes from a combination of local expertise and experience of the Bank and its cooperation within the global Citigroup structure. In consideration of the special needs of the corporate clients, the organisational model provides for serving these clients via a dedicated team located at the Bank's headquarters in Warsaw, the Corporate Banking Division.

In the year 2007 the Bank continued to provide active support to its clients in their development as it organised financings on independent and syndicated basis and took part in major transactions of the Polish financial market.

The most notable corporate banking transactions in 2007 included the following:

- Closing of a loan agreement financing the construction of a power generation unit and the comprehensive modernisation programme of the Elektrownia Bełchatów S.A. (BOT) power plant. This transaction of EUR 604 million is currently the largest syndicated loan in the electrical energy sector in Poland. It gained the Bank the prestigious European Project Finance 2006 Power Deal of the Year award;
- Organisation of a 10-year bond issue for the purpose of financing the construction of a new power generation unit in a Polish power plant. The total issue program amounts to PLN 650 million. The bond will be issued in 6 series over the three-year investment project implementation period. This constitutes the first structured corporate bond programme on the Polish market. The Bank acted in the transaction as the structuring bank and the lead co-arranger;
- Completion of a structured transaction with PKP S.A., the Polish state railways. The transaction involves granting of a syndicated loan in an amount of EUR 130 million linked with an interest rate risk hedge. The lending syndicate, which the Bank was the lead arranger of, included a total of 9 banks. The two transactions are an outcome of a longstanding and fruitful collaboration of the Bank

with the Polish state railways, while their preparation was particularly complex due to the EU regulations on state aid to enterprises;

- Closing of a takeover deal in which Computerland bought out the IT company Emax. The PLN 480 million transaction, in which the Bank was mandated the adviser, was one of the main M&A events of the past year in Poland;
- Closing of a 3-year working capital facility agreement with PKP Polskie Linie Kolejowe S.A. The total transaction value stands at PLN 500 million and involves two banks. Bank Handlowy w Warszawie S.A. acted as the facility arranger and agent. The Bank won this transactions in a public tender for financing of PKP PLK S.A. settled in May 2007;
- Increasing of a bond issue programme for Telekomunikacja Polska S.A. (TP S.A.) from PLN 1 billion to PLN 2.5 billion; through annexes to the private Bond Issue Programme documentation. Thus the TP S.A. Bond Issue Programme has become the largest corporate programme of its type in Poland;
- Financing for PKO BP S.A. in the form of a syndicated loan for general banking needs in a total amount of CHF 950 million, in which Bank Handlowy w Warszawie S.A. acted as the lead arranger;
- Organisation of financing for Zakłady Farmaceutyczne Polpharma S.A. for the purpose of executing corporate capital restructuring. The 5-year financing in a total amount of PLN 300 million was organised with participation of Bank Handlowy w Warszawie S.A., which acted as the loan agent;
- Organisation of financing for Anura S.A. (Penta Holding Ltd) designated for co-financing of acquisition of Żabka Polska S.A. Bank Handlowy w Warszawie S.A. co-organised the 7-year financing in an amount of PLN 300 million, in which it also acted as the loan agent and the hedging arrangement agent;
- In the fourth quarter of 2007 Bank Handlowy w Warszawie S.A. won the public tender for servicing bank accounts of the Capital City of Warsaw, with the relevant agreement signed by the Mayor of the Capital City of Warsaw and the President of the Bank Management Board. The Bank aspires to improve the city's financing structure with employment of modern banking solutions. There is an expectation that the banking expenses the city incurs will be substantially reduced;
- Execution of an agreement for setting up a programme for issuance of prepaid cards for customers of Netia S.A. The product represents the first prepaid card in the telecommunication sector. The transaction involves issuance of tens of thousands of cards and is expected to improve in material way the Bank's client's competitive position;
- Organisation of a bond issue programme for CIECH S.A. up to a total amount of PLN 500 million, in which Bank Handlowy w Warszawie S.A. acted as one of 3 arrangers and dealers as well as the paying agent and the custodian bank. In December 2007 CIECH S.A. issued under the programme a 5-year bond of PLN 300 million, enabling the company to finance acquisition of Sodawerk Holding Stassfurt GmbH and partial repayment of short-term debt.

Owing to high quality of its financial products and services and their innovative nature, the Bank has maintained its position of leadership in supporting clients in achievement of their development plans. As it continues to implement the latest financing structures and instruments on the increasingly competitive and demanding Polish banking market, the Bank participates in financing transactions of crucial importance for its clients and the Polish economy.

3.3.2 Commercial Bank

Through the Commercial Bank we serve clients with annual revenue in excess of PLN 8 million and up to PLN 1 billion and corporates with global relations with Citigroup.

In the year 2007 the Bank serviced accounts of approximately 7,500 clients as compared to approximately 25,000 entities operating in the entire Polish market that meet the abovementioned criterion.

The Bank serves this large and diverse group of clients though its new customer service model, which covers three main customer service segments of Small and Medium Enterprises (SMEs), Large Enterprises

(Middle Market Enterprises or MMEs) and Global Clients (incorporated into the model at the end of September 2007). Within the SME segment the Bank serves clients with annual sales of PLN 8 million to PLN 75 million, within the MME segment those with annual sales of PLN 75 million to PLN 1 billion whilst within the Global Clients segment it provides services to clients with global relations with Citigroup. This structure allows the Bank to provide smaller enterprises with more individualised service and to achieve a better fit between its offering and the clients' broad product needs. The Bank has an extensive network of regional branches dedicated to its Commercial Bank clients, with substantial part of its retail network also equipped to serve corporate clients. In total, clients of that segment are served by 122 branches throughout Poland.

In 2007 the Bank revised its approach to acquisition of new clients and executed a number of effective and efficient acquisition campaigns, such as Building Assets and Online Trading, addressed to selected groups of clients.

Throughout the year, we were able to acquire nearly 1,250 new clients (40% more than in 2006), net of Global Clients. It is estimated that 60% of these were acquired through the abovementioned campaigns.

Number of acquired clients*/

	2007	2006	Change Number	%
Number of clients/companies acquired in a given period	1,245	892	353	40%

**/ excluding Global Clients*

The traditionally good acquisition result received support from the new lending programme and the innovative product solutions in the field of FX transactions.

As at the end of 2007 the Bank registered near 23% in the Commercial Bank assets compared to equivalent period a year earlier, whilst in the SME segment the growth reached 38% .

Total assets

PLN m	2007	2006	Change Amount	%
Total Commercial Bank	**6,406**	**5,224**	**1,182**	**23%**
Including:				
SMEs	884	639	245	38%
MMEs	1,691	1,320	371	28%
Global Clients	3,131	2,582	549	21%

As at the end of 2007 the Bank also registered an 11% increase in current account and term deposit balances compared to the balances as at the end of 2006, with a 15% increase in the Global Clients segment.

Total deposits

PLN m	2007	2006	Change Amount	%
Total Commercial Bank	**14,103**	**12,677**	**1,426**	**11%**
Including:				
SMEs	1,868	1,736	132	8%
MMEs	1,558	1,584	(26)	(2%)
Global Clients	9,822	8,547	1,275	15%

With its unique distribution channel that the FX transacting platform represents in market terms (OLT platform); the Commercial Bank in the 2007 registered 83% growth in value of FX transactions executed by its clients, with the SME segment growing by 102%.

Value of FX transactions*/

PLN m	2007	2006	Change Amount	%
Total Commercial Bank	**34,548**	**18,892**	**15,656**	**83%**
Including:				
SMEs	14,654	7,249	7,405	102%
MMEs	17,612	10,594	7,018	66%

**/ excluding Global Clients*

Within the continual improvement of its loan offer and review of the lending programme in the third quarter of 2007 the Bank launched an offer of long-term investment loans for property development; secured on the financed real estate. The product also provides for longer than previously available financing terms: the MME segment clients can now obtain loans of maximum 10-year tenor while the SME segment clients can obtain loans of up to 12-year tenor. Previously the maximum loan tenors the Bank offered were 10 years for SMEs and 8 years for MMEs.

The Bank also launched the Consolidated Bank Account Agreement, which facilitates activation of electronic banking, the Online Trading platform and of debit cards in parallel to opening of a regular bank account. The solution cuts down significantly on the time to operational readiness for serving the newly acquired clients.

The Deposit Account Agreement is another recently launched offer, which is primarily addressed to public sector units and MMEs.

At the end of 2007 the Bank also launched a supplier finance programme with Poland's leading hypermarket chain, which means the beggining of the process of acquiring of significant number of new customers (hypermarket suppliers). The process was already noticeable in December.

As the enterprises are the main beneficiaries of the grant funding awarded by the EU within the new budgeting period, EU advisory services are being offered to these clients through the EU Office operating in the Bank. The clients can take advantage of these services at every stage of their grant application process: research of the available funding sources, grant application development, to project cost reconciliation and settlement.

The offer addressed to the public sector continues to include an attractive long-term investment loan co-financed by the Kreditanstalt für Wiederaufbau bank in collaboration with the European Commission; available within the framework of investment project financing of the Municipal Finance Facility programme.

The public sector has also shown much interest and appreciation for the Mikrowpłaty (MicroPayments) service, a tool for management of third party cash deposits (e.g. bid bonds, security deposits). In 2007 the Bank executed agreements for provision of that product with 18 clients.

4. Retail Banking

4.1 Credit cards

In the year 2007 the Bank issued over 237,000 new cards, which was 55% more than in 2006 and which was the best to date in terms of the number of the newly acquired credit cards.

As at 31 December 2007, the number credit cards in the Bank's portfolio exceeded 820,000. The sales network developed in parallel. The credit cards are now offered not only via the Bank's representatives, but also via sales points at BP petrol stations and shopping centres, throughout the Bank's retail branch network, the CitiFinancial network as well as its Telesprzedaż, CitiPhone and internet channel.

In June 2007 the Bank added to its product offer two new partner co-branded cards: Citibank-LOT and Citibank-Plus.

The Citibank-LOT Credit Card was issued in collaboration with LOT Polish Airlines. The card combines the credit card functionality with the benefits accruing from participation in the Miles&More loyalty program. Cooperation with LOT Polish Airlines, which serve over 4 million passengers a year, has contributed to further rapid development of Citibank's card portfolio. As a sales support measure, the Bank held an exclusive lottery for holders of the Citibank-LOT Credit Cards, with the main prize of one million Miles&More bonus miles and 10 prizes of 100,000 bonus miles each. Qualified to take part in the lottery were all Citibank-LOT Credit Card holders who had executed at least one transaction by the end of November 2007. The draw took place on 17 December 2007, with the grand prize going to a Citibank-LOT Gold Credit Card holder from Wrocław.

The Citibank-Plus Credit Card combines the credit card functionality with certain additional benefits prepared with the Polkomtel S.A. clients in mind. Each transaction effected with the Citibank-Plus Credit Card earns the client points with the 5 Plus Program, which can then be swapped into attractive prizes, including additional minutes. The Citibank-Plus card offer is addressed directly to the 4 million individual customers of Polkomtel S.A.

Both these new products have met with very positive customer recognition, as confirm the numbers of cards acquired within the first 6 months of their market launch. As at the end of the year, the portfolio of the Citibank-LOT cards reached 28,000 while that of the Citibank-PLUS cards over 30,000 cards.

The number of issued Citibank-BP Credit Cards exceeded 170,000 Thus, in the course of the year 2007 Motokarta strengthened its position of the best partner card on the Polish market.

