Opinion of the Supervisory Board of Bank Handlowy w Warszawie SA on the Company's situation in 2003

In 2003, the financial situation of Bank Handlowy w Warszawie SA improved moderately. The Bank achieved an increase in gross profit, whilst ensuring a stable net profit. The main factor behind the improvement in gross profit was a decline in net charges to specific provisions and revaluation of financial assets. The net profit level was adversely affected by an increase in tax burden owing to conversion of deferred tax assets at a new, lower rate of corporate income tax. The Bank reported a decrease in profit on banking operations, mainly in consequence of lower income from financial transactions performed for its own account. Increase in income on fees and commissions, reflecting a growth of transactions with customers was a favorable development. The Bank's operating expenses increased moderately as a result of higher operating expenses in consumer business, which was attributable to the development of the CitiFinancial business and settlement of the cost of services provided to the Bank by its majority shareholder. Main changes in balance sheet figures in the period in question concerned the amounts due to non-financial entities, which increased dynamically owing to deposits from corporate customers and the debt securities portfolio, which was reduced in response to a sudden decline in market prices of the instruments.

Given the external environment of the banking business in 2003, the financial results achieved by the Bank during the period are considered sound, also when compared with those reported by other banks with a similar business profile. In this context, the Supervisory Board is appreciative of the Bank's consistency in pursuing a conservative provisioning policy, which enabled it to avoid excessive and unexpected fluctuations in the balance of the provisions, and hence in financial performance.

Analyzing the Bank's business potential, the Supervisory Board is appreciative of the income base diversification level, arising from the extensive product range and strong market position in key customer segments. Diversification of income sources is aligned with the strategy of building a universal financial institution, with a complex range of products and solutions capable of satisfying the needs of a broad consumer base. In this context, it is worth to note the process of reconstruction in recent years of the income structure of customer transactions, which are increasingly generated by consumer banking, as well as the development of non-banking financial services on offer, such as asset management, insurance, leasing or brokerage services. In the light of the 2003 financial performance, it seems reasonable to continue efforts to reduce the Bank's dependence on income from financial transactions performed for its own account, while they significantly contributed to an increase in income yield in certain years.

The Supervisory Board approves of the measures taken by the Management Board with a view to increasing cost effectiveness and operating efficiency of the institution. The main related projects pursued in 2003 included the launch of the branch network restructuring process, completion of another stage of employment restructuring, continuing the operational centralization process, and the implementation of a new Customer Service Model in commercial and investment banking.

In the opinion of the Supervisory Board, the Bank's shareholders' equity is sufficient to ensure financial security of the institution and the funds entrusted to it by customers. As at 31 December 2003, the Bank ranked second in the banking sector in terms of the amount of shareholders' equity, and its solvency ratio was 16.3%, i.e. twice as much as the statutory minimum. However, from the point of view of the Bank's shareholders, a high level of equity can be seen as a burden that makes it difficult to achieve a higher return on equity. This effect of mitigated by the high-dividend policy followed by the Bank since 2000.

The positive changes were reflected in the ratings of Moody's Investors Service. The rating for long-term deposits was upgraded from Baa1 to A2, and for short-term deposits from P-2 to P-1. The agency described the Bank's rating prospects as stable.

The Supervisory Board reviews, on a regular basis, the Bank's relationship with its majority shareholder, Citigroup Inc. The relationship is maintained at several levels, the most important ones being the implementation of banking products and IT systems, risk management, financial control, HR management, and internal audit. Support from the world's largest financial institution is an important asset for the Bank, conducive to consolidation of its competitive position on the global market. The Supervisory Board approves of the draft partner agreement between Citigroup Inc. and the Bank and expects it to be soon signed by the parties concerned.

The Supervisory Board is appreciative of the process of promoting young employees to managerial positions at the Bank and the gradual process of reducing the number of foreign experts, which is important not only in terms of cutting down staffing costs, but also in terms of supporting the advancement of local management talent. The number of foreign experts involved mainly in Citigroup knowledge and experience transfer to the Bank has declined over the recent years. Nevertheless, it should be noted that the Bank's membership in the strategic investor's global network necessitates the retention of a certain number of foreign experts with the Bank, while steadily increasing the proportion of Polish experts working with Citigroup units abroad.

Stanisław Sołtysiński

Chairman of the Supervisory Board