

INTERIM CONSOLIDATED FINANCIAL  
STATEMENTS  
OF THE CAPITAL GROUP OF  
BANK HANDLOWY W WARSZAWIE SA  
FOR THE FOURTH QUARTER 2007

FEBRUARY 2007

**Selected financial data**

|  | <b>In PLN '000</b>   |  | <b>In EUR '000**</b>   |  |
|--|--|--|--|--|
|  | <b>Year to date<br/>period from<br/>01/01/07<br/>to 31/12/07</b> | <b>Year to date<br/>period from<br/>01/01/06<br/>to 31/12/06</b> | <b>Year to date<br/>period from<br/>01/01/07<br/>to 31/12/07</b> | <b>Year to date<br/>period from<br/>01/01/06<br/>to 31/12/06</b> |
| <b>Data related to summary consolidated financial statements</b> |  |  |  |  |
| Interest income  | 1,976,851  | 1,632,218  | 523,420  | 418,614  |
| Fee and commission income  | 1,010,534  | 782,735  | 267,564  | 200,748  |
| Profit before tax  | 1,041,550  | 832,114  | 275,776  | 213,412  |
| Net profit   | 826,190  | 657,056  | 218,754  | 168,515  |
| Increase of net cash   | 2,425,162  | 315,822  | 677,041  | 82,434   |
| Total assets   | 38,920,355   | 35,990,735   | 10,865,537   | 9,394,115  |
| Due to central bank  | -  | 250,113  | -  | 65,283   |
| Financial liabilities valued at amortized cost                   | 27,998,931   | 25,991,136   | 7,816,564  | 6,784,072  |
| Shareholders' equity   | 5,605,071  | 5,417,803  | 1,564,788  | 1,414,127  |
| Share capital  | 522,638  | 522,638  | 145,907  | 136,416  |
| Number of shares   | 130,659,600  | 130,659,600  | 130,659,600  | 130,659,600  |
| Book value per share (PLN / EUR)                                 | 42.90  | 41.47  | 11.98  | 10.82  |
| Capital adequacy ratio (%)                                       | 12.86  | 14.10  | 12.86  | 14.10  |
| Capital adequacy ratio based on Tier 1 capital (%)               | 13.06  | 14.79  | 13.06  | 14.79  |
| Earnings per ordinary share (PLN / EUR)                          | 6.32   | 5.03   | 1.67   | 1.29   |
| Diluted net profit per ordinary share (PLN / EUR)                | 6.32   | 5.03   | 1.67   | 1.29   |

**Data related to summary financial statements of the Bank**

|   |             |             |             |             |
|---|-------------|-------------|-------------|-------------|
| Interest income   | 1,936,192   | 1,609,874   | 512,654     | 412,883     |
| Fee and commission income   | 934,597     | 712,350     | 247,457     | 182,696     |
| Profit before tax   | 1,018,586   | 800,818     | 269,696     | 205,385     |
| Net profit  | 811,157     | 620,392     | 214,774     | 159,112     |
| Increase of net cash  | 2,436,826   | 299,358     | 680,298     | 78,137      |
| Total assets  | 38,025,786  | 35,095,894  | 10,615,797  | 9,160,549   |
| Due to central bank   | -           | 250,113     | -           | 65,283      |
| Financial liabilities valued at amortized cost                    | 27,443,267  | 25,529,437  | 7,661,437   | 6,663,562   |
| Shareholders' equity  | 5,479,067   | 5,304,564   | 1,529,611   | 1,384,570   |
| Share capital   | 522,638     | 522,638     | 145,907     | 136,416     |
| Number of shares  | 130,659,600 | 130,659,600 | 130,659,600 | 130,659,600 |
| Book value per share (PLN / EUR)                                  | 41.93       | 40.60       | 11.71       | 10.60       |
| Capital adequacy ratio (%)  | 12.06       | 13.40       | 12.06       | 13.40       |
| Capital adequacy ratio based on Tier 1 capital (%)                | 13.10       | 14.92       | 13.10       | 14.92       |
| Earnings per ordinary share (PLN / EUR)                           | 6.21        | 4.75        | 1.64        | 1.22        |
| Diluted net profit per ordinary share (PLN / EUR)                 | 6.21        | 4.75        | 1.64        | 1.22        |
| Declared or distributed dividends per ordinary share (PLN / EUR)* | 4.10        | 3.60        | 1.14        | 0.94        |

\* The presented ratios are related to, respectively: dividends distributed in 2007 of the 2006 profit as well as dividends distributed in 2006 from the appropriation of the 2005 profit.

\*\* The following foreign exchange rates were applied to transfer PLN into EUR: for the balance sheet - NBP mid exchange rate as at 31 December 2007 of 3.5820 PLN (as at 31 December 2006: PLN 3.8312); for the income statement - the arithmetic average of month - end NBP exchange rates in first, second, third and fourth quarter 2007 - 3.7768 PLN (in first, second, third and fourth quarter 2006: PLN 3.8991).

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**Consolidated income statement**

| <i>In thousands of PLN</i>  | Fourth quarter                         | Year to date                           | Fourth quarter                         | Year to date                           |
|---|--|--|--|--|
|   | period from<br>01/10/07<br>to 31/12/07 | period from<br>01/01/07<br>to 31/12/07 | period from<br>01/10/06<br>to 31/12/06 | period from<br>01/01/06<br>to 31/12/06 |
| Interest and similar income   | 526,529                                | 1,976,851                              | 422,219                                | 1,632,218                              |
| Interest expense and similar charges  | (211,767)                              | (772,433)                              | (167,895)                              | (605,817)                              |
| <b>Net interest income</b>  | <b>314,762</b>                         | <b>1,204,418</b>                       | <b>254,324</b>                         | <b>1,026,401</b>                       |
| Fee and commission income   | 312,521                                | 1,010,534                              | 216,015                                | 782,735                                |
| Fee and commission expense  | (130,917)                              | (273,955)                              | (45,249)                               | (164,833)                              |
| <b>Net fee and commission income</b>  | <b>181,604</b>                         | <b>736,579</b>                         | <b>170,766</b>                         | <b>617,902</b>                         |
| Dividend income   | 1,667                                  | 5,940                                  | 7                                      | 3,659                                  |
| Net income on financial instruments and revaluation                               | 92,588                                 | 422,502                                | 66,126                                 | 315,906                                |
| Net gain on investment (deposit) securities                                       | 12,211                                 | 30,086                                 | 1,268                                  | 36,571                                 |
| Net gain on investment (capital) instruments                                      | 3,193                                  | 47,489                                 | 84,558                                 | 95,846                                 |
| Other operating income  | 29,676                                 | 107,729                                | 40,899                                 | 128,373                                |
| Other operating expenses  | (10,213)                               | (44,503)                               | (13,255)                               | (39,617)                               |
| <b>Net other operating income</b>   | <b>19,463</b>                          | <b>63,226</b>                          | <b>27,644</b>                          | <b>88,756</b>                          |
| General administrative expenses   | (356,697)                              | (1,406,936)                            | (355,874)                              | (1,371,372)                            |
| Depreciation expense  | (26,639)                               | (108,837)                              | (31,372)                               | (130,186)                              |
| Profit / (loss) on sale of tangible fixed assets                                  | 690                                    | 596                                    | 1,118                                  | 118,316                                |
| Net impairment losses   | 20,048                                 | 55,073                                 | (18,016)                               | 22,535                                 |
| <b>Operating income</b>   | <b>262,890</b>                         | <b>1,050,136</b>                       | <b>200,549</b>                         | <b>824,334</b>                         |
| Share in profits / (losses) of undertakings accounted for under the equity method | (114)                                  | (8,586)                                | 3,670                                  | 7,780                                  |
| <b>Profit before tax</b>  | <b>262,776</b>                         | <b>1,041,550</b>                       | <b>204,219</b>                         | <b>832,114</b>                         |
| Income tax expense  | (54,998)                               | (215,360)                              | (35,944)                               | (175,058)                              |
| <b>Net profit</b>   | <b>207,778</b>                         | <b>826,190</b>                         | <b>168,275</b>                         | <b>657,056</b>                         |
| Weighted average number of ordinary shares  |  | 130,659,600                            |  | 130,659,600                            |
| Net profit per ordinary share (in PLN)  |  | <b>6.32</b>                            |  | <b>5.03</b>                            |
| Diluted net profit per ordinary share (in PLN)                                    |  | <b>6.32</b>                            |  | <b>5.03</b>                            |
| Including:  |  |  |  |  |
| Net profit due to shareholders of dominant entity                                 |  | 826,190                                |  | 657,056                                |
| Net profit due to minority shareholders   |  | -                                      |  | -                                      |

**Consolidated balance sheet**

| <i>In thousands of PLN</i>                     | <b>30/12/2007</b> | <b>31/12/2006</b> |
|--|-------------------|-------------------|
| <b>ASSETS</b>                                  |                   |                   |
| Cash and balances with central bank            | 3,321,503         | 535,623           |
| Financial assets held-for-trading              | 5,153,848         | 4,556,471         |
| Debt securities available-for-sale             | 6,467,638         | 8,247,313         |
| Equity investments valued at equity method     | 58,388            | 67,910            |
| Other equity investments                       | 21,909            | 54,618            |
| Loans and advances                             | 21,205,373        | 19,516,218        |
| <i>to financial sector</i>                     | 8,718,832         | 9,319,272         |
| <i>to non-financial sector</i>                 | 12,486,541        | 10,196,946        |
| Property and equipment                         | 621,263           | 638,246           |
| <i>land, buildings and equipment</i>           | 587,769           | 628,860           |
| <i>investment property</i>                     | 33,494            | 9,386             |
| Intangible assets                              | 1,284,078         | 1,285,753         |
| Deferred income tax assets                     | 374,662           | 274,124           |
| Other assets                                   | 407,514           | 801,920           |
| Non-current assets held-for-sale               | 4,179             | 12,539            |
| <b>Total assets</b>                            | <b>38,920,355</b> | <b>35,990,735</b> |
| <b>LIABILITIES</b>                             |                   |                   |
| Due to central bank                            | -                 | 250,113           |
| Financial liabilities held-for-trading         | 4,391,286         | 3,316,847         |
| Financial liabilities valued at amortized cost | 27,998,931        | 25,991,136        |
| <i>deposits from</i>                           | 26,896,415        | 25,036,782        |
| <i>financial sector</i>                        | 7,085,045         | 6,156,605         |
| <i>non-financial sector</i>                    | 19,811,370        | 18,880,177        |
| <i>other liabilities</i>                       | 1,102,516         | 954,354           |
| Provisions                                     | 37,548            | 44,378            |
| Income tax liabilities                         | 106,632           | 5,687             |
| Other liabilities                              | 780,887           | 964,771           |
| <b>Total liabilities</b>                       | <b>33,315,284</b> | <b>30,572,932</b> |
| <b>EQUITY</b>                                  |                   |                   |
| Issued capital                                 | 522,638           | 522,638           |
| Share premium                                  | 3,028,809         | 3,027,470         |
| Revaluation reserve                            | (182,450)         | (81,501)          |
| Other reserves                                 | 1,443,724         | 1,407,081         |
| Retained earnings                              | 792,350           | 542,115           |
| <b>Total equity</b>                            | <b>5,605,071</b>  | <b>5,417,803</b>  |
| <b>Total liabilities and equity</b>            | <b>38,920,355</b> | <b>35,990,735</b> |