In conjunction with the 10th anniversary of the Citibank Credit Card, the Bank organised a special lottery for all holders of cards marked "Luckily you have got a card!". Each of the holders could win one of the 9,999 cash prizes or the main prize being the sporty AUDI TT.

The past year was also a period of dynamic development of the Discount Program. The overall number of vendor establishments offering discounts to customers using Citibank Credit Cards increased to 2,550.

In 2007, the Bank also continued with its offer addressed to students, which covers full-time and extramural students of all the universities in the country. This has continued to meet with unabating interest, with over 6,000 students now holding Citibank Credit Card in their wallets.

4.2 Consumer Bank

4.2.1 Bank accounts

The Citibank Savings Account introduced in April 2007 in conjunction with the promotional interest offer on that account drove acquisition of new customers and contributed to substantial expansion of the Bank's deposit basis. In the third quarter of 2007 the balance of funds deposited on savings accounts available in a choice of three currencies (PLN, USD, EUR) exceeded PLN 1 billion and continued to growth further in the remaining months of the year; supported, among others, through a television campaign. At the end of the year the funds collected on the savings accounts operated by the Bank exceeded PLN 1.7 billion.

In June 2007 the Bank launched a MasterCard debit card with a contemporary, transparent look, effective for authorising internet payments. This card complements ideally the CitiOne Direct internet account, which Gazeta Prawna singled out as the best account for all those who actively use the available internet functionalities.

The Bank continued its special personal account promotions aimed at acquisition of customers transferring their pay to the Bank, both the broadly available ones (the CitiKonto promotion) as well as those accessible to employees of selected firms within the framework of the Bank in Your Firm Programme. Account promotion offers in conjunction with expansion of customer acquisition channels and streamlining of the account opening process contributed to growth in the number of the Bank's middle segment customers by 22% in the course of the year. At the same time the Bank registered substantial growth in the number of the high net worth customers, holders of the CitiGold accounts: by 27% YOY. Reception of the CitiGold account offer on special terms addressed to the first Citibank Credit Card holders, the so called Founder Members, was very positive. As a result, the number of PLN current accounts operated by the Bank, as at 31 December 2007, reached 307,000, which is by 36% higher than as at the end of the previous year.

In the area of deposits the Bank continued to offer attractive combined cross-sell promotions. Particularly advantageous for the customers was the Investment Portfolio offer in combination with the uniquely high interest on three-month PLN deposits of 11% p.a.

In September 2007 the Bank implemented a comprehensive offer addressed to expatriate Poles in the United States and the United Kingdom and their families. At the same time it enabled its customers to make free of charge or highly price competitive fund transfers in real time to Poland via its Citibank Global Transfers service. Additionally, the Bank's customers in the United States and the United Kingdom can call a toll-free information desk and set up accounts with Citi Handlowy for their relatives in Poland.

4.2.2 Credit products

Citibank Loan

In 2007 the Bank introduced new longer repayment periods for its Citibank Loan product. Previously, 60 months was the longest available lending period. Certain changes introduced in the product made possible granting of loans for periods of 72 and 84 months. The longer lending periods can be offered to customers meeting predetermined borrowing capacity criteria.

In June 2007 the Bank introduced new attractive interest terms in Citibank Loans offered to the CitiGold customers. Loan interest is equivalent to that offered in loans for the Professionals segment, with loan preparation fee of 1% irrespective of the loan amount.

In the course of the year 2007 the Bank's customers were also able to take advantage of a number of Citibank Loan promotional campaigns, aimed at stimulating loan amount increases. These campaigns were supported with leaflets and posters in the Bank branches and with advertisements placed on the Internet, and from 19 February to the end of the first quarter of 2007 also through a media campaign with the message: Money available at Citibank Handlowy ("Udostępniamy pieniądze w Citibank Handlowy").

The Bank provided the following promotional offers:

- waiver of the loan preparation fee (offer valid with loans of above a set amount), which was available over the entire third quarter of 2007; and
- deferred repayment of the first loan instalment by 1 month, which was available between 15 November and 14 December 2007.

The promotional offers enabled the Bank to achieve substantial improvements in product sales results, with July being the month with the highest sales of the entire year 2007.

Over the entire year 2007 the Bank continued cross-selling to holders of Citibank Loans (with the aim of increasing loan amounts) and holders of credit cards and personal accounts. These cross-selling activities were supported through mailings and personal contacts the Sales Division staff initiated with pre-selected customers.

In 2007 the Bank also continued working toward harmonisation of its unsecured credit products, being Citibank Loans and Cash Loans.

Citibank Credit Line

In 2007 the Bank conducted activities aimed at increasing the take up of Citibank Credit Line. The main support vehicle was the promotion of the product, in which customers were offered it with waiver of the annual fee in the first year of use.

From 18 January to the end of May 2007 the Bank offered promotional pricing of Citibank Credit Line (renewable personal account overdraft limit) for customers ready to transfer their credit lines from other banks.

This campaign permitted achievement of substantial growth in the sale of Citibank Credit Line compared to results of the previous months. As a result, in October 2007 Citibank Credit Line sales reached a record-breaking sales result, the highest since 2004.

Secured Credit Line

The product is primarily intended to retain customers and is addressed mainly to the CitiGold customer segment. In 2007 the Bank proceeded with actions aimed at enriching the Secured Credit Line offer with additional types of collateral. In April 2007 we expanded the collateral registry to add Investment Portfolios and in November 2007 also included structured bonds. We withdrew from the offer term deposits as acceptable Secured Credit Line collateral. In May 2007 we reduced the Secured Credit Line margin and interest rate, this in response to the CitiGold customers' expectations.

4.2.3 Investment and insurance products

Investment products

In the first half of 2007 the Bank's offer was expanded to include two additional domestic funds: the new DWS Top 50 Small and Medium Enterprises Plus fund in January and the new ING Central Europe Financial Sector Subfund Plus sub-fund in May.

In June 2007 two new Merrill Lynch International Investment Funds were added to the offer of available foreign funds: MLIIF New Energy Fund and MLIIF World Gold.

In July 2007 the Union Investment fund was transformed into the UniFundusze FIO umbrella fund. As a result the Bank's offer now has the second umbrella fund (next to ING), which offers the customers opportunities for optimising their tax position while they invest into funds.

Also in July 2007 the Bank renewed distribution of ING Small and Medium Enterprises Fund and DWS Polska Top 25 Small Enterprises Fund, which returned to the offer at introduction of relevant changes to articles of association.

In the third quarter of 2007 the offering of foreign funds was expanded to include an additional one of the Merrill Lynch International Investment Funds family: MLIIF European Fund available in two currency options – EUR and USD.

In the fourth quarter of 2007 the Bank's offer of investment funds was expanded to include 9 new funds. ING SFIO Umbrella Fund was enriched with the Central Europe Small and Medium Enterprises Fund Subfund Plus, while the UniFundusze FIO umbrella fund included 8 new subfunds (UniAkcje (equity): European Championship 2012, UniAkcje: Small and Medium Enterprises, UniSektor Real Estate: New Europe, UniObligacje (bonds): New Europe, UniStabilny Wzrost (stable growth), UniMax: Shares, UniMax: Balanced, UniMax: Debt). Worth noting is the fact that 3 new UniMax subfunds represent the first in the Bank's domestic funds offer that pursue an investment strategy involving investing of participation unit funds in investment funds of other mutual fund companies.

In October 2007 the foreign investment funds on offer was expanded to include 12 Franklin Templeton Investment Funds, being equity funds denominated in EUR and USD: Franklin Mutual European, Templeton Asian Growth Fund, Templeton China Fund, Templeton Eastern Europe Fund, Templeton Euroland Fund, Templeton Global Balanced, Templeton Latin America Fund, Templeton Thailand, Franklin India Fund, Templeton BRIC Fund, Franklin Global Real Estate (EUR) and Franklin Global Real Estate (USD). These funds are highly rated by rating agencies, among other things, as they are under the care of managers highly regarded in the financial world.

Additionally, the Bank's unique offer of foreign investment products was expanded to include in the previously offered 3 commodities funds of the Merrill Lynch International Investment Funds family (MLIIF World Energy, MLIIF World Gold and MLIIF World Mining) certificates of participation which follow a hedging strategy (EUR-hedged).

The customers were offered 50 different structured bonds in different currencies and linked with different market indices. The broad-ranging offer includes products for both conservative investors as well as those looking for opportunities of higher gains at higher asset value loss risk.

Since September 2007 the offer of investment products has included Investment Life Insurance, a new product, which combines life insurance protection with the possibility of obtaining a premium, provided a specified market indicator is maintained, thus guaranteeing return on the invested capital.

Aiming to further improve customer service quality and investment product sales the Bank throughout the year provided its advisory sales force with intensive training in the investment products currently in its offer. This effort was complemented by regular meetings and conference calls with representatives of local and international investment fund companies.

Additionally, we organised a series of seminars devoted to foreign funds and their investment strategies, the Investment Life Insurance product and the problem of diversification of assets. The meetings were conducted by product specialists and fund managers.

Insurance products

Since February 2007 the choice of funds available under the Investment Portfolio and the Life Insurance Linked Investment Programme was enlarged through addition of three new funds:

- ING Selective Subfund Plus,
- ING Construction and Real Estate Subfund Plus, and
- DWS Top 50 Small and Medium Enterprises Plus.

In May 2007 the offer of funds available under the Investment Portfolio and the Life Insurance Linked Investment Programme was enlarged through addition of one new fund: ING Central Europe Financial Sector Subfund Plus. Thus the customers allocating assets under the Investment Portfolio and the Life Insurance Linked Investment Programme could choose from amongst 32 funds.

As of 10 August 2007 the Investment Portfolio product was replaced by the Global Investment Portfolio product providing customers with access to as many as 46 funds, including 15 foreign funds (9 in USD and 6 in EUR). Also, the Bank was able to cut down substantially on the time needed for closing of insurance policies within the Global Investment Portfolio, the Foreign Funds Portfolio and the Life Insurance Linked Investment Program: from circa 40 to 6 days.

In the fourth quarter of 2007 the Bank worked with AEGON with the aim of enabling customers to replace their exiting Investment Portfolio insurance policies with the Global Investment Portfolio policies. As a result, current holders of Investment Portfolios will gain the option of allocating and transferring their insurance contributions to foreign funds forming part of the Global Investment Portfolio offer.

In the fourth quarter of 2007 the Bank also commenced cooperation with Schroders investment company, resulting in addition of 11 Schroders funds to the EUR/USD Foreign Funds Portfolio offer.

In March the Bank commenced tele-sales of a new insurance product dedicated to the Citibank credit card holders. The Safe Way insurance product ("Bezpieczna Droga") is a voluntary life insurance, which ensures high compensations in the event of accidental death of an insured, including additional compensation in case of road accident. During three following quarters the Bank intensified sales of its Safe Way insurance product, as a result the number of customers holding a policy of this life insurance increased by nearly 15%.

Year 2007 was also a period of active selling of Policy for Good Life ("Polisa na Dobre Życie") life insurance product, which resulted in expansion of the portfolio of the insured by 24%.

4.2.4 Internet

In 2007 was a period of developing use of the Citibank Online (CBOL) internet platform, in which the Bank registered an increase in the number of users taking advantage of the facility at least once to over 637,000, which was a 40% growth YOY. The number of transactions executed via Citibank Online represented over 84% of all financial transactions initiated by the Consumer Bank customers.

The Bank also actively promoted its Online Account Statement ("Wyciąg Online") service registering the resultant stable growth in the number of its users, which generated considerable savings. Online Account Statement is the electronic version of the account statements from the Citibank Personal Account and the Citibank Credit Card products, which the customers can choose instead of the paper-based account statement. In 2007 the number of customers using that service exceeded 150,000, which represents a 120% growth in YOY terms.

