An assessment of the performance of Bank Handlowy w Warszawie SA in the year ended 31 December 2006 by the Supervisory Board of the Bank

Since its merger with Citibank Poland SA, net profits of Bank Handlowy w Warszawie SA have been consistently growing and 2006 was a record year in this respect.

The Bank's net profits were mainly attributable to: an increase in net interest income, an increase in net fee and commission income, an interest in dividend income, an increase in net gains from disposal of non-current assets, an increase in net other operating income, and a decrease in overheads.

Despite a fall in the market interest rates, the Bank reported an increase in net interest income. This was mainly due to an increased volume of loans granted by the Consumer Bank and an increase in interest income from available-for-sale debt instruments resulting from a significant growth of the portfolio. The fall in the market interest rates, combined with a boom in the market for investment instruments, also gave rise to an increased popularity of insurance and investment products. This fact had a favorable effect on the Bank, namely its net fee and commission income went up, despite the lack of any commission income from Handlowy Zarządzanie Aktywami SA and Towarzystwo Funduszy Inwestycyjnych Banku Handlowego w Warszawie SA, the subsidiaries of the Bank, which were sold at the beginning of 2006. The Bank also received significant proceeds thanks to the implementation of its strategic decisions to sell Towarzystwo Funduszy Inwestycyjnych Banku Handlowego w Warszawie SA, Handlowy Zarządzanie Aktywami SA, an interest in Handlowy-Heller SA, an associated undertaking, and the payment card clearance unit of the Consumer Bank. The increase in net other operating income was attributable to a decrease in provisions recognized for legal disputes, an increase in sales of services to CitiGroup Inc., and income earned from shares allocated by MasterCard.

The year 2006 saw a clear decrease in the Bank's overheads. This decrease was the effect of the restructuring activities initiated in the past and continued in the year ended 31 December 2006. The activities were intended to improve the Bank's profitability through cost optimization. Costs were falling in virtually all the areas of the Bank's operations, with the exception of staff costs, which increased slightly compared with the prior year. The increase in staff costs was the result of an increase in salaries and incentives, and an increased headcount in the growing CitiFinancial network. Considering a significant increase in the number of offices (over the year, the number of the Bank's offices went up by 50 and reached 99 branch offices and 12 smaller sales offices as at the end of 2006, compared with 61 offices as at the end of 2005) and an increase in marketing expenses, the decrease in overheads is all the more worth noting.

In the year ended 31 December 2006, loans remained the largest component of the Bank's assets. The total balance of the Bank's loan receivables was comparable with the balance reported in the prior year, however we draw attention to the fact that, for the first time for several years, the Bank reported an increase in loan receivables from non-banking clients in 2006 (PLN 66 MM, i.e. around 1%). The increase was mainly attributable to increased lending to retail customers which offset decreased lending to top tier corporate customers whose financing needs decreased due to improved financial condition. The Management Board expects that the intended launch of new credit products, in the first instance home and mortgage loans, combined with a boom in the market and borrower optimism, will give rise to an even greater growth of the retail customer loan portfolio over the next couple of years. The Bank regularly reviews the concentration of its exposure portfolio to avoid dependence on a small number of customers.

In the year ended 31 December 2006, the Bank reported a net decrease in loan loss expense recognized. The fact that the Bank released its provision for a subordinated loan granted to a subsidiary (due to its repayment) also had a significant favorable effect on the Bank's net profit for the year.

The debt securities portfolio remains the second largest component of the Bank's assets. The fact that its balance is very high (mainly the Treasury bills portfolio) is intended to bring benefits from a boom in the market for debt securities and is driven by the need to invest cash held by the Bank.

In the year ended 31 December 2006, slight changes in the composition of the Bank's equity and liabilities occurred. The Bank's total liabilities went up, mainly due to an increase in deposits placed by corporate customers and an increase in amounts due to the banking sector. The balances of deposits of non-banking financial institutions and retail (private) customers decreased. As far as the private customers are concerned, this was the result of a reallocation of some of their funds to more profitable investment products.