**Consolidated statement of changes in equity**

| <i>In thousands of PLN</i>   | Share capital  | Share premium    | Revaluation reserve | Other reserves   | Retained earnings | Minority share | Total equity     |
|--|----------------|------------------|---------------------|------------------|-------------------|----------------|------------------|
| <b>Balance as at 1 January 2006</b>  | <b>522,638</b> | <b>3,010,452</b> | <b>(64,554)</b>     | <b>1,196,052</b> | <b>584,011</b>    | -              | <b>5,248,599</b> |
| Valuation of financial assets available-for-sale   | -              | -                | 15,649              | -                | -                 | -              | 15,649           |
| Transfer of valuation of sold financial assets available-for-sale to profit and loss account | -              | -                | (36,571)            | -                | -                 | -              | (36,571)         |
| Deferred income tax on valuation of financial assets available-for-sale                      | -              | -                | 3,975               | -                | -                 | -              | 3,975            |
| Foreign exchange gains and losses  | -              | -                | -                   | (881)            | 351               | -              | (530)            |
| Net profit   | -              | -                | -                   | -                | 657,056           | -              | 657,056          |
| Dividends distributed  | -              | -                | -                   | -                | (470,375)         | -              | (470,375)        |
| Transfers to capital   | -              | 17,018           | -                   | 211,910          | (228,928)         | -              | -                |
| <b>Closing balance as at 31 December 2006</b>  | <b>522,638</b> | <b>3,027,470</b> | <b>(81,501)</b>     | <b>1,407,081</b> | <b>542,115</b>    | -              | <b>5,417,803</b> |

| <i>In thousands of PLN</i>   | Share capital  | Share premium    | Revaluation reserve | Other reserves   | Retained earnings | Minority share | Total equity     |
|--|----------------|------------------|---------------------|------------------|-------------------|----------------|------------------|
| <b>Balance as at 1 January 2007</b>  | <b>522,638</b> | <b>3,027,470</b> | <b>(81,501)</b>     | <b>1,407,081</b> | <b>542,115</b>    | -              | <b>5,417,803</b> |
| Valuation of financial assets available-for-sale   | -              | -                | (91,520)            | -                | -                 | -              | (91,520)         |
| Transfer of valuation of sold financial assets available-for-sale to profit and loss account | -              | -                | (33,109)            | -                | -                 | -              | (33,109)         |
| Deferred income tax on valuation of financial assets available-for-sale                      | -              | -                | 23,680              | -                | -                 | -              | 23,680           |
| Foreign exchange gains and losses  | -              | -                | -                   | (3,224)          | 955               | -              | (2,269)          |
| Net profit   | -              | -                | -                   | -                | 826,190           | -              | 826,190          |
| Dividends to be paid   | -              | -                | -                   | -                | (535,704)         | -              | (535,704)        |
| Transfers to capital   | -              | 1,339            | -                   | 39,867           | (41,206)          | -              | -                |
| <b>Closing balance as at 31 December 2007</b>  | <b>522,638</b> | <b>3,028,809</b> | <b>(182,450)</b>    | <b>1,443,724</b> | <b>792,350</b>    | -              | <b>5,605,071</b> |

**Summary consolidated statement of cash flows***In thousands of PLN*

|  | Year to date<br>period from<br>01/01/07<br>to 31/12/07 | Year to date<br>period from<br>01/01/06<br>to 31/12/06 |
|--|--|--|
| <b>Cash at the beginning of reporting period</b> | <b>1,321,162</b>                                       | <b>1,005,340</b>                                       |
| Cash flows from operating activities             | 2,627,939  | 553,584  |
| Cash flows from investing activities             | (81,602)   | 122,507  |
| Cash flows from financing activities             | (121,175)  | (360,269)  |
| <b>Cash at the end of reporting period</b>       | <b>3,746,323</b>                                       | <b>1,321,162</b>                                       |
| <b>Increase / (decrease) in net cash</b>         | <b>2,425,162</b>                                       | <b>315,822</b>   |

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

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

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

The Bank was given REGON number: 000013037 and tax identification number – NIP: 526-030-02-91.

The Bank and the Group were set up for unspecified period of time.

Issued capital of the Bank equals PLN 522,638,400 and is divided into 130,659,600 common shares, with nominal value of PLN 4.00 per share. The Bank's shares are quoted at the Warsaw Stock Exchange.

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

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

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

The Group consists of the following subordinated entities:

| Subsidiaries  | Registered office | % of votes at the General Meeting of Shareholders |            |
|---|-------------------|---|------------|
|   |                   | 31.12.2007  | 31.12.2006 |
| <i>Entities fully consolidated</i>                    |                   |   |            |
| Dom Maklerski Banku Handlowego S.A.                   | Warsaw            | 100.00  | 100.00     |
| Handlowy - Leasing Sp. z o.o.                         | Warsaw            | 100.00  | 100.00     |
| Handlowy Investments S.A.                             | Luxemburg         | 100.00  | 100.00     |
| PPH Spomasz Sp. Z o.o. (under liquidation)            | Warsaw            | 100.00  | 100.00     |
| <i>Entities accounted for under the equity method</i> |                   |   |            |
| Handlowy Inwestycje Sp. Z o.o.                        | Warsaw            | 100.00  | 100.00     |
| Handlowy Investments II S.A.r.l.                      | Luxembourg        | 100.00  | 100.00     |
| Bank Rozwoju Cukrownictwa S.A.                        | Poznań            | 100.00  | 100.00     |

In the fourth quarter of 2007 there were no changes in the holding of shares in subordinates.

## 2. Basis of preparation of the report

The interim consolidated financial statements of the Group for the reporting period ending on 31 December 2007 have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and in respect to matters that are not regulated by the above standards, in accordance with the requirements of the Accounting Act dated 29 September 1994 (Official Journal from 2002, No. 76, item 694 with amendments) and respective bylaws and regulations, and the requirements for issuers of securities admitted or sought to be admitted to trading on an official stock-exchange listing market.

These interim consolidated financial statements comply with IAS 34 on the preparation of interim financial statements.

The interim consolidated financial statements of the Group for the fourth quarter 2007 have been prepared in accordance with accounting principles adopted and summarized in the interim consolidated financial statements of the Group for the period ending 30 June 2007.

The interim consolidated financial statements of the Group have been prepared for the period from 1 January 2007 to 31 December 2007. Comparable financial data is presented for the period from 1 January 2006 to 31 December 2006..

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

## 3. Macroeconomic Trends and Conditions Prevailing in Money, FX and Capital Markets

Favourable economic trend continued through the final quarter of the year, expressing itself particularly in high domestic demand. Retail sales in the October to December period grew at an average rate of 17% YOY, with industrial production growing by circa 9.6% YOY. The dynamic economic growth continued to stimulate labour market development, with corporate sector salaries increasing by 10% YOY.

Following an extended period of relatively low inflation, CPI rose to 4.0% in December – above the upper limit of the inflation target set by the Monetary Policy Council (1.5-3.5%). Material food and fuel price increases were the main contributors to the raise in inflation. In response to the increased rate of price growth, in November, the Monetary Policy Council decided to move the reference rate up by 25



bps to 5.00%.

A significant factor impacting the conditions prevailing on the financial markets in the fourth quarter of 2007 was the continued development of the United States lending market crisis and its spread into other markets. In spite of turbulences in the global financial markets, as at the end of December EUR/PLN exchange rate declined to PLN 3.5820, compared to PLN 3.7775 as at the end of the third quarter. The factors that contributed to strengthening of the Polish currency included raise of domestic interest rates and a brief raise in market expectations for early adoption of the euro by Poland, which followed the October parliamentary elections.

The fourth quarter of 2007 was not favourable for equity investors. WIG, the Polish capital market's main index, declined by nearly 8%, which as at the end of 2007 stood at 55,649 points. Over the same period, WIG20, the market's index of the largest companies, declined by nearly 5%. Small and medium enterprises turned out to be the lowest yield investments, with the mWIG40 index having lost close to 12% and the sWIG80 index near 11.5%. The downward trends registered in the fourth quarter of 2007 represented continuation of the negative trends of the preceding quarter, fuelled by, among others, the U.S. market news, concerns about prospects of global economy and the high valuations of Polish companies. The fourth quarter also saw outflow of assets from equity funds investing in Polish stock in favour of lower risk funds and foreign assets based products.

In the final quarter of 2007, 28 additional companies received stock market listings (including 2 companies that transferred from the CeTO market and 6 foreign companies), as a result at the end of the year the Warsaw Stock Exchange traded 351 equities (including 328 domestic and 23 foreign). Market capitalisation of domestic companies declined from PLN 542 billion at the end of the third quarter to PLN 509 billion at the end of the year. Total market capitalisation (including the foreign companies) increased to PLN 1,080 billion at the end of 2007. This substantial increase in market cap was, among others, a result of the initial public offering of UniCredit, with capitalisation exceeding PLN 270 billion.

#### The Warsaw Stock Exchange (WSE) Equity Indices, as at 28 December 2007:

| Index                  | 28.12.2007 | 28.09.2007 | QOQ               | 29.12.2006 | YOY               |
|------------------------|------------|------------|-------------------|------------|-------------------|
|                        |            |            | Percentage Change |            | Percentage Change |
| WIG                    | 55 648.54  | 60 368.92  | (7.82%)           | 50 411.82  | 10.4%             |
| WIG-PL                 | 55 011.93  | 59 999.98  | (8.31%)           | 50 361.39  | 9.2%              |
| WIG20                  | 3 456.05   | 3 633.64   | (4.89%)           | 3 285.49   | 5.2%              |
| Mwig40                 | 4 028.37   | 4 5658.14  | (11.82%)          | 3 733.26   | 7.9%              |
| Swig80                 | 15 917.92  | 17 993.12  | (11.53%)          | 12 716.59  | 25.2%             |
| TECHWIG                | 1 052.13   | 1 129.73   | (6.87%)           | 1 201.50   | (12.4%)           |
| Sector sub-index       |            |            |                   |            |                   |
| WIG-Banks              | 7 949.94   | 8 426.28   | (5.65%)           | 7 085.84   | 12.2%             |
| WIG-Construction       | 8 673.57   | 10 076.37  | (13.92%)          | 7 703.50   | 12.6%             |
| WIG-Developers*        | 4 788.89   | 5 509.96   | (13.09%)          | -          | (25.9%)           |
| WIG-IT                 | 1 764.67   | 1 971.78   | (10.50%)          | 1 756.58   | 0.5%              |
| WIG-Media              | 4 911.01   | 4 481.56   | 9.58%             | 4 012.97   | 22.4%             |
| WIG-Fuel industry      | 3 548.44   | 3 734.17   | (4.97%)           | 3 149.10   | 12.7%             |
| WIG-Food industry      | 3 317.96   | 3 791.62   | (12.49%)          | 3 832.40   | (13.4%)           |
| WIG-Telecommunications | 1 270.21   | 1 206.44   | 5.29%             | 1 340.01   | (5.2%)            |

\*index registered since 18 June 2007

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

**Volumes of trade in shares, bonds and derivative instruments on WSE:**

|  | Q4 2007 | Percentage Change | Q3 2007 | Percentage Change | Q4 2006 |
|--|---------|-------------------|---------|-------------------|---------|
| Shares (PLN m)                             | 107 546 | (0.01%)           | 107 554 | 13.0%             | 95 180  |
| Bonds (PLN m)                              | 561     | (21.6%)           | 716     | (68.1%)           | 1 761   |
| Futures and options contracts ('000 units) | 2 749   | (1.4%)            | 2 787   | 105.1%            | 1 340   |

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

Value of trading in shares in the fourth quarter of 2007 reached PLN 107.5 billion, which was equivalent to trading levels of the third quarter. Compared to the fourth quarter of 2006, trading in equities rose by 13%. 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 reached 2.75 million transactions, which represented a 105% increase compared to the fourth quarter of 2006.

Debt securities market in the fourth quarter of 2007 was characterised by sluggish investor activity as bonds trading declined by over 68% compared to a year earlier, and reached PLN 561 million.

#### 4. Banking Sector

Net financial result of the banking sector after four quarters of 2007 exceeded PLN 13 billion, which represented a 23% increase over the equivalent period result of the year 2006. Sector profitability increased primarily as a result of substantial interest income and commission income growth. Net income on financial operations increased by 23%. On annual basis net income on FX transactions increased by 20% whilst income from shares and other variable income financial instruments declined by 14%. Also, high revenue growth was accompanied by low expense growth. Operational costs of banks after four quarters of 2007 rose only by 4% compared to equivalent period of 2006.

After four quarters of 2007 lending to the corporate sector reached 24% in YOY terms and 3% in QOQ terms, whereas corporate deposits grew at a rate of 15% in YOY terms and as much as 9% in QOQ terms. Retail loan portfolios exhibited very high growth rates of 42% in YOY terms and of 7% in QOQ terms (including mortgage lending portfolios increasing in total by 51% in YOY terms and by 7% in QOQ terms) while retail deposits grew by 9% in YOY terms and by 5% in QOQ terms. The factors which contributed to retail deposits growing in the banking sector at rates higher than in the preceding quarters of the year included the mounting uncertainty in the capital markets and the interest rate increases, which improved attractiveness of bank deposits.