Internet has also become a substantial channel of distribution, one in which the Bank is achieving continually improving sales results. The internet channel is currently used to offer three key product groups:

- credit cards,
- Citibank Credit, and
- personal accounts.

4.3 CitiBusiness micro-company banking

Since 2004 the Consumer Bank carries the CitiBusiness offer dedicated to small enterprises with annual revenue of up to PLN 8 million, irrespective of the legal form under which the business is organised.

For CitiBusiness the year 2007 was a period of intensive work and many changes. In the early months the Bank concentrated on development of the sales force and expansion of the product offer. By mid-year customers could start using OLT (Online Trading platform) and FX Options, both excellent tools for customers aiming to execute FX transaction. In July 2007 the list of CitiBusiness products was expanded to include a very attractive account for small firms: CitiBusiness Direct. Among many products and innovations added to CitiBusiness in 2007 we would also mention corporate Credit Cards, which were introduced into the Bank's offer in October 2007.

In mid-2007 CitiBusiness intensified its marketing activities and increased its media visibility. In 2007 CitiBusiness was promoted on the Internet, through the largest financial portals (in the second half the year), on the radio (in October) an on television, as a sponsor of the "Facts, People, Money – set up own business" program (the entire fourth quarter of 2007). Over that period CitiBusiness also developed cooperation with other units of the Bank, which made new customer search effective.

Numbers clearly confirm the success. Compared to a year earlier, in 2007 we opened over four times more accounts of these firms. The substantial increase in the number clients rapidly translated into an increase in revenue from servicing CitiBusiness segment clients. Year 2007 brought an 8% increase in revenue from that segment over that of 2006. Also, from the beginning of the year CitiBusiness registered growth in the number of granted loans.

4.4 CitiFinancial

The basic product portfolio the Bank offered under the CitiFinancial brand is addressed to the segment of middle and low income customers and includes Cash Loan, Debt Consolidation Loan and Mortgage Loan. The products are channelled through own branch network, authorised outlets and the central process, in other words, via financial intermediaries and brokers.

In early 2007 the Bank added another product to the CitiFinancial offer, a credit card, which – because of its high degree of responsiveness to the target group needs – met with high interest on the part of the customers.

In March 2007, for the purpose of ensuring better match of the Cash Loan offer to customers seeking to renew the product, we introduced a new Cash Loan specific scorecard application, built on the basis of the results and conclusions drawn from the portfolio built by CitiFinancial.

In April 2007 CitiFinancial began its first nationwide television campaign with the slogan “CitiFinancial Cash Loan Centre – We are experts in lending” supported with the promotion of „0% preparation fee”. As a result of that campaign the Bank achieved excellent sales results in all the products offered by CitiFinancial. The campaign was continued in the following months and enjoyed great success, as confirmed in the number of contacts with customers made through the dedicated call centre number accessible 24 hours by 7 days a week.

In 2007 a customer relationship management system (CRM) was implemented in the CitiFinancial branch network and its authorised outlets. The purpose of the implementation is to increase effectiveness of marketing campaigns in these distribution channels.

In August 2007 the Bank launched a special “Back to School” offer, which included a low value cash loan, available at presentation of a personal identity card. The CitiFinancial Cash Loan was tailored to the seasonal needs of the customers, such as school supplies, household goods, etc.

In September the Bank came out with another special offer addressed to the pervious borrowers. In order to obtain a new loan, of whatever value, the former Cash Loan users do not need to present any additional documents confirming their earnings, provided they had ended their relationship with the Bank not more than 24 months ago.

At the end of 2007 the Bank launched a promotional offer for the Cash Loan customers promoted as: “Deferred first instalment repayment”. All of the customers who executed their loan agreements within the promotion period were able to take advantage of a 30-day extension of their contractual grace period. The campaign was given strong media support, a television campaign at the end of November.

CitiFinancial reorganised its brokerage channel by entering at the end of 2007 into agreements with six substantial partners offering Cash Loan in their sales points.

In the course of the entire 2007 CitiFinancial proceeded with a customer retention programme with much success, as a result the Bank was able to reduce the outflow of customers to other financial institutions in a substantial way.

5. Branch network

In the course of 2007 the Bank’s branch network did not undergo any substantial change. The Bank concentrated on increasing efficiency of the exiting branches. Compared to the year 2006, the network increased by one new Consumer Bank branch prepared to serve both retail and corporate customers. The new outlet also includes a customer service point of DMBH.

In the course of the year 2007 the Bank also expanded one Retail Bank branch in Gliwice.

In the year 2007 within the Branch Network Optimisation scheme:

- 2 retail outlets were moved to Corporate Bank locations:
  - CitiGold branch in Poznań from ul. Garbary 57 to Pl. Wolności 4;
  - CitiBanking branch in Bielsko-Biała from Pl. Ratuszowy 4 to Pl. Ratuszowy 5;
- branch in Poznań at ul. Św. Marcina 46/50 was expanded and reopened; its functionalities were also increased to include complete service of CitiGold customers;
- branch in Warsaw at ul. Ostrobramska 75A was expanded to include a CitiGold zone; thus becoming the Bank's first outlet in this part of the city to provide complete service of CitiGold customers;
- the branches consolidated in Tarnów and Gliwice were built out and reopened;
- in Gdynia a corporate branch was combined with a retail branch, as a result retail customers and corporate clients are served in a single location;
- in Gorzów Wielkopolski a corporate branch together with a retail customer service point were transferred to a new location;
- in Tarnów Podgórny and Jelenia Góra two retail customer service points were opened in corporate outlets;
- location at ul. Jana Pawła II 24 in Warsaw was shut down due to reasons beyond the Bank's control; continuity of service to CitiGold clients by advisers of that branch was ensured through a temporary location.

The Bank introduced interchangeable customer service (both retail and corporate) in most of its retail and corporate branches.

With the view of intensifying its relationships with the corporates using the Citi at Work Comprehensive Financial Programme, the Bank continued installation of ATMs and Information Points (MiniBranches) in the client company premises.

Number of outlets, year-end comparison

	2007	2006	Change
Number of outlets:	**237**	**236**	**+1**
Consumer Bank	**87**	**86**	**+1**
Multifunctional outlets	71	72	(1)
CitiGold Wealth Management	15	12	+3
Investment Centre	1	1	No change
- of which serving Corporate Bank clients	84	13	+71
CitiFinancial	**112**	**111**	**+1**
Branches	100	99	+1
Agencies (partner outlets operating under the CitiFinancial logo)	12	12	No change
Corporate Bank	**38**	**39**	**(1)**
- of which serving Consumer Bank customers	38	30	8
Other sales / customer service outlets:			
Mini-branches (within "Citibank at work")	6	0	+6
BP petrol station sales points	88	47	+41
Supermarket stands	7	5	+2
Number of own ATMs	160	154	+6

In summary, the branch network status as at the end of 2007:

- Corporate Bank clients are served by 122 branches
- Consumer Bank customers are served by 125 branches
- CitiFinancial customers are served by 112 outlets

Additionally, the customers and clients are provided with access to a large network of ATMs offering commission-free cash dispensing services:

- in Poland:
  - 1,248 ATMs of the Bankomat 24/Euronet Sp. z o.o. network
  - 233 eCard network ATMs, including 9 within “Citibank at work”
- abroad:
  - all of the CitiShare ATMs (18,000)

6. Changes in IT

IT development projects aim to optimise processes while ensuring data security and continuity, and implementation of new solutions reflecting technological progress, product needs and the Bank’s regulatory environment.

Corporate Bank

The solutions which contributed to development of a leading-edge product range, improvement of its quality and efficiency, and reduction of its cost introduced in 2007 in the Corporate Bank:

Software applications:

- Enabling the CitiTreasury Online Trading system for marketing of Treasury Division products to retail customers and the CitiBusiness sector clients;
- Build-out of the eOrders electronic platform involving adding of new functionalities:
  - processing of bank payment slips with a field code reader;
  - processing of mass transactions (over 1 million transactions daily); and
  - modernisation of the platform through addition of a new OFX component, a flexibility enhancing solution;
- Implementation of the CallManager Treasury system, for telephone based management of relationships with clients of the Treasury Division;
- Development of Electronic Postal Orders platform – transfers handling of new business products to a system that meets all the data security requirements, with the aim of improving process efficiency and reduction of operational risk;
- Launch of www.ZrozumFinanse.pl, an educational purpose financial portal, which promotes knowledge about banking and finance among young people.

Technical infrastructure:

- Installation of a new technology in the form of internet kiosks for the Bank’s customers in 55 retail branches. The solution is a response to the customers’ expectation for further build-out of channels of access to products and services. Additionally, the internet kiosks provide the customers with an opportunity for direct participation in an electronic survey in which they can assess the Bank’s services and products;
- Opening of new Consumer Bank branches of the CitiGold type in Warsaw, at IBC-Polna and Ostrobramska;
- Opening of a new Back-Office location for the Consumer Bank in Pruszków (250 telesales agents).

Other newly started and continuing modification projects, which will impact the Bank's operations in the future:

Software applications:

- Continuing development work on a new release of the system servicing the SpeedCollect and SpeedCollect + products, aimed at ensuring the Bank's competitiveness in the market for these services;
- Replacement of the main application used by DMBH with a system providing broader set of functionalities and with more advanced architecture;
- Expansion of the CallManager Treasury system, for telephone based management of relationships with clients of the Treasury Division to incorporate a greater number of users;
- Adaptation of the existing business applications to the new version of the Microsoft Vista operating system;
- The first phase implementation of the new internet based e-banking system for SMEs, which – in comparison to the existing CitiDirect platform – can provide a simpler customer interface and certain new functionalities of importance for that client segment.

Technical infrastructure:

- Replacement of the telephone system infrastructure with Cisco IPT in 31 Bank locations. The project is under implementation, with the planned completion in July 2008. There are two categories of benefits accruing for the Bank from implementation of the project: of technological and business nature. The primary benefits for the business units include:
  - reduction of bills for internal and external calls;
  - elimination of the costs of servicing the existing telephone exchanges in 31 branches;
  - reduction of subscription charges;
  - a single address book and a single numbering standard inside the Bank;
- Replacement of the existing telecommunication lines. The new solution involves replacement of the existing lines with new ones based on the MPLS (Multiprotocol Label Switching) technology, which uses VPN technologies, with project completion planned for February 2008. The primary benefits of the new solution include:
  - provision of redundant lines of identical parameters and capacity as the primary lines, which is very important in breakdown situations;
  - protection of data transmission for critical business applications at an unaltered level irrespective of the line load;
  - enabling implementation of new technologies in the Bank's branches, such as VoIP;
  - reduction of total cost of line maintenance;
  - reduction of charges for data transmission services.

Total IT technology expenditures of the Corporate Bank in the year 2007:

- Software applications – PLN 14 million
- Technical infrastructure – PLN 21 million

Consumer Bank

The implementation plan of the IT system projects for the Consumer Bank was developed on the basis of the business strategy adopted for that sector.

Its main thrust and expenditures were concentrated on technological initiatives, which can deliver effective return on investment: they enhance the product offer, improve acquisition effects and customer service quality and reduce the Bank's operating costs.

