Assessment of the Supervisory Board of Bank Handlowy w Warszawie SA Concerning the Standing of the Company in 2005

As of year-end 2005, Bank Handlowy w Warszawie SA recorded the highest net profit since the merger with Citibank Poland SA.

The net income was primarily influenced by an increase in the Bank's operating income including net interest and fee income, dividend income, net gains on financial instruments, net foreign exchange gains as well as net gains from other operating income and expenses. The increase in net interest income resulted mainly from the efficient management of deposit margins and high interest income on cash loans in the consumer segment. Fee income grew due to a rapid rise in the Bank's sales of investment and insurance products in the consumer segment and an increase in fees for custody services. The increase in net gains on financial instruments recognized at fair value through profit and loss occurred primarily due to higher net gains on derivatives operations, while the increase in net gains on investment securities was largely caused by higher net gains on operations involving debt securities available for sale, i.e. Treasury bonds.

In 2005, the Bank continued to implement measures aimed at improving its profitability through cost optimization. Building related expenses were reduced while adapting the branch network to suit customers' needs better. Despite the optimization measures, the Bank's expenses rose slightly, which was caused by the expenses linked to the development of delivery channels incurred in the first half of the year as well as increased employment in the consumer banking sales and CitiFinancial areas (22 new offices opened in 2005). Restructuring processes, including collective redundancies, which followed the reorganization of individual areas and the deployment of new technology and organizational solutions, had a significant impact on expenses. The Bank expects that those processes will enhance the quality and efficiency of customer service. Moreover, additional funds were allocated to the promotion of a new range of products targeted at small and medium-sized enterprises.

The small movement in the amount of provisions and revaluation charges was an important factor with a favorable impact on net income. As a result of the restructuring measures implemented, the quality of the corporate loan portfolio improved, while remaining stable in the consumer banking and CitiFinancial areas; the credit risk level may be considered adequate. Moreover, since January 1, 2005, the Bank has drawn up standalone financial statements as per International Financial Reporting Standards (IFRS) and the related interpretations published as European Commission regulations. The change in standards has influenced the manner in which the Bank classifies its claims and calculates provisions against the risk of its lending activities. The favorable impact of provisions for incurred but not reported losses as well as claims assessed in a collective and individual manner on earnings reflects the stabilization in loan portfolio quality.

Despite the fact that the loan portfolio diminished in 2005, which resulted from the prudential lending policy adopted by the Bank, it remains the most important component among the Bank's assets. The Bank regularly checks the concentration of its exposure portfolio with the aim of preventing the portfolio from becoming dependent on a narrow group of customers. As of end December 2005, despite a decrease in the Bank's equity, no exposure in the portfolio of exposures to non-bank entities exceeded the large exposure limits stipulated in applicable regulations.
The debt securities portfolio remains the second largest asset component. Its very high amount (primarily with regard to the Treasury bond portfolio) has been caused by the wish to take advantage of the favorable trends prevailing in the market for such instruments.

In 2005, slight changes in the composition of liabilities occurred due to a decrease in time deposits from individuals accompanied by a rise in current accounts.
It should be stressed that the decrease in deposits has been offset by the sales of investment products; this has been caused by intensified competition among alternative investment products in the

environment of falling interest rates, increasing popularity of investment funds and favorable trends on the stock exchange, which provide an additional incentive for investment.

Compared to 2004, the Bank's equity decreased; this was primarily the result of the payment of a significant dividend from prior years' profit, which was paid from capital surplus and reserve capital.

In the opinion of the Supervisory Board, the Bank's equity is entirely sufficient to ensure the financial soundness of the institution and safety of the deposits held as well as to enable its further development. It should also be pointed out that the Bank still significantly exceeds the capital adequacy ratio required by the Banking Act, which has a negative impact on performance indicators.

The Supervisory Board has favorably assessed the measures enhancing the competitiveness of the Bank's offer targeted at the small and medium-sized enterprise segment. In 2005, the Bank implemented a new model for the provision of services to corporate customers. As a result of the adoption of the new customer service model, the range of products on offer for large and medium-sized enterprises was extended. Fully customized services have been offered to a group of the Bank's largest customers.

In 2005, the Bank gradually strengthened its position in the affluent customer segment thanks to the CitiGold Wealth Management service. The management of customers' assets is based on individual investment portfolios designed according to the customers' needs and preferences. Moreover, the interest on the Bank's credit cards was significantly reduced in 2005, making the Bank's offer more competitive.

Additionally, numerous changes were introduced in order to reorganize the sales network. Above all, the Bank is rapidly developing the CitiFinancial network. In order to improve the accessibility of branches without incurring major expenses, the Bank continued to implement the concept of joint consumer and corporate branches.

Since January 2003, Moody's has not changed the Bank's rating of A2 for long-term deposits (the sixth best grade on a 21-grade scale, within the investment-grade range) and Prime-1 for short-term deposits (the highest grade on a four-grade scale). These are the highest ratings possible for a business based in Poland, which reflects the stable standing of the Bank.

The Supervisory Board assesses the Bank's cooperation with its majority investor, Citigroup Inc., on a regular basis. The cooperation concerns several areas, the most important of which include the deployment of new banking products and IT systems, risk management, financial control, human resource management and internal controls. Support from the world's largest financial institution is an important advantage for the Bank, and contributes to the strengthening of its competitive position in the local market. The Supervisory Board has favorably assessed the efforts of the Management Board regarding the adequate settlement of services provided by Citigroup Inc.

The Bank implements a strategy which consists in building a universal financial institution with a comprehensive range of products and solutions on offer, allowing it to meet the needs of a large group of customers. Taking the rapid growth of the retail market into account, the Bank plans to extend the CitiFinancial network to 100 branches by mid-2006. The extension of the network will make it possible to provide customers with more convenient access to services and increase sales.

The Bank intends to focus on its core business; in 2005, it decided to sell, among others, Towarzystwo Funduszy Inwestycyjnych Banku Handlowego SA, Handlowy Zarządzanie Aktywami SA, Handlowy – Heller SA as well as an organized part of the business related to the settlement of card transactions; relevant agreements concerning the Bank's commitment to the sale of those businesses have been concluded. Factoring services will be provided based on the Bank's own product platform, while with regard to investment products and asset management services the Bank will adopt the "open architecture" approach. In respect of asset management, plans have been developed to concentrate on the distribution of products offered by the investment companies present in the Polish market as well as foreign funds, which will enable the Bank to significantly extend the range on offer and customize it to meet the customers’ needs. Continued access to a range of independent investment products, which will be steadily extended by adding new solutions, will form the basis for the Bank’s competitive advantage in the future.