#### 5. Financial analysis of the Group's results

- Balance sheet

As at 31 December 2007 assets amounted to PLN 38,9 billion as compared with PLN 36,0 billion at the end of December 2006 and increased by 2,9 PLN billion (i.e. 8%).

The significant increase (PLN 2,3 billion, i.e. 22%) was recorded by loans to non-financial sector, which amounted to PLN 12,5 billion as at the end of fourth quarter of 2007.

**Loans and advances to non-financial sector**

| million PLN                        | 31.12.2007    | 31.12.2006    | Change       |            |
|------------------------------------|---------------|---------------|--------------|------------|
|                                    |               |               | million PLN  | %          |
| <i>corporate banking customers</i> | 7 767         | 6 570         | 1 197        | 18%        |
| <i>retail banking customers</i>    | 4 719         | 3 627         | 1 092        | 30%        |
| <b>Total</b>                       | <b>12 486</b> | <b>10 197</b> | <b>2 289</b> | <b>22%</b> |

The main driver of the growth were consumer loans, which increased by PLN 1,1 billion (i.e. 30%), primarily in the area of credit cards loans as well as cash loans. Corporate loans also recorded a substantial growth and increased by PLN 1,2 billion (i.e. 18%). Additionally, worth mention that at the same time at risk of impairment loans decreased and amounted to PLN 1,6 billion at the end of fourth quarter 2007.

**Loans and advances (gross) to non-financial sector**

| million PLN                                       | 31.12.2007    | 31.12.2006    | Change       |            |
|---|---------------|---------------|--------------|------------|
|   |               |               | million PLN  | %          |
| <i>Not at risk of impairment</i>                  | 12 217        | 9 947         | 2 270        | 23%        |
| <i>At risk of impairment</i>                      | 1 635         | 1 791         | (156)        | (9%)       |
| <b>Total</b>                                      | <b>13 852</b> | <b>11 738</b> | <b>2 114</b> | <b>18%</b> |
| Impairment  | 1 366         | 1 541         | (175)        | (11%)      |
| <b>Loans and advances to non-financial sector</b> | <b>12 486</b> | <b>10 197</b> | <b>2 289</b> | <b>22%</b> |
| <b>Provision coverage ratio</b>                   | <b>84%</b>    | <b>86%</b>    |              |            |

Additionally, significant growth, amounting to PLN 2,8 billion (i.e. 6 times) is visible in the “Cash and balances with central bank” line. The increase was caused by the obligation to keep an average balance of a regulatory provision at the NBP account at the declared level. At the same time, there was a decline of debt securities available-for-sale by PLN 1,8 billion (i.e. 22%).

On liabilities side, the highest nominal growth was recorded in deposits, both financial and non-financial sector. Deposits from financial sector increased by PLN 0,9 billion (i.e. 15%), primarily as a result of investment funds’ term deposits due to the situation on the market, while deposits from non-financial sector increased by PLN 0,9 billion (i.e. 5%). There was a significant increase of current accounts balance (increase by PLN 2,3 billion, i.e. 39%), out of it the growth in consumer banking only was PLN 2,1 billion (i.e. 110%) which is contributable to much extent to promotional campaign of the Citibank Saving Account. At the same time, it had an impact on decrease of term deposits in consumer banking.

**Deposits from non-financial loans**

| million PLN                        | 31.12.2007    | 31.12.2006    | Change         |              |
|------------------------------------|---------------|---------------|----------------|--------------|
|                                    |               |               | million PLN    | %            |
| <b>Current accounts:</b>           | <b>8 050</b>  | <b>5 770</b>  | <b>2 280</b>   | <b>40%</b>   |
| <i>corporate banking customers</i> | <i>4 029</i>  | <i>3 859</i>  | <i>170</i>     | <i>4%</i>    |
| <i>retail banking customers</i>    | <i>4 021</i>  | <i>1 911</i>  | <i>2 110</i>   | <i>110%</i>  |
| <b>Deposits:</b>                   | <b>11 748</b> | <b>13 090</b> | <b>(1 342)</b> | <b>(10%)</b> |
| <i>corporate banking customers</i> | <i>9 506</i>  | <i>10 109</i> | <i>(603)</i>   | <i>(6%)</i>  |
| <i>retail banking customers</i>    | <i>2 242</i>  | <i>2 981</i>  | <i>(739)</i>   | <i>(25%)</i> |
| <b>Accrued interest</b>            | <b>13</b>     | <b>20</b>     | <b>(7)</b>     | <b>(34%)</b> |
| <b>Total</b>                       | <b>19 811</b> | <b>18 880</b> | <b>931</b>     | <b>5%</b>    |

- Income statement

In 2007, the Group reported income before tax of PLN 1 042 million, which is by PLN 209 million (i.e. 25%) higher as compared to 2006. At the same time the Group's net income amounted to PLN 826 million, which means increase by PLN 169 million (i.e. 26%) .

Both, in 2006 and 2007 there were few significant one-offs, which had an impact on the Group's results.

In the first quarter of 2006 total gain on sale of shares of Towarzystwo Funduszy Inwestycyjnych Banku Handlowego w Warszawie S.A., Handlowy Zarządzanie Aktywami S.A., equities of the associated undertaking Handlowy Heller S.A. and the organized part of the Bank's enterprise including card's transactions settlements within the Consumer Bank amounted to PLN 114 million.

In the second quarter of 2006, income amounting to PLN 6 million related to shares granted by MasterCard was recorded, and in the third quarter of 2006 result on sale of NFI Empik Media & Fashion shares by the Bank's subsidiary Handlowy Investments S.A. (I tranche). In the fourth quarter of 2006, the Bank recorded PLN 85 million result on equity instruments as a result of sale NFI Empik Media & Fashion (II tranche) and Eastbridge B.V. shares by Handlowy Investments S.A.

The net results for the first quarter of 2007 contain result on sale of Stalexport S.A. in the amount of PLN 7 million. Results of the second quarter of 2007 contain PLN 37 million income from the sale of minority shares of NFI Empik Media & Fashion by Handlowy Investments S.A., subordinate entity of the Bank and the sale of shares of MasterCard. Additionally, in the second quarter of 2007 the provision of PLN 10 million related to penalty imposed by Office of Competition and Consumer Protection was recorded in the books due to the proceeding related to "interchange" fees in the banking sector. In the fourth quarter of 2007, the Bank recorded PLN 3 million income on equity instruments as a result of sale NFI Magna Polonia S.A. shares by Handlowy Investments S.A, the Bank's subsidiary.

Provided above stated transactions are excluded, the growth of the profit before tax for 2007 compared to 2006 amounted to PLN 388 million (i.e. 63%), whereas growth of the net profit was PLN 310 million (i.e. 64%).

In the fourth quarter of 2007, the Group reported income before tax of PLN 263 million, which is by PLN 59 million (i.e. 29%) higher as compared to the fourth quarter of the previous year.

The consolidated net income in the same period amounted to PLN 208 million and grew by PLN 40 million (i.e. 23%) comparing to the corresponding period of the previous year.

Provided above stated transactions relating to the fourth quarter of 2007 and fourth quarter of 2006 are excluded, the growth of the profit before tax for the fourth quarter of 2007 compared to the fourth quarter of 2006 amounted to PLN 140 million (i.e. 117%), whereas growth of the net profit was PLN

121 million (i.e. 144%).

Main factors that determined the growth of the Group's operating result for the fourth quarter of 2007 as compared to the corresponding period of 2006:

- The net interest income amounting to PLN 315 million in comparison with PLN 254 million noted in the fourth quarter of 2006 (the increase of PLN 60 million i.e. 24%), resulting mainly from the rise in interest income from both consumer and corporate loans as well as credit cards, and from placements in banks, despite of securities available for sale portfolio decline and higher non financial sector deposits financing costs,

### Interest income

| PLN '000   | 01.10 -          | 01.10 -          | Change          |            |
|--|------------------|------------------|-----------------|------------|
|  | 31.12.2007       | 31.12.2006       | PLN '000        | %          |
| <b>Interest and similar income from:</b>         |                  |                  |                 |            |
| Central Bank                                     | 16 060           | 3 698            | 12 362          | 334%       |
| Placements in banks                              | 98 069           | 66 192           | 31 877          | 48%        |
| Loans and advances, of which:                    | 312 613          | 228 086          | 84 527          | 37%        |
| <i>financial sector</i>                          | 2 047            | 2 808            | (761)           | (27%)      |
| <i>non-financial sector</i>                      | 310 566          | 225 278          | 85 288          | 38%        |
| Debt securities available-for-sale               | 81 593           | 107 290          | (25 697)        | (24%)      |
| Debt securities held-for-trading                 | 18 194           | 16 953           | 1 241           | 7%         |
| <b>Total</b>                                     | <b>526 529</b>   | <b>422 219</b>   | <b>104 310</b>  | <b>25%</b> |
| <b>Interest expense and similar charges for:</b> |                  |                  |                 |            |
| Central Bank                                     | (42 722)         | (38 849)         | (3 873)         | 10%        |
| Deposits from financial sector (excl. banks)     | (27 785)         | (17 668)         | (10 117)        | 57%        |
| Deposits from non-financial sector               | (148 674)        | (107 567)        | (41 107)        | 38%        |
| Loans and advances received                      | 7 414            | (3 811)          | 11 225          | (295%)     |
| <b>Total</b>                                     | <b>(211 767)</b> | <b>(167 895)</b> | <b>(43 872)</b> | <b>26%</b> |
| <b>Interest income</b>                           | <b>314 762</b>   | <b>254 324</b>   | <b>60 438</b>   | <b>24%</b> |

- The net fee and commission income amounting to PLN 182 million in comparison with PLN 171 million recorded in the fourth quarter of 2006 (the increase of PLN 11 million i.e. 6%), primarily coming from commissions on insurance and investment products brought by retail banking,

**Net fee and commission income**

| <i>PLN '000</i>                             | <b>01.10 -<br/>31.12.2007</b> | <b>01.10 -<br/>31.12.2006</b> | <b>Change</b>   |             |
|---|-------------------------------|-------------------------------|-----------------|-------------|
|   |                               |                               | <b>PLN '000</b> | <b>%</b>    |
| <b><i>Fee and commission income</i></b>     |                               |                               |                 |             |
| Insurance and investment products           | 171 045                       | 76 910                        | 94 135          | 122%        |
| Payment and credit cards                    | 45 976                        | 44 099                        | 1 877           | 4%          |
| Transaction services                        | 33 744                        | 31 040                        | 2 704           | 9%          |
| Custody services                            | 23 896                        | 22 554                        | 1 342           | 6%          |
| Brokerage operations                        | 17 865                        | 16 671                        | 1 194           | 7%          |
| Other                                       | 19 995                        | 24 741                        | (4 746)         | (19%)       |
| <b>Total</b>                                | <b>312 521</b>                | <b>216 015</b>                | <b>96 506</b>   | <b>45%</b>  |
| <b><i>Fee and commission expense</i></b>    |                               |                               |                 |             |
| Payment and credit cards                    | (21 232)                      | (19 991)                      | (1 241)         | 6%          |
| Insurance and investment products           | (95 695)                      | (12 898)                      | (82 797)        | 642%        |
| Brokerage operations                        | (3 741)                       | (5 945)                       | 2 204           | (37%)       |
| Other                                       | (10 249)                      | (6 415)                       | (3 834)         | 60%         |
| <b>Total</b>                                | <b>(130 917)</b>              | <b>(45 249)</b>               | <b>(85 668)</b> | <b>189%</b> |
| <b><i>Net fee and commission income</i></b> |                               |                               |                 |             |
| Insurance and investment products           | 75 350                        | 64 012                        | 11 338          | 18%         |
| Payment and credit cards                    | 24 744                        | 24 108                        | 636             | 3%          |
| Transaction services                        | 33 744                        | 31 040                        | 2 704           | 9%          |
| Custody services                            | 23 896                        | 22 554                        | 1 342           | 6%          |
| Brokerage operations                        | 14 124                        | 10 726                        | 3 398           | 32%         |
| Other                                       | 9 746                         | 18 326                        | (8 580)         | (47%)       |
| <b>Total</b>                                | <b>181 604</b>                | <b>170 766</b>                | <b>10 838</b>   | <b>6%</b>   |