The key technical projects involving expansion of the product offer and functionalities executed in 2007 include:

- New credit cards issued in collaboration with Polkomtel and LOT;

- Implementation of a product offer addressed to expatriate Poles and their families in the form of a special product package developed by Citigroup in Poland and foreign branches. The offer provides for immediate transfer of cash to the Bank's branch with the use of Citigroup Global Transfers. This represents an innovative service in terms of the Polish market;
- Implementation of a system for sale of the Bank's credit products by external agents of AURUM;
- Savings account, a product which enable collection of savings and unconstrained application of funds without loss of interest income;
- Mastercard Unembossed debit card, a card with attractive appearance, which permits execution of transactions on the Internet;
- CitiOne Direct account, a new type of an internet account with attractive price offer;
- The "Reszta dla Ciebie" (Keep the Change) programme, an innovative offer which permits saving of small amounts while making payments at vendor outlets;
- Launch of a service that enables automated identification of a customer calling to CitiPhone, which cuts down substantially on time to connection with a CitiPhone consultant;
- Launch of a videoconferencing link between a customer at a Bank branch and a CitiPhone employee;
- Implementation of a service that makes available account statements in the electronic form to all customers, irrespective of whether they have access to Citibank Online internet banking service;
- The new comprehensive product offer for the CitiBusiness segment, including, among other things, implementation of a new Direct package and a credit card;
- Launch of a loyalty programme for users of the BP co-branded card.

The projects executed in 2007 and aimed at improvement of processes and reduction of costs include:

- Capability for automated ALOP (Advanced Loan on Phone) funds transfer order in the branches and CitiPhone;
- Automation of booking incoming foreign transactions;
- Introduction of the capability for selective waver of ATM withdrawal charges, which enabled expansion of the number of e-card ATMs with the free-of-charge cash withdrawal capability;
- Implementation of a system which supports the process of settlements in the ATM network.

Total IT technology expenditures of the Consumer Bank in the year 2007 reached over PLN 17 million.

Key projects and initiatives, which – in accordance with the adopted strategy – will be continued or undertaken in 2008:

- Implementation of ECS+ (Enhanced Card System), expansion of credit cards servicing functionalities, which permit implementation of initiatives that automate manual processes. The initiatives identified for implementation with support of the ECS+ system:
  - differentiation of cash withdrawal charges, enabling organisation of dedicated promotions;
  - more flexible management of loan pricing through, inter alia, setting of different interest rates dependant on transaction type or date. ECS+ will also enable setting of different loan prices for debts being transferred from other banks (so-called balance transfer), which will contribute to increasing receivables from customers and will translate into increased revenue for the Bank;
  - additional CreditShield insurance for the ALOP product, which will be able to function irrespective of the normal CreditShield insurance on a card;
  - additional elective insurance for holders of credit cards, which will contribute to growth of the Bank's fee revenue;
  - implementation of cards with microprocessors;
  - enhancement of the offer of credit cards for CitiBusiness clients;
- Implementation of a comprehensive platform supporting the sales of investment, insurance and deposit products; provides help in determining and realisation of the customer's financial goals; enables the customer and the consultant to have ongoing monitoring of the held products and of their transaction history;

- Implementation of a new comprehensive platform supporting the sales of uniforms loan products and credit cards;
- Further development of the internet banking service: would enable management of investment fund units, integration with CRM, which can reduce the costs of communication with the customers, and increase operational efficiency of selling via the internet channel; possibilities for personalised user profiles, e-payments;
- Expansion of the offer for expatriate Poles through enabling them to send cash funds abroad in real time;
- Mobile payments enabling execution of payments via mobile phones;
- Implementation of the EMV functionality (acceptance of chip cards) in the Bank's ATM network.

7. Equity investments

The capital exposures of the Bank are classified as part of its strategic and divestment portfolios. In the year 2007 the Bank continued its previously chosen capital investment policy. In managing the strategic portfolio it sough to maximise profits in the long term; grow the market share; and stimulate development of cooperation with the Bank. In managing its divestment portfolio the Bank aimed to optimise financial result on the transactions and to minimise the risk inherent in such transactions.

7.1 Strategic Portfolio

The Bank's strategic holdings include entities operating in the financial sector, whose performance has an impact on the result on banking operations of the Bank. This approach has helped the Bank to expand its product offer, increase its prestige and competitive advantage in the financial services market in Poland, (e.g. Handlowy-Leasing Sp. z o.o., Dom Maklerski Banku Handlowego S.A.). Its strategic companies also include infrastructure providers operating for the benefit of the financial sector. In these the Bank does not hold controlling interests, yet they are of strategic importance for it in view of the operations they perform, (e.g. the Warsaw Stock Exchange, MTS-CeTO, the National Clearing House or the Credit Information Bureau).

The Bank intends to retain its strategic holdings in the infrastructure providing entities and take an active role in outlining the strategic directions of their development while exercising its right of vote. Its overriding objective in the exercise of its corporate governance prerogatives over these companies is to ensure their stable development and continuance of their present operations, which the participants of the financial market, including the Bank, rely on.

7.2 Divestment Portfolio

The holdings deemed available for sale include entities in which the Bank's exposure is not strategic. That portfolio includes entities held directly and indirectly (e.g. Lubelska Fabryka Maszyn Rolniczych S.A., Pol-Mot Holding S.A., NFI Magna Polonia S.A.), and special purpose investment companies used by the Bank for execution of capital transactions (Handlowy Investments S.A., Handlowy Investments II S.a.r.l.). Some of these holdings are restructured exposures, which originate from debt-to-equity swap transactions.

The strategic objective of the Bank with regard to the companies earmarked for sale provides for gradual decrease of the Group's participations in them. The adopted assumption is that the individual participations will be sold whenever market conditions are most favourable. The divestment portfolio comprises capital exposures without predetermined rate of return. The Bank does not plan any additional capital investments with the view of their subsequent divestment. The divestment portfolio may grow only if the Bank chooses to convert its debt to equity in the future.

8. Other Information about the Bank

8.1 Rating

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

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

Additionally, on 26 February 2007 the agency notified the Bank of its decision to upgrade its financial strength rating of the Bank from D+ to C-. This rating change is a consequence of introduction of a new methodology for assessment of financial strength of banks by Moody's, but equally reflects assessment of the changes taking place in the Bank.

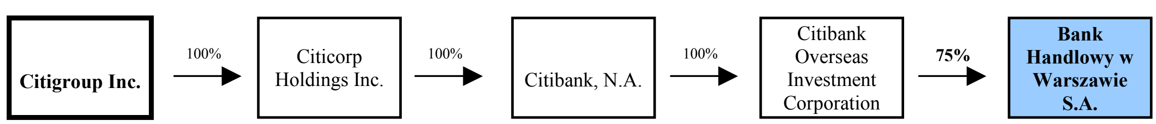
Moreover, on 3 March 2007 the agency notified the Bank of its decision to grant it the Aa2 rating (3rd from the top) for long-term deposits in PLN and the Prime-1 for short-term deposit in PLN. However, on 11 April 2007 the same agency informed the Bank of a change in the rating of its long-term deposits in PLN from Aa2 to Aa3, which in this case was again caused by a change in the methodology for assessment of banks in this respect.

To sum up, as at the end of the year 2007 the Bank had the following ratings awarded by Moody's:

Rating for long-term deposits in the domestic currency	Aa3
Rating for long-term deposits in foreign currencies	A2
Rating for short-term deposits in the domestic currency	Prime-1
Rating for short-term deposits in foreign currencies	Prime-1
Financial condition	C-

8.2 The Bank's shareholding structure and its performance on the Warsaw Stock Exchange

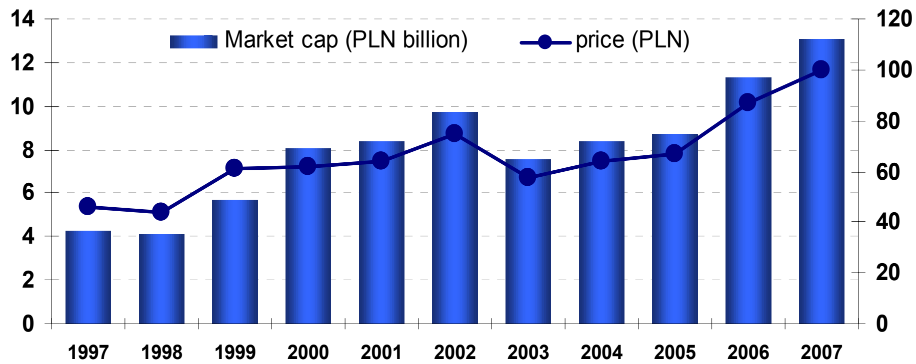
The only shareholder of the Bank that holds a minimum 5% participation in its share capital and votes at its General Shareholders Meeting (GSM) is Citibank Overseas Investment Corporation (COIC), a Citigroup company that holds its oversees investments. COIC is at the same time the strategic majority shareholder of the Bank. Throughout the year 2007 the number of shares held by COIC as well as its participation in the share capital and votes at the GSM of the Bank did not change and reached 97,994,700, which represents a 75% participation in the share capital and votes at the GSM. The following diagram depicts the positioning of Bank Handlowy w Warszawie S.A. in Citigroup structure:



The remaining shares (32,664,900 equivalent to 25% of the share capital) constitute free float, in other words, remain in free trading and are listed on the Warsaw Stock Exchange (WSE).

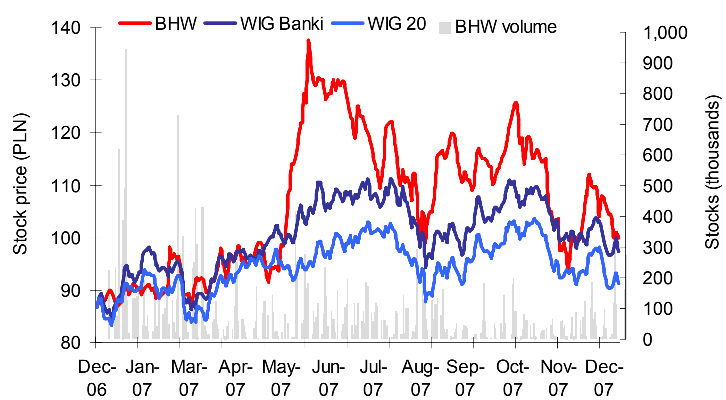
Year 2007 was an exceptional one in the context of the Bank's trading history. On 30 June 2007 a decade elapsed since equity of Bank Handlowy in Warszawie S.A. was first traded on the WSE, and two days earlier, i.e. on 28 May 2007, the Bank's shares traded at their record-high of PLN 137.50 per share.

BHW market capitalisation and share price over the 10 years of trading on the WSE



Generally speaking, the Bank stock price remained highly volatile in the course of the year 2007. In the early months (until 10 May) it remained stable at a relatively moderate level (price band of PLN 86.90 to PLN 99.00). On 11 May the stock price for the first time in its history overcame the ceiling of PLN 100.00. From that moment on the share price began to climb rapidly to reach the maximum of PLN 137.50 per share on 28 May 2007. This quite a substantial increase in the share price was primarily driven by the positive valuation which the market gave to the Bank after publication on 9 May 2007 of the Interim Consolidated Financial Statements of the Capital Group in respect of the initial quarters of the year 2007.

BHW stock price and volumes
WIG Bank & WIG20 indexes re-based
(29/12/2006 = 100)



In step with a general market decline as of the end of May 2007, price of the Bank equity began to decline gradually reaching PLN 99 per share on 16 August after which it recovered considerably until 16 October 2007, when it peaked at PLN 125.60. The next equity price decline ended on 21 November, at PLN 94 per share, after which it bounced back to PLN 112 on 5 December 2007. In December, again in parallel with a general declining trend of the market, the Bank shares lost in value. At the final Warsaw Stock Exchange session of the year 2007 the share price stabilised at PLN 99.90, which compared to the price of the final session of the year 2006 represents an over 15% increase. Market capitalisation of the Bank at the end of 2007 stood at PLN 13.1 billion (compared to PLN 11.3 billion at the end of 2006), with the following market price indicators: P/E of 13.7 (17.3 in 2006) and P/BV of 2 (2.1 in 2006).