The Bank's equity as at the end of 2006 was higher than as at the end of 2005 due to the fact that the Company retained a part of its earnings for 2005. The Supervisory Board believes that the Bank's equity is absolutely sufficient to maintain the institution's financial safety, deposits placed with the Bank, and fully ensures its growth potential. As at the end of 2006, the Bank's capital adequacy ratio was comparable with that as at the end of the prior year and was fully compliant with the Polish Banking Act. Moreover, the portfolio of exposures to non-banking entities did not include any exposure exceeding the concentration limits specified in the relevant regulations.

The Supervisory Board favorably assesses the Bank's efforts to enhance the competitiveness of its product range and winning new clients. An extensive product range and individual service, in the first instance the new lending scheme and the Internet platform for forex transactions, are popular with the Bank's corporate customers. This contributed to an increase in the number of new SME customers by nearly a thousand. Several new safety-enhancing solutions were offered in respect of cash products, e.g. training for client staff in detecting counterfeit banknotes, combining bank escort services and cash deposits at Polish Post offices, delivery of the so called safe envelopes to an address indicated by the client. Payment card products intended for institutional customers are also very popular. In 2006, the Bank consolidated its position in the market for business payment cards, which manifests itself in a significant increase in the number of cards issued. Moreover, the Bank introduced a product which is new for the public sector, i.e. the so called prepaid cards, which are used, among others, for managing the distribution of social benefits by Social Welfare Centers. A new EU consulting services product is intended mainly for the SME segment. The product may be made used of by clients at any stage in the EU grant application process. Out of concern for the retail customer and further, gradual growth of the Consumer Bank, a number of innovative solutions were introduced, e.g. a credit card for students which is issued on very attractive terms, an additional card for young people, issued to the existing card holders, which is an alternative to pocket money, while at the same time serving educational purposes for future clients. Moreover, the Bank's distribution network was expanded to incorporate some unconventional channels, e.g. sales points at BP gas stations and commercial centers.

Since January 2003 Moody's has consistently assigned an A2 rating to the Bank's long-term deposits denominated in a foreign currency (the sixth best rating on a 21-point scale; the investment grade range) and a Prime-1 rating to short-term deposits (the best rating on a 4-point scale). These are the highest ratings possible for a company with a registered office in Poland, which demonstrates the Bank's stable position. Moreover, on 26 February 2007, Moody's notified the Bank of raising its financial strength rating from D+ to C- which was not only the effect of a new approach followed by Moody's but also a favorable assessment of the changes taking place at the Bank. In addition to that, on 3 March 2007, Moody's notified the Bank of assigning an Aa2 rating (the third best rating) to its long-term deposits in the local currency and a Prime-1 rating to its short-term deposits in the local currency.

The Supervisory Board regularly reviews the Bank's relationship with Citigroup Inc., the majority shareholder. The relationship has several dimensions, in the first instance implementation of new banking products and information systems, risk management, financial control, human resource management and internal control. The support from the largest financial institution in the world is an important asset of the Bank, contributing to the consolidation of its competitive position in the local market. The Supervisory Board favorable assesses the Management Board's efforts to adequately account for the services provided by Citigroup Inc.

The Bank pursues a strategy of building a universal financial institution, offering a comprehensive range of products and solutions to meet the needs of a wide range of customers. Implementing a strategic decision to focus on the core business activities, at the beginning of 2006 the Bank sold Towarzystwo Funduszy Inwestycyjnych Banku Handlowego w Warszawie SA, Handlowy Zarządzanie Aktywami SA, Handlowy - Heller SA, and the payment card clearance unit. Factoring services are provided using an internal product platform, whereas an open architecture approach is followed in respect of investment products and asset management services offered by the Bank. The Bank provides a wide range of asset management services by distributing products of investment fund management companies operating in Poland's market and foreign funds, which makes it possible to tailor the services to requirements of particular clients. Constant access to an independent investment product offer, gradually incorporating new solutions, will be the source of the Bank's competitive advantage in the future.

Considering the Bank's results of operations, increased sales revenue in the key business segments, the product range and innovativeness in this respect, the Supervisory Board favorably assesses the Bank's operation in the year ended 31 December 2006 and expresses its belief that the existing and intended future activities will contribute to a consolidation of the market position of Bank Handlowy w Warszawie SA.

Chairman of the Supervisory Board

Stanisław Sołtysiński