- Net income on financial instruments and revaluation amounting to PLN 93 million as compared to PLN 66 million for the fourth quarter of 2006 (increase by PLN 26 million, i.e. 40%). The growth was achieved primarily through the active sale of products for customers as well as through effective management of the Bank's own portfolio. There was significant increase of foreign exchange transactions with non-banking customers and FX options transactions, additionally market-linked deposits product continued in a very strong growth as well,
- Result on securities available for sale amounting to PLN 12 million as compared to PLN 1 million for the fourth quarter of 2006,
- Net result on other operating income and expenses of PLN 19 million in comparison with PLN 28 million for the fourth quarter of 2006. The higher result in the Corporate Banking Sector in the fourth quarter of 2006 primarily comes from the release of excess provision created for renovation of one of the buildings occupied by the Bank,
- General administrative expenses, overheads and the depreciation expense amounting to PLN 383 million as compared to PLN 387 million in the fourth quarter of 2006 (decrease by PLN 4 million, i.e. 1%). There was a decrease of depreciation and staff expenses in the Corporate Banking Sector, primarily due to lower valuation costs of equity compensation plans, under which the Group's employees may receive awards under stock option programs based on stock options granted on Citigroup common stock and also under stock award programs based on shares of Citigroup common

stock in the form of deferred stock. Lower staff expenses are also an effect of lower level of provisions for bonuses and annual awards created in the fourth quarter of 2007 as compared to those created in the fourth quarter of 2006. At the same time, there was an increase of expenses in the Consumer Banking Sector, which was caused by intensified marketing activities (mainly media – TV and press) as well as increase of remuneration costs both variable (as a result of good sales results) and fixed (increase of employment in distribution area relating to business growth and expansion of distribution channels),

### **General administrative expenses and depreciation expense**

| <i>PLN '000</i>                                | <b>01.10 -</b>    | <b>01.10 -</b>    | <b>Change</b>   |             |
|--|-------------------|-------------------|-----------------|-------------|
|  | <b>31.12.2007</b> | <b>31.12.2006</b> | <b>PLN '000</b> | <b>%</b>    |
| Staff expenses                                 | (168 689)         | (191 273)         | 22 584          | (12%)       |
| Administrative expenses                        | (188 008)         | (164 601)         | (23 407)        | 14%         |
| Depreciation of tangible and intangible assets | (26 639)          | (31 372)          | 4 733           | (15%)       |
| <b>Total</b>                                   | <b>(383 336)</b>  | <b>(387 246)</b>  | <b>3 910</b>    | <b>(1%)</b> |

- Net recovery amounting to PLN 20 million in comparison to net write offs in the fourth quarter of 2006 amounting to PLN 18 million, which is a result of portfolio quality improvement, as well as improvement of customers standing and higher actual repayments of corporate loans.

#### ▪ Ratios

In the analyzed period main financial ratios improved. The positive trend is visible in both profitability and efficiency ratios. In comparison to the end of 2006, return on equity ratio improved by 3 percentage points and reached 17% at the end of 2007 where as return on assets increased in this period from 1.9% to 2,1% at the end of 2007.

Cost / Income ratio decreased from 64% in the fourth quarter of 2006 to 61% in the fourth quarter of 2007, and from 69% in 2006 to 60% in 2007.

| <b>Financial ratios</b>   | <b>31.12.2007</b> | <b>31.12.2006</b> |
|---|-------------------|-------------------|
| ROE   | 17%               | 14%               |
| ROA   | 2,1%              | 1,9%              |
| Cost / Income ( <i>quarterly</i> )                                | 61%               | 64%               |
| Cost / Income ( <i>yearly</i> )                                   | 60%               | 69%               |
| Loans to non-financial sector/ Deposits from non-financial sector | 63%               | 54%               |
| Loans to non-financial sector/ Assets                             | 32%               | 28%               |
| Net interest income / Revenue                                     | 50%               | 42%               |
| Net fee and commission income / Revenue                           | 29%               | 28%               |

### **Employment in the Group**

| <i>employees</i>               | <b>2007</b> | <b>2006</b> | <b>Change</b>    |          |
|--------------------------------|-------------|-------------|------------------|----------|
|                                |             |             | <b>employees</b> | <b>%</b> |
| Average employment in 4Q       | 5 819       | 5 665       | 154              | 3%       |
| Average employment in the year | 5 722       | 5 539       | 183              | 3%       |
| Employment at the year end     | 5 921       | 5 647       | 273              | 5%       |

As at 31 December 2007, capital adequacy ratio of the Group stood at 12,86%, down 1.24 percentage points compared with the end of 2006, which was primarily caused by increase of capital requirement to cover credit risk.

### **Capital adequacy ratio**

| <b>PLN '000</b>  | <b>31.12.2007</b> | <b>31.12.2006</b> |
|--|-------------------|-------------------|
| <b>Own funds for the calculation of capital adequacy ratio</b>                 | <b>3 434 923</b>  | <b>3 390 917</b>  |
| <b>Risk-weighted assets and off-balance sheet liabilities (bank portfolio)</b> | <b>17 422 283</b> | <b>15 398 733</b> |
| <b>Total capital requirement, including:</b>                                   | <b>2 137 198</b>  | <b>1 923 574</b>  |
| - capital requirement to cover credit risk                                     | 1 395 383         | 1 231 899         |
| - capital requirement to cover excess exposure concentration and large         | 356 051           | 327 073           |
| - total capital requirements to cover market risk                              | 253 531           | 248 418           |
| - other capital requirements   | 132 233           | 116 184           |
| <b>Capital adequacy ratio</b>  | <b>12,86%</b>     | <b>14,10%</b>     |

*Capital Adequacy Ratio as at 31 Decemberr 2007 was calculated according to the rules stated in the Resolution No 1/2007 of Commission for Banking Supervision dated 13 March 2007 regarding the extent and detailed rules of calculation of capital requirements due to particular risks (...) (Dz. Urz. NBP Nr 2, poz. 3), where as at 31 December 2006 according to the rules stated in the Resolution No 4/2004 of Commission for Banking Supervision dated 8 September2007 regarding the extent and detailed rules of calculation of capital requirements due to particular risks (...) (Dz. Urz. NBP Nr 15, poz. 25).*



## 6. Segmental reporting

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

### *- Corporate Bank*

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

### *- Consumer Bank*

Within the Consumer Bank segment the Group provides products and financial services to individuals and also to micro enterprises and individual entrepreneurs through the Citibusiness offer. Apart from maintaining bank accounts and providing an extensive lending and deposit offer, it also offers cash loans, mortgage loans and credit cards, as well as provides asset management services and acts as agent in the sale of investment and insurance products. Customers of the Consumer Bank have the branch network, ATMs, telephone services, and electronic banking services at their disposal and a network of financial agents offering products of this segment. The valuation of segment assets and liabilities, income and segment results is based on the Group's accounting policies.

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

**Consolidated income statement by business segment**

| For the period  | 2007           |                |                   | 2006           |                |                   |
|---|----------------|----------------|-------------------|----------------|----------------|-------------------|
|   | Corporate Bank | Consumer Bank  | Total             | Corporate Bank | Consumer Bank  | Total             |
| <i>w tys. zł</i>  |                |                |                   |                |                |                   |
| Net interest income   | 533,755        | 670,663        | 1,204,418         | 447,055        | 579,346        | 1,026,401         |
| Net fee and commission income   | 309,890        | 426,689        | 736,579           | 298,316        | 319,586        | 617,902           |
| Dividend income   | 5,923          | 17             | 5,940             | 3,659          | -              | 3,659             |
| Net income on traded financial instruments and revaluation                      | 389,482        | 33,020         | 422,502           | 280,186        | 35,720         | 315,906           |
| Net gain on investment (deposit) securities                                     | 30,086         | -              | 30,086            | 36,571         | -              | 36,571            |
| Net gain on investment (capital) instruments                                    | 43,700         | 3,789          | 47,489            | 95,846         | -              | 95,846            |
| Net other operating income  | 70,948         | (7,722)        | 63,226            | 71,483         | 17,273         | 88,756            |
| General administrative expenses   | (653,508)      | (753,428)      | (1,406,936)       | (675,152)      | (696,220)      | (1,371,372)       |
| Depreciation expense  | (76,710)       | (32,127)       | (108,837)         | (95,300)       | (34,886)       | (130,186)         |
| Profit / (loss) on sale of tangible fixed assets                                | 597            | (1)            | 596               | 105,236        | 13,080         | 118,316           |
| Net impairment losses   | 102,907        | (47,834)       | 55,073            | 61,066         | (38,531)       | 22,535            |
| <b>Operating income</b>   | <b>757,070</b> | <b>293,066</b> | <b>1,050,136</b>  | <b>628,966</b> | <b>195,368</b> | <b>824,334</b>    |
| Share in profits (losses) of undertakings accounted for under the equity method | (8,586)        | -              | (8,586)           | 7,780          | -              | 7,780             |
| <b>Profit before tax</b>  | <b>748,484</b> | <b>293,066</b> | <b>1,051,550</b>  | <b>636,746</b> | <b>195,368</b> | <b>832,114</b>    |
| Income tax expense  |                |                | (215,360)         |                |                | (175,058)         |
| <b>Net profit</b>   |                |                | <b>826,190</b>    |                |                | <b>657,056</b>    |
| <b>As at:</b>   |                |                | <b>31.12.2007</b> |                |                | <b>31.12.2006</b> |
| <b>Assets, including</b>  | 34,040,092     | 4,880,263      | <b>38,920,355</b> | 32,161,847     | 3,828,888      | <b>35,990,735</b> |
| <i>Non-current assets held-for-sale</i>   | 4,179          | -              | 4,179             | 12,539         | -              | 12,539            |
| <b>Liabilities</b>  | 31,474,063     | 7,446,292      | <b>38,920,355</b> | 29,824,930     | 6,165,805      | <b>35,990,735</b> |

## 7. Activities of the Group in the second quarter of 2007

### 1. Citi Markets and Banking

- *Summary of Results*

| <i>w tys. zł.</i>   | 4Q 2007        | 4Q 2006        | Change          |             |
|---|----------------|----------------|-----------------|-------------|
|   |                |                | PLN MM          | %           |
| Net interest income   | 136 102        | 100 532        | 35 570          | 35%         |
| Net fee and commission income   | 75 868         | 76 820         | (952)           | (1%)        |
| Dividend income   | 1 667          | 7              | 1 660           | n.m.        |
| Net income on traded financial instruments and revaluation                        | 84 109         | 58 561         | 25 548          | 44%         |
| Net gain on investment (deposit) securities                                       | 12 211         | 1 268          | 10 943          | 863%        |
| Net gain on investment (capital) instruments                                      | 3 193          | 84 558         | (81 365)        | (96%)       |
| Net other operating income  | 19 485         | 24 395         | (4 910)         | (20%)       |
| <b>Revenue</b>  | <b>332 635</b> | <b>346 141</b> | <b>(13 506)</b> | <b>(4%)</b> |
| General administrative expenses and depreciation                                  | (186 306)      | (200 789)      | 14 483          | (7%)        |
| Profit / (loss) on sale of tangible fixed assets                                  | 736            | 956            | (220)           | (23%)       |
| Net impairment losses   | 44 024         | (4 550)        | 48 574          | (1068%)     |
| Share in profits / (losses) of undertakings accounted for under the equity method | (114)          | 3 670          | (3 784)         | (103%)      |
| <b>Profit before tax</b>  | <b>190 975</b> | <b>145 428</b> | <b>45 547</b>   | <b>31%</b>  |
| <b>Cost / Income</b>  | <b>56%</b>     | <b>58%</b>     |                 |             |

Main factors that determined the gross profit of Corporate Banking segment for the fourth quarter of 2007 as compared to the corresponding period of 2006:

- Increase of net interest income resulting mainly from the rise in interest income from loans due to loan portfolio growth as well as higher income from placements in banks,
- Decrease of net fee and commission income caused by lower fees in corporate finance area despite better fees from brokerage activity, higher fees from transaction and custody services,
- Increase of Treasury result, primarily due to active sale of products for customers, effective management of the Bank's own portfolio but also higher gain on investment securities,
- Decrease of general administrative expenses, overheads and depreciation expense primarily due to lower depreciation expenses and staff costs whereas marketing and advertising costs increased,
- net recoveries, which is a result of portfolio quality improvement, as well as improvement of

customers standing and higher actual repayments of corporate loans.

a) Transaction Servicing

- *Payments and Receivables*

In the fourth quarter of 2007 the Bank carried out a series of marketing campaigns aimed at promotion of the Unikasa Payment Processing Network brand. The promotion has the objective of ensuring continuous growth in the number of transactions and increasing the Unikasa Network recognition in the market. The Bank carried out joint promotional projects together with its new Partners. Information on the new bill payment facility provided by the Unikasa Network was featured on invoices, envelopes, leaflets, posters and newsletters addressed to new customers. Unikasa was also featured at a number of trade conferences, among others, of the power sector, as well as product conferences organised by the Bank throughout Poland.