It should be noted that over most of the year the price of the Bank equity clearly outperformed the Warsaw market (relative the WIG index) and the sector (relative the WIG-Banks). The Bank owes the successful share price development in the course of the year primarily to its very strong financial performance and its positive assessment by market analysts and investors.

8.3 Interest rates

The tables below present information on the average weighted effective interest rates used by the Bank for deposits and loans in its respective business segments.

As at 31 December 2007:

%	Corporate Bank			Consumer Bank		
	PLN	**EUR**	**USD**	**PLN**	**EUR**	**USD**
ASSETS						
Receivables from financial and non-financial sector entities						
- fixed term	5.70	4.50	5.06	19.63	6.75	9.05
Debt securities	5.29	3.57	4.83	-	-	-
LIABILITIES						
Payables to financial and non-financial sector entities						
- fixed term	4.36	4.52	5.03	4.21	3.36	3.92

As at 31 December 2006:

%	Corporate Bank			Consumer Bank		
	PLN	**EUR**	**USD**	**PLN**	**EUR**	**USD**
ASSETS						
Receivables from financial and non-financial sector entities						
- fixed term	5.27	3.96	5.04	20.66	5.95	7.40
Debt securities	4.84	3.49	2.99	-	-	-
LIABILITIES						
Payables to financial and non-financial sector entities						
- fixed term	4.00	3.33	5.25	3.62	2.02	3.52

8.4 Awards and honours

In the year 2007 Bank Handlowy w Warszawie S.A. and Fundacja Bankowa im. Leopolda Kronenberga received the following awards and honours:

- In recognition of its outstanding HR management programme, the Bank was honoured with the **“Investor into Human Capital”** awarded by the Management Institute;
- Results of a client survey ranking of banks prepared by the **Home&Market** magazine, Bank Handlowy w Warszawie S.A. was **the best bank in terms of quality and level of service**;

- The award committee of the **Pro Publico Bono** competition, presided over by **professor Andrzej Zoll**, honoured the Bank's Kronenberg Foundation with its **honorary award**;
- The Bank was honoured by the title of the **Patron of the Year 2007** of the National Philharmonic in Warsaw;
- For the seventh consecutive year the Bank won the first place and obtained the title of the **"Best Bank for Settlements"** in the **"Clearing Survey"** ranking of the **"Global Investor"** journal in the categories of settlements of debt and equity instruments;
- The Bank's campaign promoting **Online Trading for corporate clients** won recognition in the **Golden Arrow** competition organised by the **Direct Marketing Association** and **VFP Communications Ltd.**, the publisher of the Media & Marketing Polska weekly magazine;
- The Bank's UNIKASA payments processing network was honoured with the prestigious **Europrodukt** title;
- The Bank was the winner of the **Market Leader 2007** title in the "Best Service in Poland" category for its Reserved Account and MicroPayments and of the special **EURO LEADER 2007** mention for the Reserved Account service;
- **Euromoney** and **Project Finance Magazine** awarded the Bank with the title of the **European Power Deal of the Year 2006** for the best power sector transaction in Europe, for a financing to BOT Elektrownia Bełchatów S.A.;
- For the second consecutive time the Bank received the top prize in the 4th edition of the Colours of Volunteer Work competition in the **Employee Volunteer Programme** category;
- The Bank received the top prize of the **Polish Business Club – The Firm of the Year 2006** for its comprehensive and tailored offer for the SME sector;
- The Bank won in a ranking of the best internet banks in the category of **the best internet bank for enterprises and institutional clients** in Poland in 2006 organised by the **Global Finance** magazine.

8.5 Engagement in cultural patronage and social responsibility projects

8.5.1 Social responsibility projects

The Bank has pursued its mission of social responsibility via the Kronenberg Foundation, a charitable institution which supports on the Bank's behalf various public benefit activities. In the year 2007 the Foundation focused its efforts on such areas of interest as: economic education and promotion of entrepreneurship, and initiation and coordination of own employee volunteer projects addressed to the socially disadvantaged as well as those aiming at preservation of cultural heritage.

The Kronenberg Foundation acted as the sponsor of some of the most influential programmes of economic education in Poland:

My Finances – the largest Polish economic education programme for pupils of higher secondary level schools. It is conducted in cooperation with the National Bank of Poland and the Foundation of Entrepreneurship of Young People. Its first edition was completed in the year 2007. In the years 2005-2007 it provided training to more than 2,500 teachers of over 2,000 schools across Poland. The teachers conducted classes for 216,000 students with 118 volunteers of the Bank in attendance. The classes took place at schools and in the selected branches of the Bank, where the pupils played the roles of bankers and customers. In November 2007 we held a conference entitled "My finances today and tomorrow", which inauguration the second edition of the programme, in which the number of students was doubled to 450,000, with the educational curriculum expanded to also include their parents.

Within the framework of the programme and in collaboration with the Gazeta Wyborcza daily, we organised the "My Finances – from class to teller window" competition, with the aim of assisting the students in acquiring the skills of making reasonable financial decisions. Over 56,000 pupils of lower and higher secondary schools participated in this competition.

Week for Savings is a nationwide social action organised under the patronage of the Financial Supervision Authority. The high point of the week is the World Savings Day celebrations held on 31 October. The programme aims to promote among the Poles the habit of saving and the skills of rational management of own financial resources. The key elements of the Week for Savings are various educational activities undertaken in lower and higher secondary schools. The first edition of the programme involved 270 such schools, with total of approximately 135,000 students. As a result of cooperation with the media, information on the universally accessible methods of saving and effective management of personal finances reaches out to millions of Poles.

Competition for the Award of Bank Handlowy w Warszawie S.A. – the most prestigious competition addressed to research scientists in economy and finance in Poland. The winner of the 13th competition edition was Dr. hab. Henryk Gurgul, the author of "Analysis of equity market events", which describes the ways in which information impacts the price of securities.

Micro-entrepreneur of the Year 2007 Competition – a competition addressed to operators of small businesses. Through organisation of the event the Foundation seeks to promote active stance toward entrepreneurship, stimulate establishment of small businesses and to present the best of them as effective business models. The Micro-entrepreneur of the Year 2007 title went to Halina Kustosz, for development of a web portal, which disseminates information on women's vocational activity through an interdisciplinary development of HR, implementations new technologies, training and support for development of entrepreneurial activities.

Banks in Action – an educational programme based on a decision-making game that simulates operation of a bank. By discovering the operational technicalities of the institution, the programme participants gain knowledge of how the banking sector works. As the game is conducted in English, the students are provided with natural opportunities for complementing their knowledge of the language with economic and banking terms. 5,040 students representing 168 schools took part in the first edition of the programme.

In November 2007 the Bank launched the **ZrozumFinanse.pl** educational portal – created to serve as an accessible entry point to the topic of managing personal finances. Developed by the Bank's specialist, the website offers novel solutions portals of the type do not normally include. It is the only bank initiated portal in Poland to offer the user the choice of content and navigation approach based on the user profile (Single, Pair of Family respectively). The portal content has been organised to follow the needs of the representatives of the respective user groups in such a way as to ensure that they find topical information of interest there. The material is divided into sections, which present various approaches to the subject of finances, so as to facilitate the use of the available resources for the visitors. Additionally, the portal features some useful tools, such as calculators, a glossary of financial and economic terms, and multimedia solutions, including films presenting various fields of personal finance.

In the field of cultural heritage, the Foundation completed the eight edition of granting the **Gieysztor Award**. This most prestigious award is granted for activity aimed at preservation of the Polish cultural heritage. It is granted annually to institutions and individuals, among others, for:

- museum, restoration, archive and library work;
- commemoration and preservation of the Polish cultural heritage abroad;
- initiatives aimed at collection and preservation of traces and mementos of cultural heritage;
- dissemination of knowledge on the needs and methods of preservation of cultural heritage in Poland.

This year's award went to **Krzysztof Lech Czyżewski**, the President of the BORDERLAND Foundation and the Director of the "Borderland of the Arts, Cultures and Nations" Centre in Sejny.

To help the Bank employees develop social responsibility and involvement, the Foundation expanded the **Employee Volunteer Programme**. The three main pillars of the programme include: employee engagement in dissemination of financial education among young people, through the My Finances nationwide economic education programme delivered jointly with the National Bank of Poland and the Foundation of Entrepreneurship of Young People; construction of homes for underprivileged families together with the Habitat for Humanity foundation; and the innovative voluntary work projects executed in the course of corporate integration trips and Citi's Global Community Day. Additionally, the Bank employees can choose from among hundreds of voluntary work offers sent through by the Volunteer Centre. The employees offer their voluntary assistance individually and in organised groups. In 2007 the voluntary activities of various types engaged 2,161 Bank volunteers across the country, who contributed overall 14,000 hours of their time to social causes. The second edition of Citi's **Global Community Day** encompassed 38 localities and 81 projects across Poland involving 1,856 volunteers and 30,000 beneficiaries. Overall these projects were granted PLN 255,000.

The Bank and the Kronenberg Foundation are the main partners of the Newsweek magazine in organisation of a **series of 16 regional conferences on Social Responsibility of Business**, which involve local business circles. The main purpose of these meetings is to disseminate the idea of social responsibility of business among local businessmen in Poland, to demonstrate to them how they can engage in activity of this kind and what they stand to gain from engaging in the life of the community in which their run their business. The regional conferences promote the idea of social responsibility, show some best practices and encourage the audiences to apply for EU funding available for socially responsible actions. The programme includes the Good Deal competition for the most socially engaged firm in the region. The Academy for Development of Philanthropy in Poland acts as the project's consultant partner.

The Kronenberg Foundation also runs the **Subsidy Programme**, which in 2007 granted 63 subsidies to social projects fun by NGOs across Poland. The list of projects the Foundation supported includes, among others: the 3rd National Enchanted Song Festival organised by Anna Dymna's "Mimo Wszystko" Foundation; the 12th Edition of the National History Competition for Secondary School Students organised by the KARTA Centre Foundation; the Capital Market Leaders Academy training courses organised by the Lesław A. Paga Foundation; the 20th Economic Knowledge Olympics organised by the Polish Economics Society; and digitalisation of the Wrocław University Library resources.

In the year 2007 we strengthened our position of a leader among the socially committed companies. Some awards and honours which attest to that include:

The **Colours of Volunteerism** award for the Bank's Employee Volunteerism Programme. The Bank received this most prestigious of the volunteer movement's awards for the second time in succession;

The **Strong Image** award of the 4th Public Relations Congress for Citi's Global Community Day 2006 as an innovative social project;

The **Gold Badge of Honour** of the Polish Economics Society for the Bank's longstanding involvement in increasing the quality of general economic knowledge;

The **Philanthropist 2006** award in the "Exemplary cooperation with NGOs" category. This is the most prestigious award in the field of socially responsible of business;

The title of the **Year 2007 Patron of the Business Volunteer Programme**, awarded by the Business Volunteer Programme Council at the Volunteer Centre;

The **Honorary Award of the Pro Publico Bono Competition** awarded for the Bank's contribution to public good. This is the most prestigious award among those granted by Polish NGOs; for the first time in history awarded to a business related foundation.