The Bank has also conducted activities aimed at popularising direct debit. As a result, the volumes served in the fourth quarter of 2007 grew by 12% compared to the equivalent period a year earlier. Worth underscoring is the fact that the fourth quarter of 2007 was a record-breaking in the history of this product offering in terms of the number of processed transactions. A total of 780,000 transactions were executed, representing nearly half of all the direct debit transactions executed in the Polish market – thus the Bank once more ranked as the leader of this market segment.

In the fourth quarter of 2007 the Bank also registered a 4% increase in the number of domestic bank transfer payments compared to the equivalent period a year earlier. In the fourth quarter of 2007 the number of manually processed domestic payments was reduced to 0.37% of all payments executed by the Bank. In the equivalent period of the year 2006 that rate stood at 0.5%. The aim of increasing the share of automatically processed payment orders is important for reduction of costs and effective use of resources.

In the fourth quarter of 2007 the Bank also executed a record number of foreign bank transfer payments in foreign currencies. In October alone the number of such payment transactions exceeded 50,000 representing a 20% growth over the same period a year earlier.

In pursuance of its development strategy and the mission of delivering best products, the Bank implemented a project that will enable the customers execution of currency payments within the European Real Time Gross Settlement (RTGS) system. At implementation of this project the Bank's product offer will have increased in attractiveness as customers are enabled to settle euro denominated payments in real time.

As it proceeded to automate its processes and to apply best market practices the Bank altered its operational processes with the aim of achieving compliance with guidelines developed by the Financial Action Task Force (FATF), an international organisation with the task of countering money laundering and financing of terrorist activities.

In comparison with the fourth quarter of 2006, in the fourth quarter of 2007 the Bank registered 20% growth in Electronic Postal Cash Transfer transactions. Moreover, in the final quarter of 2007 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.

- *Liquidity and Cash Management Products*

As compared to the final quarter of a year earlier, in the fourth quarter of 2007 the Bank registered an increase in average current account and time deposit balances. Current account balances were largely

maintained in Polish zlotys (more than 67%), with euro deposits representing 21% and U.S. dollars 9% of the collected funds.

A special module for processing ILM or liquidity management products was launched within the Bank's settlement system. This expands the Bank's product capabilities and specifically automates management of such products as Consolidated Account Plus, Virtual Consolidation and Actual Cash Pooling.

The Reserved Account facility offer is gaining in market recognition. In the product, customers gain an excellent contract security instrument. Funds deposited on Reserved Account are released to a transaction party at fulfilment of conditions specified in a contract. The Bank can prevent any withdrawal of funds that is inconsistent with contractual provisions. At the same time, Reserved Account is a highly flexible solution, adaptable to customers' needs and transaction specifics. In the fourth quarter of 2007 the Bank executed a number of new facility agreements linked to the largest transactions then in the making on the market, among others, to a property market acquisition and to contract for delivery of marketing services.

With the aims 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. The security gains at implementation of Reserved Account, including the largest transactions, met with acceptance of potential users.

- *Electronic Banking*

The fourth quarter of 2007 was a record-breaking one in terms of the number of electronically processed transactions, with over 10 million orders executed. This represents an increase of nearly 7.6% compared to the fourth quarter of 2006.

In the fourth quarter of 2007 the Bank performed over 430 activations of the CitiDirect electronic banking system, which compared to the equivalent period in 2006 represents growth of nearly 44.3%.

The share of electronically delivered bank statements in the fourth quarter of 2007 reached 85.5%, which compared to the fourth quarter of 2006 (82.7%) represents growth of nearly 3.4%.

- *Card Products*

As at the end of the fourth quarter of 2007 the Bank expanded the list of courts and prosecution administrations it serves through its Mikrowpłaty (MicroPayments) product. Close cooperation with IT firms serving courts and prosecution administrations proved the key factor to development of the product. In the fourth quarter of 2007 the Bank organised a conference for representatives of courts and prosecution administrations, at which IT firms and the Bank presented a new release of the platform used by courts and prosecution administrations expanded to include the Mikrowpłaty module functionalities. The Bank is the only institution in Poland with a comprehensive solution – documented with references – providing Mikrowpłaty facility for courts and prosecution administrations.

In the fourth quarter of 2007 the Bank continued working towards development of the prepaid payment cards market through, among others, cooperation with public sector institutions, which choose to dispense social transfers with the use of prepaid cards. The Bank has strengthened its position of leadership in the market of prepaid cards issued under a variety of loyalty and promotional programs. Also, through development of new contacts, the Bank issued the first prepaid medical card in its history and the first gift card available from one shopping centre. However, of particular importance to development of the product in this period was entry into cooperation with one of the largest bonus incentive system operators on the Polish market. In the fourth quarter of 2007 Bank issued over 110,000 new prepaid cards, which constitutes a fourfold increase compared to the equivalent period of a year earlier. At the end of the fourth quarter of 2007 the Bank's share in the prepaid cards market reached

70%.

The Bank also seeks to sustain the growth trend in the business cards segment. At the end of the fourth quarter of 2007 the number of issued cards of this type exceeded 16,300, which was 7% more than at the end of the fourth quarter of 2006. In October 2007 the Bank – as the second one in Poland – introduced the Visa Cash Back service linked with its Citibank Business Debit Cards. The service enables disbursement of cash of up to PLN 200 in conjunction with execution of a non-cash transaction at a point of sale.

- Cash Products

In the fourth quarter of 2007 the Bank commenced cooperation with two banks in the domain of cash providing, a service involving procurement and sale of bank notes and coins to/from other banks. This new service is addressed to domestic and foreign banks who 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 networks and ATM networks, and for customer disbursements as well as the capability of picking up cash from the branch networks. Banks have limited options for entering into direct agreements with NBP for the purpose of 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 the buyer and/or seller and the supplier of cash respectively.

Dynamic growth in volumes of counted and transported cash continued in the fourth quarter of 2007. The volume of cash counted over the period exceeded for the first time PLN 13 billion, which represents 9% growth compared to the equivalent period a year earlier (which was also record-breaking).

- Trade Finance Products

Value of serviced import letters of credit as at the end of the fourth quarter of 2007 was 6% higher compared to the value of these transactions as at the end of the fourth quarter of 2006. This represents a continuing trend – visible now over a number of successive quarterly periods), which strengthens the Bank's position of leadership in trade finance.

In the fourth quarter of 2007, as compared to the equivalent period of a year earlier, the Bank registered a 140% increase in the number of suppliers served within the framework of our supplier finance program. Under such programs the Bank provides finance to a selected group of its clients' suppliers. The solution involves delivery to the supplier of a cash payment upon contract execution, and a deferred payment plan for the Bank's client. The increase in the number of the served suppliers is a direct result of a stepped-up sales and marketing campaign addressed to potential clients.

Other noteworthy tasks, achievements, transactions and programs in trade finance implemented in the fourth quarter of 2007 include:

- Launch of a supplier finance program for one of the largest global trade companies based on a tailored e-commerce platform solution;
- Implementation of an innovative solution in discounting of limited recourse debt for one of the Polish market's leading manufacturers of household goods and appliances;
- 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;

- Participation in a banking seminar for global clients with operations in the eastern markets, with active presentation of own trade finance solutions.
  - *EU Office*

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.

#### b) Capital Markets and Corporate and Investment Bank

- *Treasury*

The fourth quarter of 2007 saw continuation of the growth trend in execution of foreign exchange transactions with non-banking sector clients. The number of active clients increased in the discussed quarter of 2007 by approximately 12% in reference to equivalent quarter of 2006. The growth in the number clients was accompanied by 18% growth in transaction volume compared to the fourth quarter of 2006.

The Bank's FX trading platform, referred to as OLT or Online Trading, continues to be ever more actively used by clients who value comfort, attractive pricing and broad product offer. The Bank responded to the growing trading volume by launching a new release of the platform, which offers expanded product possibilities. Interest of the clients in the platform has continued to grow dynamically, with transactions executed via the platform grew by over 220% compared to the fourth quarter of a year earlier. As the OLT platform constitutes a perfect instrument for acquisition of new clients, the Bank intends to maintain its strategy of developing it.

Customers take advantage of futures and options transactions in a continually growing scale for the purpose of hedging their FX exposures. This is borne out by robust growth in volumes. The fourth quarter 2007 over the fourth quarter 2006 growth reached over 160% while the number of executed transactions rose by 37%. The Bank continues to strengthen its position in the FX derivatives market.

Interest of customers in market-linked deposits has also been on the rise, with transaction volumes growing over the fourth quarter of 2007 by 55% compared to equivalent quarter of 2006.

Also, favourable developments occurred in trading of embedded derivative instruments in the final quarter of 2007. Institutional clients ever more frequently reach for this opportunity of hedging commodity transactions and interest rate risk. Trading volumes have increased compared to earlier

periods. In Q4 2007 to Q4 2006 terms these rose by approximately 55%. Availability of a truly diverse offer of structured products contributed greatly to achievement of that result.

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

- *Corporate Bank*

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

One common characteristic of the corporate banking 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 an especially dedicated team located at the Bank's headquarters in Warsaw, the Corporate Banking Division.

In the fourth quarter of 2007 the Bank continued to provide active support to its clients 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 the fourth quarter of 2007 included the following:

- Bank Handlowy w Warszawie S.A. came out the winner in 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 and with employment of modern banking solutions. There is an expectation that the banking expenses the city incurs will be substantially reduced;
- The Bank executed an agreement for setting up of a program for issuance of prepaid cards for customers of Netia S.A. The product represents the first prepaid card in the telecommunications sector. The transaction encompasses 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 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 in an amount of PLN 300 million, enabling it 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 innovativeness, 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.



- *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 2007 the Bank serviced accounts of approximately 7,561 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 through its new customer service model, which covers the following three main customer service segments: Small and Medium Enterprises (SMEs), Large Enterprises (Middle Market Enterprises or MMEs) and the Global Clients segment 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 the Citigroup. This structure allows the Bank to provide small enterprises with more individualised service and 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 the corporate clients. In total, clients of that segment are served by 120 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.

In the fourth quarter of 2007, it was able to acquire over 360 new clients (5% more than in equivalent period of 2006), net of Global Clients. It is estimated that approximately 73% of the new clients were acquired through the abovementioned campaigns.

#### **Number of acquired Clients \*/**

|  | <b>Fourth quarter of<br/>2007</b> | <b>Fourth quarter of<br/>2006</b> | <b>Change</b> |          |
|--|-----------------------------------|-----------------------------------|---------------|----------|
|  |                                   |                                   | <b>Number</b> | <b>%</b> |
| Number of clients/companies acquired in a given period | 364                               | 347                               | 17            | 5%       |

\*/ *excluding Global Clients*

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

As at the end of the fourth quarter 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**

| <i>PLN m</i>                 | <b>Fourth quarter of<br/>2007</b> | <b>Fourth quarter<br/>of 2006</b> | <b>Change</b> |            |
|------------------------------|-----------------------------------|-----------------------------------|---------------|------------|
|                              |                                   |                                   | <b>Amount</b> | <b>%</b>   |
| <b>Total Commercial Bank</b> | <b>6 406</b>                      | <b>5 224</b>                      | <b>1 182</b>  | <b>23%</b> |
| Including:                   |                                   |                                   |               |            |
| SMEs                         | 884                               | 639                               | 245           | 38%        |
| MMEs                         | 1 691                             | 1 320                             | 371           | 28%        |
| Global Clients               | 3 131                             | 2 582                             | 549           | 21%        |

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

### Total deposits

| <i>PLN m</i>                 | Fourth quarter of<br>2007 | Fourth quarter<br>of 2006 | Change       |            |
|------------------------------|---------------------------|---------------------------|--------------|------------|
|                              |                           |                           | Amount       | %          |
| <b>Total Commercial Bank</b> | <b>14 103</b>             | <b>12 677</b>             | <b>1 426</b> | <b>11%</b> |
| 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, the Commercial Bank in the fourth quarter of 2007 registered 21% growth in value of FX transactions executed by its clients (excluding the Global Clients), with the MME segment growing by 27%.