8.5.2 Cultural patronage

For its patronage of culture and the arts and cooperation with the National Philharmonic, the Bank was once more awarded the title of the Patron of the Year 2007. This is a particularly important honour for us as the Bank considers social involvement its distinguishing mark.

In May 2007 the Bank sponsored the musical event that the concert given in Warsaw by the New York Philharmonic conducted by Lorin Maazel was. The Bank also sponsored a philharmonic concert of the Chinese megastar pianist **Lang Lang**. In his triumphant march through the world's leading stages, this remarkably talented pianist was joined by the National Philharmonic Symphony Orchestra conducted by

Antoni Wit in performance of two famous piano concertos: Chopin Piano Concerto in E minor, Op. 11 and Tchaikovsky Piano Concerto No. 1 in B flat minor, Op. 23.

In September 2007 the Bank was the patron of a special concert held at the National Philharmonic Hall at the occasion of the 75th birthday of **Wojciech Kilar**, a pre-eminent Polish composer. The concert was devoted in its entirety to the composer's opuses of the recent years: Magnificat and September Symphony, a composition honouring the victims of the 9/11 terrorist attacks.

IV. Significant risk factors relating to operation of Bank Handlowy w Warszawie S.A.

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

1.1 *Economy*

According to the macroeconomic forecasts developed by the Bank, the economic growth in Poland may slow down to approximately 5.0% in 2008 from 6.5% in 2007. As in the year 2007, the growth will most probably come from strong domestic demand, with trade balance contributing to weakening of the GDP growth. One serious threat to fulfilment of that scenario is the uncertainty as to the scale and persistence of the weakening of the world's largest economies; as affected by volatility in the credit markets.

Strong domestic demand and accelerating wage inflation may contribute to further central bank rate increases in 2008. Mounting salary increase pressures would additionally increase the risk of inflation stabilised substantially above the target set by the Monetary Policy Council. Under such circumstances the monetary authorities could resolve on a more aggressive course of action in respect of interest rate increases.

With the better than projected economic growth, the year 2007 budget deficit stabilised at an exceptionally low level. Nonetheless, due to the risk of a slowdown in the economic growth, this highly favourable fiscal condition will probably be harder to repeat in 2008.

1.2 *Regulatory risk*

Any changes in economic policy and the legal system may significantly affect the financial standing of the Bank. Of particular relevance here is the regulation of the banking sector, which takes the form of primary legislation and regulations issued by the Finance Minister, resolutions of the Management Board of the National Bank of Poland (NBP), ordinances issued by the President of NBP and resolutions of the Commission for Banking Supervision (KBN). As of 1 January 2008 the competences of the Commission for Banking Supervision are transferred on to the Financial Supervision Authority.

The most relevant of these regulations include and cover:

- acceptable concentration of loans and total receivables (Banking Law Act);
- maximum limit of equity that may be invested in the capital market (Banking Law Act);
- liquidity, solvency and credit risk standards (resolutions of KNB);
- risk management in banks (Banking Law Act, resolutions of KNB);
- mandatory reserves, establishment and transfer (NBP Act, Banking Law Act, resolutions of KNB and resolutions of the NBP Management Board);
- taxes and similar charges;
- Act Amending the Civil Code Act and Certain Other Acts of 7 July 2005 limiting the maximum interest rates on consumer loans and the maximum fees chargeable on such loans;
- restrictions in granting mortgage-secured foreign currency loans arising from Recommendation S of the Commission for Banking Supervision;
- Competition and Consumer Protection Act of 16 February 2007;
- Countering Unfair Market Practices Act of 23 August 2007.

Furthermore, because of the failure to implement in the Polish law within the required timescales, i.e. by 1 November 2007, of the Commission Directive 2004/39/EC of 21 April 2004 on markets in financial instruments (MiFID Directive) and in its executive legislation, such as the Commission Regulation (EC) 1287/2006 and the Commission Directive 2006/73/EC (both dated 10 August 2006), the process adjustment of activities of the institutions covered in the MiFID Directive (investment firms and lending institutions conducting investing activities) had not been carried out in pursuance of the guidelines laid down by the European Union. Legislative work will continue in 2008 with the aim of transposing the European to the national regulations, in particular into the Trading in Financial Instruments Act and ordinances issued by the Minister of Finance on that basis. The legislative changes in the abovementioned field planned for the year 2008 shall affect the activities of the Bank's subsidiary, Dom Maklerski Banku Handlowego S.A.

Additionally, the Bank will adjust its operations to the legal requirements arising from the change in the regulations that related to the implementation of the New Capital Accord. The key changes – as compared to the currently effective regulations – involve the newly added operating risk related minimum regulatory capital requirements, the possibility of application of the more accurate credit risk related capital requirement calculation method and the addition of two new systemic measures: pillars II and III. Under the Pillar II measures (Supervisory Review), banks now need to develop internal economic capital assessment processes and the set their capital allocation targets, which are aligned with their unique risk profiles and with the supervisory environment. Of significance here is inclusion in that process of the risks previously not accounted for within the Pillar I minimum regulatory capital requirement (e.g. interest rate risk in the bank portfolio, liquidity risk, etc.). This process falls under supervisory analysis and assessment, next to assessment of corporate governance, risk management performance, compliance monitoring and internal controls system. Under the Pillar III measures (Market Discipline) institutions are required to disclose to market participants information on their risk profile, risk management measures and capital adequacy. The regulatory changes relating to implementation of the New Capital Accord will influence changes in capital requirements and solvency ratio of the Bank.

1.3 *Competition within the banking sector*

The attractive and fast growing banking service market in Poland has been the subject of growing competition across its segments. Observable both in retail and corporate banking is the mounting pressure on fees and commissions. We expect this trend to persist in the near term due to the growing number of banking and non-banking institutions in the market and the considerable interest which foreign financial institutions have shown in the Polish banking sector. Additional factors likely to impact this state of the banking services market further include the corporate sector pursuing alternative financing sources, such as leasing or factoring, and the companies in good financial condition pressuring for reduction of credit margins.

Poland's accession to the European Union, which has allowed foreign banks to operate cross-border activities in Poland, has also increased competition on the banking services market, though the process is not likely to alter the structure of that market in the near term. The main argument in favour of that market development scenario materialising is the fact that the institutions interested in operation on the attractive Polish banking market have already been present here for a number of years and have managed to achieve a position in it that any new players commencing their activities in Poland under conditions of mounting competition will have difficulty challenging. The race for strong market positioning will thus play itself out primarily in the dimension of service quality and the related customer service efficiency and speed. Only further consolidation within the banking sector can conceivably have a diminishing effect on the competition in it.

Another risk factor which can have a negative impact on margins achieved by the banking sector is the development of financial product and service offers – previously the sole domain of banks – by non-banking entities, such as retailer chains or loan brokers.

The Bank takes note of the potentially detrimental effect of the global crisis sweeping across world's financial markets; originally triggered by the troubled sub-prime segment of the U.S. mortgage lending market. Due to the small scale of the Bank's exposure vis-à-vis that segment, potential crisis on that market will have a limited impact on the Bank's operations. What is more, the situation taking place in the United States on the sub-prime mortgage loans market is not likely to happen in Poland, where the conditions of granting mortgage loans are considerably more restrictive. In spite of the dynamically growing mortgage loan volumes, their value in relation to GDP remains much lower than in the developed economies of West Europe.

On the other hand it may turn out that increasing demand from other banks' for financing via interbank will be a positive factor for the Bank. It may lead to the rise in demand for the products offered by the Bank within this area and thus to the increase in Bank's revenue.

Aware of the existing risk factors, the Bank is nonetheless well prepared to compete under conditions of pan-European marketplace. However, there is some likelihood that competition now mounting in the banking sector can have a negative impact on the Bank's results.

2. Major risk factors and threats connected with the Bank and its operations

2.1 Liquidity risk

As is typical of banking activity, the Bank experiences maturity mismatches between loans and the deposits funding the earlier. These can give rise to problems with current liquidity were there to be a build-up of large payments to customers. The management of the Bank's assets and liabilities, including the regulation and control of liquidity risk, is the responsibility of the Asset and Liability Committee, which defines the strategy that is implemented by the Treasury Division.

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

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

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

2.2 Foreign exchange risk

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

2.3 *Interest rate risk*

Along with the other Polish banks, the Bank is exposed to a risk arising from mismatch in timing of changes in interest rates on its assets and the underlying liabilities. Interest rate risk can arise when a fall in income caused by lower rates of interest on loans proves impossible to offset through a corresponding reduction in the rates of interest paid to depositors. This risk also applies to situations where a rise in deposit rates cannot be offset by a corresponding rise in lending rates. The management of interest rate risk forms part of the remit of the Bank's Asset and Liability Committee, which determines the Bank's pricing policy in the context of interest rate risk. In the year 2007 interest rate risk was moderate to high.

2.4 *Credit risk*

Lending and guarantee business is inherently linked with the risk of payment delinquency (of both loan principal and interest) as with the risk that the asset represented by an outstanding loan or granted guarantee will prove impossible to recover. The Bank monitors its risk assets on an ongoing basis and classifies and establishes provisions against them in accordance with the relevant regulations. The Bank Management Board is of the opinion that the current level of provisions is appropriate. As the possibility of change in the external environment that can have a negative impact on the financial condition of the Bank's customers always exists, there is no certainty if some future need for adequate provisioning against the existing asset portfolio may have an adverse effect on the Bank's financial condition or if the provisions and the collateral in place will prove sufficient to absorb the possible losses arising out of lending activity.

2.5 *Equity investment risk*

Equity investments fall into two basic categories: strategic and for sale. The strategic portfolio includes the Bank's shares in Polish financial institutions of strategic significance to the Bank due to their operations. The 'for sale' category exposures originate from debt-to-equity conversion operations performed in the past. Investments are held directly by the Bank or indirectly via its wholly-owned special purpose investment vehicles. In the case of some of the equity investments, their valuation is based on the assumption of ultimate identification of a strategic investor for the company in which the Bank is a shareholder. Therefore, maintenance of the high level of foreign direct investment may be of key importance for the valuation of these investments. Moreover, due to a number of macroeconomic effects, the conditions prevailing in the capital markets and other factors having an impact on activities of the companies in which the Bank is a shareholder may cause the selling price of the held shares to be lower than expected, or even lower than the value at which they are held on the Bank's books. The Bank has already made substantial write-offs related to impairment of its investments, thus bringing the risk of further decline in value of the Bank's investment portfolio to a low level.

2.6 *Operating risk*

The Bank defines operating risk as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. Operating risk includes the risk relating to business practices and legal risk, in other words, the risk of non-compliance with the effective regulations of law and internal regulations of the Bank.

All of the principles of the operating risk management, including the roles and responsibilities at different levels of the Bank's hierarchy have been defined in the Policy for the Operating Risk Management. The responsibility for monitoring the operating risk in the Bank is vested with the relevant Risk and the Control and Compliance System Committees. All detected oversights, remedial actions, operational events and operating risk indicators are the subject of regular reports submitted with the relevant Committees. At the same time, the operating risk management process quality (including the self-assessment process) in the respective organisational units of the Bank are the subject of inspections and assessment carried out by the internal audit.

For a number of years now the Bank has employed various tools and methods in managing operating risk (including in particular the self-assessment process, check lists, limits and contingency planning). The operating risk management process is supported through qualitative and quantitative measurement of the operating risk. The monitoring processes the Bank uses serve to minimise the causes of development of any negative consequences of operational events (including operational losses), to reduce the probability of their occurrence and to minimise the severity of the potential consequences.

The operating risk management relies on the following key elements:

- Identification of risk
- Limiting risk
- Self-assessment of risk and audit
- Risk monitoring
- Measurement of risk
- Reporting on any areas vulnerable to the operating risk.

The self-assessment process implemented in the Bank enables ongoing identification, audit, assessment, monitoring, measurement and reporting of the assessment of the quality of the control processes and the potential risk hazards. For a number of years the Bank has regularly collected data on the impact of operating risk related events (losses). The operating risk management process centralisation and automation introduced in the recent years has contributed to the substantial reduction of the incidence and the value of the operating losses.

The following categories of risk related losses are the subject of loss assessment:

- Losses caused by human error on the part of the staff
- Losses resulting from external fraud and theft
- Losses resulting from failure of systems and/or technologies, and
- Losses resulting from failure of processes or products.

In the Management's opinion, the general level of the Bank's operating risk can be assessed as moderate, typical to the scope and scale of the Bank's operations. The Bank will concentrate its future actions in this area on the processes included in the Bank's risk profile.

The Bank follows the standard method of calculation of the operating risk related capital requirement.

2.7 *Contributions to the Bank Guarantee Fund*

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

In the event of general deterioration of standing of the banking sector institutions or of bankruptcy or financial distress of one of the participating institutions, the Bank and other participants in the Bank Guarantee Fund may be required to make large payments to the Fund, in proportion to the guaranteed deposit insurance fund calculated in respect of a given institution or institutions. This could adversely affect the Bank's earnings.

V. Development prospects for Bank Handlowy w Warszawie S.A.

1. The Bank's general development objectives

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

The Bank intends to continue active acquisition of new customers – both consumer and corporate – in all market segments, with a particular emphasis on middle-income consumers and SME banking clients. The Bank perceives customer satisfaction as key to effective customer acquisition and intends to undertake a number of initiatives aimed at increasing it (e.g. streamlining of operational processes, shared branch network).

In the medium term, the Bank aspires to achieve double digit market share, measured as the share in the result on banking activity of the entire banking sector. In the year 2007 its share was approximately 6%.

The market share growth will be attained as the Bank maintains its position of leadership in corporate banking and improves its market share in retail banking services.

While proceeding with capital expenditures and intensifying its marketing activities, the Bank will continue to maintain strict cost discipline. In the year 2007 the Bank's share in costs of the banking sector stood at approximately 7% and was lower than a year earlier.

1.1 Corporate and Commercial Bank

As a leader in corporate banking in Poland, the Bank addresses a rich offer to all companies, irrespective of the market segment in which they operate, with the exception of those that belong to the sectors permanently excluded from the Bank's target markets due to the Bank's policy or to their blacklisting, a consequence of them being sanctioned by either international organizations or the U.S. government. The Bank's market share in corporate loans at the end of 2007 stood at 4.2% compared to 4.6% at the end of 2006, whereas its share in corporate deposits rose to 8.5% compared to 9.5% at the end of 2006.

The Bank's position is particularly strong in servicing international corporations and the largest Polish companies. The Bank also holds a leading position in handling of money market and foreign exchange transactions. Its goal is to retain its present market share in these segments and to improve its position in the remaining areas.

The Bank plans expansion in the small and medium enterprise segment (SMEs), as it perceives every company of that market segment as its strategic client. The Bank intends to continue acquiring new customers on this market and to deepen the relationships with its existing customers. The Bank is going to actively finance SMEs and expand the offer dedicated to the SME sector clients as well as to improve accessibility by increasing the number of branches dedicated to serving this group of enterprises.

Substantial part of the Bank's revenue will come from Treasury Division products, including cash management, trade finance. The solutions and innovations in these product groups and the high service quality will be the key determinants of the Bank's competitive advantage, particularly in its cooperation with the most demanding international and leading Polish companies. The Bank's aim is to gain a position among the top three banks in terms of revenue from banking activity in the corporate banking segment.

1.2 Consumer Bank

The Bank's aim is to become the most frequently recommended consumer bank in Poland, one which delivers lasting benefits to its customers, employees and shareholders. The Bank's market share in loans to private individuals (excluding mortgage loans) at the end of 2007 remained at the same level as that achieved in the year 2006, i.e. 5.1%, whereas in deposits from individuals rose to 2.2% as compared to 2.0% at the end of 2006.

The Bank's product offer is responsive to need of the customers representing various market segments.

The Bank intends to further strengthen its leading position in servicing wealthy individuals by offering them top quality advisory in investment products, by expending the product offer and through facilitation of access to the global solutions of Citigroup. In order to improve accessibility of services, activities of the Warsaw-based Investment Centre will be expanded to other regions of the country.

The Bank has concentrated on acquisition of new customers in the middle income customers segment. Through creation of a comprehensive product offer responsive to their financial needs, the Bank seeks to strengthen its relations with the customers. In addition to rolling out its traditional network of branches, it has focused on exploitation of indirect distribution channels. On the basis of these the Bank has developed a package of service addressed to expatriate Poles and their relatives in Poland, and is presently creating a comprehensive offer addressed to students.

Acquisition of new customers and growth of the market share are the goals adopted by CitiBussiness. Marketing action is intended to increase brand recognition among small businesses. Year 2008 will bring in many new products, such as custody accounts or mortgage loans.

The Bank's products are well adjusted to the needs of the respective customer segments. The basic deposit offer was expanded to include Savings Account and CitiOne Direct internet account. Subsequent innovations and attractive promotions are expected to convince the customers to the benefits of undertaking cooperation with the Bank.

The broad offer of investment and insurance products are a response to the continuing interest in products of that type. High quality products and objective advisory are the distinctive marks of the Bank. The Bank intends to retain its position of leadership in distribution of foreign funds and to continue enhancing its offer of domestic funds. It also plans to enable acquisition of investment fund units via the Internet and to thus substantially increase their accessibility.

The Bank intends to retain its position of leadership on the highly competitive credit cards market. With that purpose in view, the Bank has concentrated on developing partnership offers, diversification of distribution channels and cutting down on the credit decision time. It also intends to be the leading supplier of cash loans.

1.3 Distribution network

As at the end of the year 2007, the Bank operated on the market under two brands:

- citi handlowy – for distribution of consumer, corporate and investment banking products
- citi financial – for CitiFinancial's distribution channels.

The Bank serves its clients and customers through a network of outlets, consultants and relationship managers, third party direct sales agents and remote distribution channels, such as internet banking, a call centre, IVR (interactive automatic telephone service) and multi-functional ATMs.

In order to meet the growing customer expectations and the growing competitive challenge, the Bank took a decision on integration of all of its outlets. As of 1 January 2008 it merged the branch networks of the Corporate Bank, the Consumer Bank and CitiFinancial.

The network integration project assumptions provide for a number of benefits accruing from the change to the Bank and its customers and clients, among others:

- expansion of the scope of customer service in selected outlets of the Bank;
- delivery of a broad product offer to the Bank's customers and clients;
- combining of selected outlets and their relocation to locations assessed as more accessible from the perspective of the customers and clients;
- implementation of the model of authorised customer service points (so-called lite branches) offering customer service in the area of loan products.

The planned integration of the branch networks will also generate synergies, particularly in the field of SMEs and CitiBusiness as well as between the Consumer Bank and the Commercial Bank. The priorities include increasing functionality and accessibility of remote distribution channels and further enhancement of the qualifications of the bank consultants, in particular those serving large entities which require more sophisticated financial products. In the case of the Consumer Bank, substantial emphasis will be placed on further growth of Internet usage (Citibank Online). As a target, Internet is to become for private individuals the basic transaction medium.

The high functionality and quality of access to call centres via the CitiPhone system for the Consumer Bank customers and via the client service unit for large and medium-sized enterprises will be maintained.

2. Synergies

The Bank combines its longstanding traditions and experience gained in the Polish market with the global experience of Citigroup to offer comprehensive solutions and service to all the customer and client segments, whatever their need. In this it takes advantage of the opportunities afforded by the synergies between corporate and consumer banking and between banking, leasing and brokerage services.

The Bank will continue exploiting the synergies between its consumer and corporate parts, among others, in the area of: offering attractive detail banking products to employees of the largest companies being the Bank's clients; offering corporate products (inter alia, specialist products of treasury, brokerage and asset management) to customers of the CitiGold segment; offering a tailored product offer of the treasury division to micro-enterprises; and of using a uniform branch network accessible to all customers and clients.

VI. Corporate Governance

1. Good corporate practices and principles in the Bank

As per the Bank Management's representation adopted in the form of a resolution of 17 April 2007 and included in the Current Report No. 22/2007 of 22 June 2007, the Bank has undertaken to follow the corporate governance practices specified in the Best Practices in Public Companies 2005 paper.

The statement obtained a positive opinion of the Bank Supervisory Board in the form of its resolution of 23 May 2007 and was subsequently approved by the General Shareholders Meeting of 21 June 2007.

The Bank aspires to the position of the most respected financial services company in Poland, with a strong sense of business and social responsibility. Since 2003 the Bank has complied with the corporate governance rules adopted by the Warsaw Stock Exchange in the form of the Best Practices in Public Companies paper. The main purposes for adoption of the corporate governance rules as the standard in the Bank include building transparent relationships between all the entities involved in operation of the Company and ensuring proper and diligent management of the Company and its business as well as diligent and fair treatment of all its shareholders.

In order to ensure transparency of the Bank's operations, including in particular of relationships and processes between statutory bodies of the Company, the Bank introduced the Best Practices discussed further.

Bank appended a report on application of the corporate governance rules in the Bank in the year 2007 to this Annual Report in respect of the year 2007.

1.1 Investor Relations

The Bank's information policy, the aim of which is to provide information to all persons and institutions that need information about the Company, includes as its integrated part the investment relations function that provides information to current and potential investors and capital market analysts. The Bank's information policy is implemented by investor relations, among others, through:

- Organizing regular meetings with investors and analysts in the form of briefings and conference calls, also in the Bank's headquarters, with participation the Management Board;
- Support from the Public Relations Office at quarterly media press conferences, organised at publication of periodic reports;
- Publishing on the Bank's website current information about the Bank and its businesses, and all the current and periodical reports; the website facilitates contact with the Investor Relations team, which provides information about the Bank and its Capital Group;
- Enabling representatives of the media to participate in General Meetings.

1.2 Transparency

The Bank continually undertakes actions aimed at improving transparency in the Bank's organisation, its division of powers and functioning of its respective governing bodies, and their mutual relations. These include the following:

- The Bank has published its financial statements in accordance with International Financial Reporting Standards (IFRS) since 1 January 2005;
- One half of the Bank Supervisory Board is composed of independent members, including the Chairman of the Board;
- Within the Bank Supervisory Board functions the Audit Committee composed of two independent members, including the independent Chairman of the Committee;
- In compliance with the corporate governance rules, total value of remuneration of all the Management Board members is disclosed in the annual report. Remuneration of individual Management Board members reflects their scope of duties and accountability;
- All significant internal regulations as well as information and documents relating to the Company General Meetings are available at the Company's headquarters and via its website.

1.3 Minority Shareholders protection

The Bank ensures adequate protection of the minority shareholders' rights, within the limits dictated by the Company's status and the associated primacy of the majority rule principle. In particular, in order to ensure equitable treatment of all shareholders, the Bank adheres, among others, to the following rules and practices:

- The General Meetings always take place in the Company's registered seat in Warsaw;
- In accordance with corporate practice, all important materials being prepared for the General Meeting, including draft resolutions with justifications and opinions of the Supervisory Board, are made available to Shareholders no later than within 7 days of the date of the General Meeting, at the Company's seat and via the Bank's website;
- The General Meeting has stable set of regulations setting out detailed rules of procedure and adoption of resolutions;
- Members of the Management Board and Supervisory Board take part in the General Meeting in order to provide it with explanations and information about the Bank within the scope of their competencies;
- The General Meeting participants objecting to a resolution are offered an opportunity for brief presentation of the rationale of their objection. Moreover, each General Meeting participant can submit written statements to the meeting minutes.