### Value of FX transactions \*/

| <i>PLN m</i>                 | Fourth quarter of<br>2007 | Fourth quarter<br>of 2006 | Change       |            |
|------------------------------|---------------------------|---------------------------|--------------|------------|
|                              |                           |                           | Amount       | %          |
| <b>Total Commercial Bank</b> | <b>6 619</b>              | <b>5 456</b>              | <b>1 163</b> | <b>21%</b> |
| Including:                   |                           |                           |              |            |
| SMEs                         | 2 471                     | 2 249                     | 222          | 10%        |
| MMEs                         | 3 731                     | 2 928                     | 803          | 27%        |

*\*/ excluding Global Clients*

Launched in the previous quarter of 2007, the Consolidated Bank Account Agreement, which permits account opening with simultaneous activation of electronic banking, the Online Trading platform and of debit cards in parallel to opening of a regular bank account, cuts the time to operational preparedness for serving newly acquired clients substantially.

The offer addressed to the public sector entities 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 Program.

The public sector has also shown much interest and appreciation for the Mikrowpłaty service, a new tool for management of third part cash deposits (e.g. bid bonds, security deposits). In the fourth quarter of 2007 the Bank undertook implementations for 8 new clients, which to date makes for standing contracts with 18 clients.

At the end of 2007 the Bank also launched a supplier financing program with Poland's leading hypermarket chain, which in December alone resulted in acquisition of 5 new clients.

- *Dom Maklerski Banku Handlowego S.A. (DMBH) – subsidiary*

In the fourth quarter of 2007 DMBH acted as an intermediary in 11.32% of secondary equities trade transactions. In that period value of equities trade generated via DMBH on the Warsaw Stock Exchange (WSE) reached PLN 12.2 billion (growth of 37.1% compared to the fourth quarter of 2006) while trading over the entire WSE market grew in that period by 11.6%.

The key factor contributing to the financial result DMBH achieved in the fourth quarter of 2007 was the intensive trading in shares, which continued in spite of the onset of unfavourable trends on both the Polish market and in the global markets. Institutional investors continued to take active part in the Polish equities market, however, the market saw a growing inflow of new assets to investing internationally equity funds as well as to money market and fixed income funds. Persistence of the unfavourable market trends may translate into further development of the negative balance of payments and redemptions (total investment units redeemed by clients in November reached PLN 1.5 billion, in December they amounted to PLN 1 billion, with total net redemptions in the entire quarter of PLN 740 million), which in the longer term perspective can have a negative impact on activities of the domestic investment funds. The factors which can have a detrimental effect on the financial results of DMBH in 2008 include the growing competition from securities brokerage start-ups aiming to serve the institutional segment and pressure on fees.

In the fourth quarter of 2007 DMBH retained its strong position of a leading securities brokerage house providing the services of a Market Maker to companies listed on WSE.

In the fourth quarter of 2007 value of transactions DMBH intermediated in on the non-public market exceeded PLN 84,000.

In the fourth quarter of 2007 DMBH did not complete any initial public offer project.

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

In the fourth quarter of 2007 Handlowy-Leasing executed new leasing agreements in a total amount of PLN 263 million, which represents growth of nearly 126% compared to the fourth quarter of 2006.

Structure of assets in leasing in the fourth quarter of 2007 continues to be dominated by the vehicles segment, which currently constitutes 69% of the portfolio's NAV. This share declined from over 76% a year earlier, an effect of the development strategy the Company pursues, which provides for accelerated growth of the machinery and plant segment.

NAV of machinery and plant assets leased in the fourth quarter of 2007 amounted to over PLN 81 million (compared to equivalent period of a year earlier, when NAV volume amounted to slightly over PLN 27 million) representing a near 200% growth.

#### **Net asset value**

| <i>PLN m</i>                | <b>Change</b>                     |                                   |               |               |
|-----------------------------|-----------------------------------|-----------------------------------|---------------|---------------|
|                             | <b>Fourth quarter<br/>of 2007</b> | <b>Fourth quarter<br/>of 2006</b> | <b>Amount</b> | <b>%</b>      |
| <b>Total movable assets</b> | <b>263,0</b>                      | <b>116,6</b>                      | <b>146,4</b>  | <b>125,6%</b> |
| including:                  |                                   |                                   |               |               |
| Vehicles                    | 181,6                             | 89,1                              | 92,5          | 103,8%        |
| Machinery                   | 81,3                              | 27,24                             | 54,1          | 198,5%        |
| Other movable assets        | 0,1                               | 0,2                               | (0,1)         | (50,0%)       |

The described growth is a direct effect of the activities undertaken in pursuance of the adopted strategy, including:

- Development of the Company's distribution network;
- Increased cross-selling to the Bank's clients; and
- Strengthening of the Company's position through cooperation with equipment suppliers and operation through sector specific trade channels.

2. Consumer Bank• *Summary of Results*

| PLN '000   | 4Q 2007        | 4Q 2006        | Change        |            |
|--|----------------|----------------|---------------|------------|
|  |                |                | PLN MM        | %          |
| Net interest income  | 178 660        | 153 792        | 24 868        | 16%        |
| Net fee and commission income                              | 105 736        | 93 946         | 11 790        | 13%        |
| Net income on traded financial instruments and revaluation | 8 479          | 7 565          | 914           | 12%        |
| Net other operating income                                 | (22)           | 3 249          | (3 271)       | (101%)     |
| <b>Revenue</b>   | <b>292 853</b> | <b>258 552</b> | <b>34 301</b> | <b>13%</b> |
| General administrative expenses and depreciation           | (197 030)      | (186 457)      | (10 573)      | 6%         |
| Profit / (loss) on sale of tangible fixed assets           | (46)           | 162            | (208)         | (128%)     |
| Net impairment losses                                      | (23 976)       | (13 466)       | (10 510)      | 78%        |
| <b>Profit before tax</b>                                   | <b>71 801</b>  | <b>58 791</b>  | <b>13 010</b> | <b>22%</b> |
| <b>Cost / Income</b>                                       | <b>67%</b>     | <b>72%</b>     |               |            |

Main factors that determined the gross profit of Consumer Bank segment for the fourth quarter of 2007 as compared to the corresponding period of 2006:

- Increase of net interest income resulting mainly from volume growth in the credit card and instalment loan portfolios, which has been partially offset by a reduction in the interest rates charged and increase of interest expenses caused by increasing saving accounts portfolio,
- Increase of net fee and commission income primarily as a result of a credit cards portfolio increase as well as increase in sales of insurance and investment products,
- Higher expenses caused by intensified marketing activities (mainly media – TV and press) as well as increase of remuneration costs both variable (as a result of good sales results) and fixed (increase of employment in distribution area relating to business growth and expansion of distribution channels),
- Increase of write-offs caused by IBNR charge resulting from growth in consumer portfolios as well as an increase in level of delinquencies in portfolio.

## a) Credit Cards

As at 31 December 2007, the number of credit cards issued by the Bank reached over 820,000. In the fourth quarter of 2007 alone the Bank acquired over 71,000 new cards, making this the best quarter in the Bank's history in terms of the number of newly acquired credit cards. October was also the best month in the Bank's history in terms of the number of credit cards issued. In it alone, the Bank acquired over 29,000 new cards. As a result of the actions it undertook in the course of the past three quarters of the year, the Bank retained its market leadership in terms of card transaction value and customer debt balance. The Citibank Credit Cards also remained the most frequently used cards in the market.

The fourth quarter of 2007 was a period of dynamic growth of the portfolio of co-branded cards. In it the Bank issued over 12,000 new Citibank-LOT Credit Cards and over 17,000 new Citibank-Plus Credit

Cards. Summary portfolio of these two partner cards reached 51,000. The Bank has reaffirmed its credit cards market leadership, particularly in the co-branded cards segment.

In October, 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 9999 cash prizes or a sporty AUDI TT, the main prizes.

Also in December the Bank held an exclusive lottery for holders of the Citibank-LOT Credit Cards. The main prize – million Miles&More bonus miles – went to a Citibank-LOT Gold Credit Card from Wrocław. Qualified to take part in the lottery were all new LOT card holders who executed at least one transaction between 1 July and the end of November 2007.

The Bank continues to expand its discounts program for credit card holders. At present the program covers over 2,550 vendor establishments, in which all Citibank Credit Card holders can receive discounts of up to 50% on purchases made with their cards.

b) Other Consumer Bank Products

- *Bank Accounts*

As at 31 December 2007 the number current accounts denominated in Polish zloty reached 307,000, which represents an over 36% increase compared to the status at the end of 2006. In October 2007 the Bank implemented a saving scheme of unique ramifications on the Polish market referred to as "Reszta dla Ciebie" (Keep the Change), which permits holders of personal and savings accounts to save small amounts while making payments with their debit cards at vendor outlets. Regularity in saving is additionally rewarded with annual bonuses awarded for each year of participation in the program.

The Keep the Change program launch was supported through an internet space campaign as well as a television campaign for the Bank's savings account with the slogan: Totally Savings Account 4.65%. These campaigns contributed to achievement of a record-breaking acquisition of savings accounts and expansion of balances collected in the Bank.

Also, in November 2007 the Bank obtained a permit of the Polish Financial Supervision Authority for conducting brokerage activity involving acceptance and transfer of securities purchase and sale orders. On the basis of that permit, commencing 5 December 2007, the Bank's customers can place orders for purchase or sale of securities, which are subsequently passed on to Dom Maklerski Banku Handlowego S.A. for execution.

- *Credit Products*

*Citibank Loan (PIL)*

Between 15 November and 14 December 2007 the Bank's customers were able to take advantage of the Kredyt Citibank (Citibank Loan) promotional campaign, which involved deferred repayment of the first loan instalment by 1 month. The promotional campaign aimed to support acquisition of new loans. The campaign was supported with leaflets and posters in the Bank branches and with advertisements placed on the Internet.

In the fourth quarter of 2007 the Bank continued cross-selling to both holders of Citibank Loans (for increasing the loan amount) and holders of credit cards and personal accounts. These cross-selling activities were supported through mailings and personal contacts the Bank's staff initiated with pre-selected customers.

In the fourth quarter of 2007 the Bank also continued working toward harmonisation of its unsecured

credit products, this aimed at development of the uniform Cash Loan product, which will be offered by all of the Bank's outlets and which will bring together the best features of the Citibank Loan product, previously offered through the Consumer Bank network, and the Cash Loan, marketed to date via the CitiFinancial network.

#### *Credit Line*

The Bank also continued to promote the Citibank Credit Line, with the waived annual fee in the first year of use, and decided to extend this promotion to the end of January 2008. This campaign permitted achievement of substantial growth in the sale of the Citibank Credit Line product 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.

At the same time, through the fourth quarter of 2007 the Bank continued cross-selling the Citibank Credit Line to holders of personal account.

#### *Secured Credit Line*

In November 2007 the Secured Credit Line offer was enriched through inclusion of selected structured bonds as acceptable collateral. The Secured Credit Line is a product used primarily to retain CitiGold customers.

- *Investment and Insurance Products*

#### *Investment Products*

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 funds from units of participation in investment funds of other mutual fund companies.

In October 2007 the foreign investment funds 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, because their management is in the hands of managers highly regarded in the financial world.

In addition, 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).

Further subscriptions for unit-linked life insurance products were also held, including the second New Energy subscription (linked with a basket of 20 public listed companies involved in production of alternative energy sources) and a BRIC subscription (linked to the BRIC index and the exchange rates of the Indian currency (rupee) and of the Chinese currency (yuan) to USD). Also, customers were provided with the choice of 15 structured bonds in various currencies.

### *Insurance Products*

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

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

The fourth quarter of 2007 was a period of intensified marketing of the Safe Way insurance product dedicated to selected Citibank Credit Card holders, resulting in close to 20% of customers who were presented with that offer took out the insurance.

- *Electronic Banking*

The fourth quarter of 2007 was a unique period for the Citibank Online (CBOL) internet platform. In November the Bank relaunched it in a new refreshed format. Its many improved features included, among others, a streamlined login method, default account balance view (presented immediately at login), the possibility of using the information screens without the need for logout from the transaction system, as well as the cutting-edge yet highly user-friendly information service. What is more, the altered website architecture opens up the way for implementation of more innovative services in the future. In December 2007, only a month from rollout of the new internet platform for the benefit of the Bank's retail customers, nearly 70% of the electronic banking customers logged in to the new system.

#### c) CitiBusiness Micro-Company Banking

The fourth quarter of 2007 was an exceptionally good period for CitiBusiness. The innovative solutions introduced in the preceding months of the year (CitiBusiness Direct account being the prime addition to the offer) led to material growth in the number of customers, and resultant growth in the segment's income.

The main product CitiBusiness added in the fourth quarter of 2007 (specifically in October) is its corporate Credit Card. Sales results and vendor feedback confirm high interest in the product among the customers. At present the Bank offers the corporate Credit Card only to those of its customers who are holders of corporate accounts, but future plans provide for expanding its availability through removal of the corporate account precondition.

The Bank also introduced a series of improvements to the existing products, among other, the mortgage loan now features substantially enhanced conditions, the key one being the extension of the maximum lending period to 15 years (previously this was 5 years).

In the fourth quarter of 2007 the Bank undertook an intensive marketing campaign of CitiBusiness and strengthened cooperation between it and its other operational fields (Commercial Bank, EU Office, Handlowy Leasing), this with the aim of reaching new customer groups. These actions are now yielding measurable effects.

#### d) CitiFinancial

In the fourth quarter of 2007 the Bank continued its television campaign promoting the CitiFinancial Cash Loan. In November it launched a promotional offer for customers of the Cash Loan promoted as: "Deferred first instalment repayment". All of the customers who executed their loan agreements between 15 November and 14 December were able to take advantage of a 30-day extension of their

contractual grace period. The campaign was given strong media support while the offer itself provided the product with strong sales support in the fourth quarter of 2007.

CitiFinancial also proceeded with the final phase of changes in its brokerage channel. It also signed agreements with another two major partners offering the Cash Loan.

### 3. Branch network

In the course of the fourth quarter of 2007 the Bank's branch network did not undergo any substantial change. The Bank concentrated on increasing efficiency of the existing branches. Compared to the fourth quarter of 2006, the network increased by one new Retail Bank branch, which serves both retail and corporate customers. The new outlet also includes a customer service point of DMBH. In the course of the quarter the Bank also expanded one Retail Bank branch in Gliwice.

#### **Number of branches as period end**

|   | <b>Fourth quarter of<br/>2007</b> | <b>Fourth quarter of<br/>2006</b> | <b>Change</b> |
|---|-----------------------------------|-----------------------------------|---------------|
| <b>Number of outlets:</b>   | <b>237</b>                        | <b>236</b>                        | <b>+1</b>     |
| <b>Retail Bank</b>  | <b>87</b>                         | <b>86</b>                         | <b>+1</b>     |
| Multifunctional outlets   | 71                                | 72                                | (1)           |
| CitiGold Wealth Management  | 15                                | 12                                | +3            |
| Investment Centre   | 1                                 | 1                                 | b.z.          |
| - of which serving Corporate Bank customers                       | 84                                | 13                                | +71           |
| <b>CitiFinancial</b>  | <b>112</b>                        | <b>111</b>                        | <b>+1</b>     |
| Branches  | 100                               | 99                                | +1            |
| Agencies (partner outlets operating under the CitiFinancial logo) | 12                                | 12                                | bz            |
| <b>Corporate Bank</b>   | <b>38</b>                         | <b>39</b>                         | <b>(1)</b>    |
| - of which serving Retail Bank customers                          | 38                                | 30                                | 8             |
| <b>Other sales / customer service outlets:</b>                    |                                   |                                   |               |
| Mini-branches (within "Citibank at work")                         | 6                                 | -                                 | +6            |
| BP petrol station sales points                                    | 88                                | 47                                | +41           |
| Supermarket stands  | 7                                 | 5                                 | +2            |
| Number of own ATMs  | 160                               | 154                               | +6            |

In summary, as at the end of the fourth quarter of 2007

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

Moreover, our customers are provided with access to a wide 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).

## 8. Seasonality or cyclical nature of business activity

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

## 9. Issue, buyout and repayment of debt and equity securities

No debt or equity securities were issued, bought out or repaid in the fourth quarter of 2007.

## 10. Paid or declared dividends

As at the date of this report there has been no decision concerning the distribution of 2007 profit and the amount of dividend.

## 11. Changes in the Group’s structure

From among assets, that as at 31 December 2006 were classified as non-current assets held-for-sale the resorts in Rowy and Wisła were sold in the first quarter of 2007 and one Bank’s property is still held for sale. The above-mentioned assets of the Group are stated in the balance sheet as “Non-current assets held-for-sale”.

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

As at 31 December 2007 there were no major events after the balance sheet date not included in the financial statement that could have a significant influence on the net result of the Group.

## 13. Movements in off-balance sheet commitments

As at 31 December 2007 there were significant changes in lines of credit unused which increased at PLN 1,696 millions. Such growth was a particularly result of increase of credit lines in current account used by consumer banking customers and corporate banking customers as well.

Other movements in off-balance positions compared to the end of 2006 resulted from purchase/sale transactions, i.e. increase in transaction with future value volume – FRA and IRS.

The off-balance sheet commitments are as follows:

| <i>In thousand of PLN</i>                                  | <b>31/12/2007</b> | <b>31/12/2006</b> |
|--|-------------------|-------------------|
| <b>Contingent liabilities</b>                              |                   |                   |
| <b>Granted liabilities</b>                                 |                   |                   |
| a) financial   | 11,192,715        | 9,574,732         |
| <i>Import letters of credit issued</i>                     | <i>146,673</i>    | <i>155,296</i>    |
| <i>Lines of credit granted</i>                             | <i>10,874,042</i> | <i>9,177,576</i>  |
| <i>Deposits to be distributed</i>                          | -                 | 24,860            |
| <i>Subscription of securities granted to other issuers</i> | <i>172,000</i>    | <i>217,000</i>    |
| b) guarantees  | 2,172,079         | 2,819,688         |

| <i>In thousand of PLN</i>                       | <b>31/12/2007</b>  | <b>31/12/2006</b>  |
|---|--------------------|--------------------|
| <i>Guarantees granted</i>                       | 2,158,948          | 2,779,418          |
| <i>Export letters of credit confirmed</i>       | 13,131             | 40,270             |
|   | <b>13,364,794</b>  | <b>12,394,420</b>  |
| <b>Liabilities received</b>                     |                    |                    |
| a) financial                                    | 50,000             | -                  |
| <i>Deposits granted</i>                         | 50,000             | -                  |
| b) guarantees                                   | 2,573,703          | 2,019,070          |
| <i>Guarantees received</i>                      | 2,573,703          | 2,019,070          |
|   | <b>2,623,703</b>   | <b>2,019,070</b>   |
| <b>Current off-balance sheet transactions*</b>  | <b>1,287,297</b>   | <b>6,462,803</b>   |
| <b>Forward off-balance sheet transactions**</b> | <b>525,508,982</b> | <b>375,540,009</b> |
|   | <b>542,784,776</b> | <b>396,416,302</b> |

\*Foreign exchange and securities trading, transactions with current value date

\*\* Derivatives: FX, interest rate transactions and options

#### **14. Achievement of 2007 forecast results**

The Bank, as the dominant entity, did not disclose its forecast results for the year 2007.

#### **15. Information about shareholders**

As at the submission date of this consolidated quarterly report, the only shareholder of the Bank holding, directly or indirectly through subsidiaries, a minimum of 5% of votes at the General Meeting of Shareholders of Bank Handlowy w Warszawie S.A is Citibank Overseas Investment Corporation (COIC), a subsidiary of Citibank N.A., with 97,994,700 shares held, i.e. 75% of the authorized share capital of the Bank and 97,994,700 votes at the General Meeting of Shareholders of Bank Handlowy w Warszawie SA, i.e. 75% of the votes.

The structure of major shareholdings has not changed since the submission of the previous quarterly report.

#### **16. Ownership of issuer's shares by managing and supervising officers**

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

The number of the Bank's shares held by managing and supervising persons has not changed since the previous consolidated quarterly report.

#### **17. Information on pending proceedings**

In the fourth quarter of 2007 there were no proceedings regarding debts of the Bank or a subsidiary of

the Bank pending before court, public administration authority or an arbitration authority, the value of which would equal at least 10% of the Bank's equity.

The total value of all court proceedings with the participation of the Bank and subsidiaries of the Bank regarding debts exceeded 10% of the Bank's equity and equaled PLN 1,163 million.

The amount of debts of the Bank and its subsidiaries decreased in relation to the end of the third quarter 2007 as a result of closing some cases with the participation of the Bank as the claimant or the participant of bankruptcy proceedings. The amount of debts of the Bank and subsidiaries results mainly from voluntary arrangement proceedings and bankruptcy proceedings in which the Bank or its subsidiaries participate as creditors. It should be emphasized that the court proceedings, especially bankruptcy and voluntary arrangement proceedings, are long-lasting and protracted. Due to the lengthiness of proceedings, only a few voluntary arrangement and bankruptcy proceedings result in a final and legally valid court decision within a period shorter than two years (and a majority of them last for a period of four and more years). The report includes some proceedings that started several years ago.

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

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

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

| <b>Parties to Proceedings</b>                               | <b>Litigation Value (in thousands of PLN)</b> | <b>Proceedings Commencement Date</b>                           | <b>Description of Case</b>   |
|---|---|--|--|
| <b>Creditor:</b><br>Bank<br>Handlowy w<br>Warszawie<br>S.A. | 158,534                                       | 8 August 1996 –<br>declaration of<br>bankruptcy.               | Case pending. The Bank submitted the receivable to obtain repayment from the bankrupt's assets for arrangement on 14 October 1996. The Bank realized all the collateral. The Bank will probably not receive its receivables. The official receiver expected to complete the bankruptcy proceeding by the end of 2006. The Bank expects to receive a resolution on completion of the bankruptcy proceeding. |
| <b>Creditor:</b><br>Bank<br>Handlowy w<br>Warszawie<br>S.A. | 65,947  | In 2000, the court<br>declared the borrower<br>bankrupt.       | Within the framework of the pending proceedings, the Bank submitted a receivable. The Bank's receivable may remain unpaid.   |
| <b>Creditor:</b><br>Bank<br>Handlowy w<br>Warszawie<br>S.A. | 44,732  | On 22 June 2001, the<br>court declared the<br>debtor bankrupt. | The Bank submitted its receivables to the proceedings. Case pending.   |

In the fourth quarter 2007, there were no proceedings regarding liabilities of the Bank or a subsidiary of the Bank, the value of which would equal at least 10% of the Bank's equity, pending before court, public administration authority or an arbitration authority.

In the fourth quarter 2007 the total value of all court proceedings with the participation of the Bank and

subsidiaries of the Bank regarding liabilities has decreased significantly below 10% of the Bank's equity and equaled PLN 146 million. In this time a few court proceedings has finished, including one court proceeding on substantial amount, which legislation value amounted PLN 387,400 thousands. The plaintiff claims for the compensation. The petitioner claimed that the Bank had violated copyright law by applying a strategy in a marketing campaign, to which the claimant was entitled. The court disallowed the compliant. The decision is legally valid.

## **18. Information about significant transactions with related entities**

In the fourth quarter of 2007, the Bank and its subsidiaries did not enter into any transactions with related entities, which were on non-market terms. Transactions with related entities result from the ongoing operating activities of the Bank and its subsidiaries.

## **19. Information about guarantee agreements**

At the end of the fourth quarter of 2007, the total value of sureties and guarantees extended by the Bank or its subsidiaries to a single entity and its subsidiary did not exceed 10% of the Bank's consolidated shareholders' equity.

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

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

- Improvement in labour market conditions with attendant growth in disposable incomes of households, which can translate into growth in savings of the Bank's customers and their interest in investment products;
- Possible slowdown in the Euro zone economic growth, which can lead to reduced demand for Polish exports;
- Mounting pay raise pressures and weaker labour productivity improvements, which can contribute to deterioration of competitive position of some of the companies operating in the international market;
- The Interest rate increases followed to date and announced by the Monetary Policy Council, which can lead to interest rate and cost of credit increases;
- Possible volatility in the financial markets driven by development of the sub-prime lending market crisis, which can lead to increased Polish zloty exchange rate fluctuations.