2. Bank's Authorities and other corporate governance rules

In the year 2007, no principles of management followed by the Bank were amended. These principles are presented in the relevant Note to the Bank's Financial Statements.

2.1 Changes in the composition of the Bank Management Board in the year 2007

Sławomir Sikora	President of the Bank Management Board
Michał Mrożek	Vice-President of the Bank Management Board*
Edward Wess	Vice-President of the Bank Management Board
Sonia Wędrychowicz-Horbatowska	Vice-President of the Bank Management Board
Witold Zieliński	Vice-President of the Bank Management Board
Lidia Jabłonowska-Luba	Member of the Bank Management Board

*) On 23 May 2007 the Supervisory Board appointed Mr. Michał H. Mrożek to the position of Vice-President of the Bank Management Board for the following 3-year term. Previously Mr. Michał Mrożek acted in the capacity of Member of the Bank Management Board.

2.2 Changes in the Composition of the Bank Supervisory Board in the year 2007

Stanisław Sołtysiński	Chairman of the Supervisory Board
Shirish Apte	Vice-Chairman of the Supervisory Board
Andrzej Olechowski	Vice-Chairman of the Supervisory Board
Susan Blaikie (formerly Dean)	Member of the Supervisory Board
Sanjeeb Chaudhuri	Member of the Supervisory Board
Goran Collert	Member of the Supervisory Board
Mirosław Gryszka	Member of the Supervisory Board
Sabine S.Hansen	Member of the Supervisory Board from 20 March 2007
Rupert Hubbard	Member of the Supervisory Board until 20 March 2007
Stephen H. Long	Member of the Supervisory Board until 21 June 2007
Krzysztof L. Opolski	Member of the Supervisory Board
Aneta Polk (formerly Popławska)	Member of the Supervisory Board
Michael Schlein	Member of the Supervisory Board from 21 June 2007
Wiesław Smulski	Member of the Supervisory Board

2.3 Rules relating to appointments and discharges of the Management Board Members and the powers of the Management Board Members

The Bank Management Board consists of five to nine members. Members of the Management Board are appointed by the Supervisory Board for 3-year terms of office. At least half of the Management Board membership need to be holders of Polish citizenship. Their mandates expire:

- on the day the General Meeting approves the Management Board's report on the Bank's operations and the financial statements for the last full financial year during which a member sat on the Management Board;
- upon the Management Board member's death;
- upon the discharge of the Management Board member; or
- upon the submission by the Management Board member of a written resignation with the Chairman of the Supervisory Board.

2.4 Powers of Management Board Members

The Management Board adopts decisions, by way of resolutions, on matters not entrusted by law or the Articles of Association to other governing bodies of the Bank, and in particular the Management Board:

1) formulates the Bank's strategy;
2) forms and dissolves committees and determines their powers and responsibilities;
3) determines the Management Board Rules and Regulations and submits them to the Supervisory Board for approval;
4) determines, and submits to the Supervisory Board for approval, regulations for management of special funds created from net income;
5) determines dividend payment dates, on the basis of limits voted by the General Meeting;
6) appoints commercial proxies, general authorised representatives and general authorised representatives entitled to substitution;
7) makes decisions concerning the matters defined in the Management Board Rules and Regulations;
8) settles the matters submitted to it for consideration by the President of the Bank's Management Board, Vice-President or a member of the Management Board;
9) makes independent decisions on the purchase and sale of real estate, perpetual usufruct or participations in real property;
10) adopts annual financial plans, investment plans and reports on their performance;
11) approves reports on operations and financial statements;

12) recommends the appropriation of profits or coverage of losses;
13) approves the HR and credit policy, and the legal principles of the Bank operation;
14) approves the capital management policy;
15) approves the employment structure;
16) determines the basic organisational structure of the Bank, appoints and discharges heads of Sectors and Divisions, and defines their powers and responsibilities;
17) determines control plans for the Bank and approves audit and inspection reports;
18) decides on other matters that, according to the Articles of Association, require submission with the Supervisory Board or the General Meeting;
19) adopts decisions to incur liabilities or sell assets the total value of which with respect to one entity exceeds 5% of the Bank's shareholders' equity or grants authorisations to indicated persons to adopt such decisions, also with respect to the matters within the competencies of the Committees appointed within the Bank; the decisions are made after the respective Committee is consulted.

The Bank Management Board drafts, introduces and ensures operation of a system of management in the Bank, including written development, implementation and updating of strategies and procedures, and undertakes actions in the areas of the risk management system, internal audit and estimation of internal capital and reviews of the processes of estimation and maintenance of internal capital.

2.5 *Salaries and awards (in cash and in kind), including bonuses from retained profit, paid or payable to persons managing and supervising the Bank*

The total amount of salaries, awards and benefits paid or payable to the current and former members of the Bank Management Board in 2007 is as follows:

PLN '000	Short terms salaries, awards and benefits		Capital assets granted
	Base salaries and awards	Other benefits	
Sławomir Sikora	2,994	270	604
Edward Wess	2,314	218	223
Sonia Wędrychowicz-Horbatowska	1,515	123	229
Witold Zieliński	1,347	122	365
Lidia Jabłonowska-Luba	1,156	45	188
Michał Mrożek	1,777	44	261
	11,103	**822**	**1,870**

Base salaries and awards include gross salary paid and payable for the year 2007 as well as awards granted for 2007.

According to a decision of the Supervisory Board the remaining amount of awards granted to the members of the Bank Management Board for 2006, paid in 2007, in total amounted to PLN 4,613,000.

The total amount of other benefits includes the gross amount of paid remuneration arising from indemnification for employment contract termination, benefits in kind, lump-sum payment for the use of company car, insurance policy premium, holiday leave equivalent, dividend and supplementary benefits consistent with the employment contract of foreign employees.

Capital assets granted include Citigroup shares granted in the previous years and distributed in 2007 as well as value of options on Citigroup common stocks for which exercise rights were granted in 2007.

The total amount of salaries, awards and benefits paid or payable to the current and former members of the Bank Management Board in 2006 is as follows:

PLN '000	Short terms salaries, awards and benefits		Capital assets granted
	Base salaries and awards	Other benefits	
Sławomir Sikora	2,666	220	244
Edward Wess	2,004	345	105
Sonia Wędrychowicz-Horbatowska	1,395	115	116
Witold Zieliński	1,276	69	251
Lidia Jabłonowska-Luba	1,259	28	82
Michał Mrożek	1,568	40	146
Former members of the Bank Management Board:			
Reza Ghaffari (1)	718	385	187
Sanjeeb Chaudhuri (2)	615	31	275
Sunil Sreenivasan(3)	-	34	-
Philip King(4)	-	152	-
Cezary Stypułkowski(5)	-	2,000	-
	11,501	**3,419**	**1,406**

(1) until 31 May 2006
(2) until 21 September 2006
(3) until 30 April 2005
(4) until 31 October 2005
(5) until 31 May *2003*

Base salaries and awards include gross salary paid and payable for the year 2006 as well as awards granted for 2006.

According to a decision of the Supervisory Board the remaining amount of awards granted to the members of the Bank Management Board for 2005, paid in 2006, in total amounted to PLN 2,370,000.

The total amount of other benefits includes the gross amount of paid remuneration arising from indemnification for employment contract termination, benefits in kind, lump-sum payment for the use of company car, insurance policy premium, holiday leave equivalent, dividend and supplementary benefits consistent with the employment contract of foreign employees.

Capital assets granted include Citigroup shares granted in the previous years and distributed in 2006 as well as value of options on Citigroup common stocks for which exercise rights were granted in 2006.

The total amount of salaries, awards and benefits paid or payable to the current and former members of the Bank Supervisory Board in the years 2007 and 2006 is as follows:

PLN '000	**2007**	**2006**
Stanisław Sołtysiński	267	276
Göran Collert	120	93
Mirosław Gryszka	195	168
Andrzej Olechowski	203	156
Edward Kuczera (until 31 January 2006)	-	28
Jarosław Myjak (until 2 October 2006)	-	74
Krzysztof L. Opolski (from 27 February 2006)	177	97
Wiesław Smulski (from 5 December 2006)	119	97
	1,081	**989**

Dates specify times of appointment/resignation of the Supervisory Board members

2.6 Total number and nominal value of the Bank shares and shares in affiliated companies of the Bank held by members of the Management Board and the Supervisory Board

No member of the Management Board is a shareholder of the Bank or any affiliated company of the Bank. One member of the Supervisory Board owns 1,200 shares of Bank Handlowy w Warszawie S.A., with total nominal value of PLN 4,800.

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

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

Each of the Management Board members signed with the Bank a separate non-competition agreement. The respective paragraph of each of the agreements signed defines that in the period of 12 months following termination of the employment contract with the Bank, the Management Board Member must abstain from conducting business competitive against the Bank and the Bank will pay the respective compensation to such Management Board Member.

Only in one case compensation will be payable to a Member of the Management Board in the period of 6 months following agreement termination as stated above.

3. Other rules

3.1 Holders of securities with attached special control powers towards the Bank

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

3.2 Limitations related to the transfers of ownership title to the Bank's securities and limitations in the scope of voting rights connected with the Banks' shares

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

VII. Agreements concluded with registered audit company

On 20 March 2007, the Supervisory Board of the Bank appointed a registered audit company, KPMG Audyt Sp. z o.o. ("KPMG") having its registered office in Warsaw, at ul. Chłodna 51, registered audit company no. 458, to conduct an audit and a review of the Bank's financial statements for the year ended 31 December 2007. KPMG was selected in compliance with the applicable laws and regulations.

The contractual fees of KPMG (paid or payable) for the years ended 31 December 2007 and 2006 are presented in the table below:

Applicable to year	2007	2006
PLN ‘000		
Audit and review fees (1)	1,091	1,157
Other assurance fees (2)	-	9
	1,091	**1,167**

(1) The contract fees for the audit include fees paid or payable to KPMG for the annual audit of the standalone and consolidated financial statements of the Bank – parent entity (agreement signed on 24 October 2007) and for the review of the semi-annual stand-alone and consolidated financial statements (agreement signed on 4 July 2007)

(2) The fees for assurance services include all other fees paid or payable to KPMG. These fees include assurance services related to the audit and review of financial statements of the Bank – parent entity and subsidiary entities not mentioned in points (1).

Other information that are required by the Ordinance of the Ministry of Finance dated 19 October 2005 on current and periodic information provided by issuers of securities (Journal of Laws No. 209, item 1744) are included in the financial statements of Bank Handlowy w Warszawie S.A.

Signatures of all Management Board Members

Date	Forename and surname	Position / function	Signature
13.03.2008	Sławomir Sikora	President of the Bank Management Board	
13.03.2008	Michał H. Mrożek	Vice-President of the Bank Management Board	
13.03.2008	Edward Wess	Vice-President of the Bank Management Board	
13.03.2008	Sonia Wędrychowicz-Horbatowska	Vice-President of the Bank Management Board	
13.03.2008	Witold Zieliński	Vice-President of the Bank Management Board	
13.03.2008	Lidia Jabłonowska-Luba	Member of the Bank Management Board	