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

| <i>In thousands of PLN</i>                          | IV quarter<br>period from<br>01/10/07<br>to 31/12/07 | Year to date<br>period from<br>01/01/07<br>to 31/12/07 | IV quarter<br>period from<br>01/10/06<br>to 31/12/06 | Year to date<br>period from<br>01/01/06<br>to 31/12/06 |
|---|--|--|--|--|
| Interest and similar income                         | 512,519  | 1,936,192  | 425,603  | 1,609,874  |
| Interest expense and similar charges                | (208,492)  | (766,152)  | (167,566)  | (605,640)  |
| <b>Net interest income</b>                          | <b>304,027</b>                                       | <b>1,170,040</b>                                       | <b>258,037</b>                                       | <b>1,004,234</b>                                       |
| Fee and commission income                           | 295,425  | 934,597  | 198,818  | 712,350  |
| Fee and commission expense                          | (122,482)  | (240,348)  | (37,926)   | (140,252)  |
| <b>Net fee and commission income</b>                | <b>172,943</b>                                       | <b>694,249</b>   | <b>160,892</b>                                       | <b>572,098</b>   |
| Dividend income                                     | -  | 27,222   | -  | 34,202   |
| Net income on financial instruments and revaluation | 89,513   | 416,834  | 65,687   | 313,351  |
| Net gain on investment (deposit) securities         | 12,211   | 30,086   | 1,268  | 36,571   |
| Net gain on investment (capital) instruments        | -  | 10,454   | 44   | 44   |
| Other operating income                              | 24,130   | 97,115   | 37,810   | 122,837  |
| Other operating expenses                            | (6,453)  | (34,583)   | (10,754)   | (33,650)   |
| <b>Net other operating income</b>                   | <b>17,677</b>  | <b>62,532</b>  | <b>27,056</b>  | <b>89,187</b>  |
| General administrative expenses                     | (349,893)  | (1,369,000)  | (344,421)  | (1 333,863)  |
| Depreciation expense                                | (26,248)   | (107,542)  | (31,100)   | (129,167)  |
| Profit / (loss) on sale of tangible fixed assets    | 682  | 598  | 1,118  | 116,064  |
| Net impairment losses                               | 28,297   | 83,113   | 52,421   | 98,097   |
| <b>Profit before tax</b>                            | <b>249,209</b>                                       | <b>1,018,586</b>                                       | <b>191,002</b>                                       | <b>800,818</b>   |
| Income tax expense                                  | (50,901)   | (207,429)  | (48,916)   | (180,426)  |
| <b>Net profit</b>                                   | <b>198,308</b>                                       | <b>811,157</b>   | <b>142,086</b>                                       | <b>620,392</b>   |
| Weighted average number of ordinary shares          |  | 130,659,600  |  | 130,659,600  |
| Net profit per ordinary share (in PLN)              |  | <b>6.21</b>  |  | <b>4.75</b>  |
| Diluted net profit per ordinary share (in PLN)      |  | <b>6.21</b>  |  | <b>4.75</b>  |

**Balance sheet of the Bank – parent company**

In thousands of PLN

|  | 31/12/2007        | 31/12/2006        |
|--|-------------------|-------------------|
| <b>ASSETS</b>                                  |                   |                   |
| Cash and balances with central bank            | 3,321,503         | 535,623           |
| Financial assets held for trading              | 5,150,405         | 4,551,094         |
| Debt securities available-for-sale             | 6,467,638         | 8,247,313         |
| Equity investments                             | 302,321           | 300,534           |
| Loans and advances                             | 20,309,005        | 19,030,974        |
| <i>to financial sector</i>                     | 8,910,556         | 9,562,908         |
| <i>to non-financial sector</i>                 | 11,398,449        | 9,468,066         |
| Property and equipment                         | 609,554           | 626,481           |
| <i>land, buildings and equipment</i>           | 576,060           | 617,095           |
| <i>investment property</i>                     | 33,494            | 9,386             |
| Intangible assets                              | 1,282,811         | 1,284,883         |
| Income tax assets                              | 368,583           | 273,216           |
| Other assets                                   | 209,787           | 233,237           |
| Non-current assets held-for-sale               | 4,179             | 12,539            |
| <b>Total assets</b>                            | <b>38,025,786</b> | <b>35,095,894</b> |
| <b>LIABILITIES</b>                             |                   |                   |
| Due to central bank                            | -                 | 250,113           |
| Financial liabilities held for trading         | 4,391,286         | 3,316,847         |
| Financial liabilities valued at amortized cost | 27,443,267        | 25,529,437        |
| <i>deposits from</i>                           | 27,001,251        | 24,843,591        |
| <i>financial sector</i>                        | 7,243,219         | 6,481,772         |
| <i>non-financial sector</i>                    | 19,758,032        | 18,361,819        |
| <i>other liabilities</i>                       | 442,016           | 685,846           |
| Provisions                                     | 35,331            | 47,023            |
| Income tax liabilities                         | 98,208            | -                 |
| Other liabilities                              | 578,627           | 647,910           |
| <b>Total liabilities</b>                       | <b>32,546,719</b> | <b>29,791,330</b> |
| <b>EQUITY</b>                                  |                   |                   |
| Issued capital                                 | 522,638           | 522,638           |
| Share premium                                  | 2,944,585         | 2,944,585         |
| Revaluation reserve                            | (182,451)         | (81,501)          |
| Other reserves                                 | 1,382,238         | 1,297,175         |
| Retained earnings                              | 812,057           | 621,667           |
| <b>Total equity</b>                            | <b>5,479,067</b>  | <b>5,304,564</b>  |
| <b>Total liabilities and equity</b>            | <b>38,025,786</b> | <b>35,095,894</b> |

**Statement of changes in equity of the Bank – parent company**

| <i>In thousands of PLN</i>   | Share capital  | Share premium    | Revaluation reserve | Other reserves   | Retained earnings | Total equity     |
|--|----------------|------------------|---------------------|------------------|-------------------|------------------|
| <b>Balance as at 1 January 2006</b>  | <b>522,638</b> | <b>2,944,585</b> | <b>(64,554)</b>     | <b>1,101,418</b> | <b>667,407</b>    | <b>5,171,494</b> |
| Valuation of financial assets available-for-sale   | -              | -                | 15,649              | -                | -                 | 15,649           |
| Transfer of valuation of sold financial assets available-for-sale to profit and loss account | -              | -                | (36,571)            | -                | -                 | (36,571)         |
| Deferred income tax on valuation of financial assets available-for-sale                      | -              | -                | 3,975               | -                | -                 | 3,975            |
| Net profit   | -              | -                | -                   | -                | 620,392           | 620,392          |
| Dividends paid   | -              | -                | -                   | -                | (470,375)         | (470,375)        |
| Transfers to capital   | -              | -                | -                   | 195,757          | (195,757)         | -                |
| <b>Closing balance as at 31 December 2006</b>  | <b>522,638</b> | <b>2,944,585</b> | <b>(81,501)</b>     | <b>1,297,175</b> | <b>621,667</b>    | <b>5,304,564</b> |
|  | Share capital  | Share premium    | Revaluation reserve | Other reserves   | Retained earnings | Total equity     |
| <b>Balance as at 1 January 2007</b>  | <b>522,638</b> | <b>2,944,585</b> | <b>(81,501)</b>     | <b>1,297,175</b> | <b>621,667</b>    | <b>5,304,564</b> |
| Valuation of financial assets available-for-sale   | -              | -                | (91,521)            | -                | -                 | (91,521)         |
| Transfer of valuation of sold financial assets available-for-sale to profit and loss account | -              | -                | (33,109)            | -                | -                 | (33,109)         |
| Deferred income tax on valuation of financial assets available-for-sale                      | -              | -                | 23,680              | -                | -                 | 23,680           |
| Net profit   | -              | -                | -                   | -                | 811,157           | 811,157          |
| Dividends paid   | -              | -                | -                   | -                | (535,704)         | (535,704)        |
| Transfers to capital   | -              | -                | -                   | 85,063           | (85,063)          | -                |
| <b>Closing balance as at 31 December 2007</b>  | <b>522,638</b> | <b>2,944,585</b> | <b>(182,451)</b>    | <b>1,382,238</b> | <b>812,057</b>    | <b>5,479,067</b> |

**Summary statement of cash flows of the Bank – parent company**

| <i>In thousands of PLN</i>                       | Year to date<br>Period from<br>01/01/07<br>to 31/12/07 | Year to date<br>Period from<br>01/01/06<br>to 31/12/06 |
|--|--|--|
| <b>Cash at the beginning of reporting period</b> | <b>1,304,621</b>                                       | <b>1,005,263</b>                                       |
| Cash flows from operating activities             | 3,038,979  | 607,991  |
| Cash flows from investing activities             | (58,252)   | 152,244  |
| Cash flows from financing activities             | (543,901)  | (460,877)  |
| <b>Cash at the end of reporting period</b>       | <b>3,741,447</b>                                       | <b>1,304,621</b>                                       |
| <b>Increase / Decrease in net cash</b>           | <b>2,436,826</b>                                       | <b>299,358</b>   |

**Notes to the Interim Abbreviated Financial Statements of Bank Handlowy w Warszawie S.A. (“the Bank”) for the fourth quarter of 2007**

The abbreviated interim financial statements of the Bank for the fourth quarter of 2007 have been prepared in accordance with accounting principles adopted and summarized in the abbreviated interim financial statements of the Bank for the reporting period ending on 30 June 2007.

The notes to these interim consolidated financial statements for the fourth quarter of 2007 contain all material information and explanatory data also relevant to the Bank’s abbreviated interim financial statements.

A summary of the Bank’s financial results for the fourth quarter of 2007 is presented below.

***The Bank’s financial results***

In 2007 the Bank generated profit before tax of PLN 1,019 million, growth of PLN 218 million (i.e. 27.2%) compared to the previous year. In 2007 net profit amounted PLN 811 million, growth of PLN 191 million (i.e. 30.8%) compared to 2006.

Both, in 2006 and 2007 there were few significant one-offs, which had an impact on the Group’s results.

In 2006 total amount from sale of Towarzystwo Funduszy Inwestycyjnych Banku Handlowego w Warszawie S.A., Handlowy Zarządzanie Aktywami S.A., equities of the associated undertaking Handlowy Heller S.A. and the organized part of the Bank’s enterprise including card’s transactions settlements within the Consumer Bank amounted to PLN 114 million. Additionally income amounting to PLN 6 million related to shares granted by MasterCard was recorded. In 2007 income from the sale of minority shares of MasterCard and Stalexport S.A. was recorded. Moreover, profits of 2007 include provision of PLN 10 million related to penalty imposed by Office of Competition and Consumer Protection was recorded in the books due to the proceeding related to “interchange” fees in the banking sector.

Provided above stated transactions are excluded, the growth of the profit before tax for 2007 compared to 2006 amounted to PLN 388 million (i.e. 49,8%), whereas growth of the net profit was PLN 289 million (i.e. 55.2%).

In the fourth quarter of 2007, the Group reported income before tax of PLN 249 million, which is by PLN 58 million (i.e. 30.5%) higher as compared to the fourth quarter of the previous year. In the same period growth of the net profit was PLN 198 million which is by PLN 56 million (i.e. 39.6%) higher as compared to the fourth quarter of the previous year.

The factors that determined the net profit of the Bank in fourth quarter 2007 were: increase of net fee and commission income by PLN 58 million (i.e. 13.9%), increase of net income on financial instruments (traded financial instruments and revaluation) by PLN 35 million, slight growth of general administrative expenses and depreciation expense by PLN 0,6 million (i.e. 0.2%), and increase of net write offs by PLN 24 million

The consolidated quarterly report for the fourth quarter of 2007 will be made available on the website of Bank Handlowy w Warszawie S.A. at [www.citihandlowy.pl](http://www.citihandlowy.pl)

Signature of the Financial Reporting and Control  
Department Deputy Vice Director

Signature of the Vice President of the  
Management Board

Date and signature  
06.02.2008

Date and signature  
06.02.2008