



REPORT ON ACTIVITIES
OF BANK HANDLOWY W WARSZAWIE S.A.
IN 2006

MARCH 2007

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I. Poland's Economy in 2006

1. Main Macroeconomic Trends

In 2006, economic growth amounted to 5.8% year on year, versus 3.2% generated in 2005. The most significant increase in the pace of growth was noted in the case of capital expenditure. After years of exceptionally weak investment activity, enterprises begun to increase their spending on plants and equipment and implemented projects co-funded from EU funds. As a result, investments increased by 16.7% year on year, as compared with the growth by 6.5% in the previous year.

Positive trends in capital expenditure and dynamic growth in individual consumption (related to recovery in the labor market and indexation of pensions) mean that the burden of economic growth was borne by the national demand. However, decreased importance of foreign trade for economic growth resulted not only from weakened exports but above all from import strengthening.

In 2006, the highest improvement was noted in the case of the situation in the labor market. The dynamic economic growth resulted in a gradual increase in demand for new employees by enterprises. Because this was accompanied by economic emigration to EU Member States, the unemployment rate fell in December 2006 to 14.9%, which was the lowest level since 2000. At the same time, employment in the enterprise sector increased at a record-setting pace, increasing even by 4.1% year on year in December. Despite a dynamic improvement in the labor market, wage pressure remained in 2006 under control. The average increase in wages in 2006 was 5.1% year on year, versus 3.2% year on year in December 2005.

Despite recovery in the labor market and strong economic growth, the inflation pressure remained relatively low. Although the increase in draught contributed to a significant growth in food prices in the second half of 2006, the CPI in December amounted only to 1.4% year on year. The low inflation level made the Monetary Policy Council lower the interest rates twice, in January and February 2006, as a result of which the reference rate was reduced to an all time low of 4.00%. Nevertheless, the subsequent months were characterized by stabilization in the monetary policy.

Good economic situation was also reflected in the monetary sphere. On the money supply side, the most important change was noted in revival in household deposits. At the end of December 2006, their value was by 9.6% higher than in November 2005. Simultaneously, growth of corporate deposits was maintained.

In 2006, marked recovery was noted in corporate loans. Their value increased in December 2006 by 14.1% year on year, which was the fastest pace since 2000. Dynamic investment recovery contributed to enhanced demand for corporate loans. On the other hand, the rapid growth in consumption and recovery in the housing market led to an increase in household loans by 33.4% year on year.

2. Money Markets and FX Markets

In 2006, the very good condition of the Polish economy and constant inflow of funds from EU and direct investments contributed to appreciation of the national currency. However, macroeconomic fundamentals were reflected only to a limited extent in changes of foreign currency exchange rates, which underwent considerable fluctuations in the first half of the year.

The most important internal risk factor in 2006 was an unstable political situation. Investors reacted particularly nervously to the recurring news on potential shortening of the Parliament's term, and they calmly accepted the creation of the majority government with participation of Samoobrona and LPR, which ended the tiring period of political insecurity. The political factors once again became the focus of attention at the end of September, when zloty depreciated as a result of transitional conflict of the government coalition.

For the major part of the year, the situation in foreign markets contributed to an increase in the value of domestic currency apart from a short period at the end of the second quarter, when the sharp declines on worldwide stock exchanges prompted dramatic escapes of investors from emerging markets. As a result, zloty has considerably lost in value despite the fact that economic fundamentals did not considerably change and did not justify such a dramatic reaction of international investors. Zloty returned for good to its increasing trend only at the end of the fourth quarter of 2006, when the boom in the main markets of

equity securities, which was associated with the falling feedstock prices and good results obtained by enterprises, encouraged the investors to invest their capital in more risky assets.

For bonds, 2006 was much more difficult than the previous year. Expectations of cuts in interest rates, which attracted foreign capital and contributed to an increase in the prices of debt securities in 2005, expired already in March when it became clear that despite falling inflation the Monetary Policy Council is not willing to further relax monetary policy in the situation or more and more numerous signs of growing economic activity. Furthermore, in the first half of 2006, the stock prices of Polish debt securities were very sensitive to the events on the political arena. The worst month for the debt market was June, when demission of the minister of finance coincided with zloty weakening and increased expectations of interest rate increases in Poland. A definite improvement in attitudes was noted only in the last quarter of 2006. Maintenance of CPI at a relatively low level and a series of moderated statements of the Monetary Policy Council might have created an impression in the market players that the inflationary pressure ceased to be a problem for the monetary authorities. The investors willingly bought Polish securities also due to the fact that the optimistic information received from the Ministry of Finance on the lower-than-expected budget implementation in 2006 suggested a lower supply of debt securities in the last months of the year.

3. Capital Market

2006 was a successful year for the stock market. The basic index, WIG rose by 42% from 35,600 as of the end of 2005 to 50,412 as of the end of 2006. WIG20 (most liquid companies) jumped by 24%.

In 2006, the market followed the bull trend that commenced in 2003. At the turn of the second quarter, an over 20% correction was observed and the next wave of growth started in the beginning of June, which lifted WIG (main index) to its all time high.

The most significant events included the successful debut of the largest company of our region – the Czech energy conglomerate CEZ, as well as of dozens of smaller companies. At the end of 2005, the Warsaw Stock Exchange traded 255 companies, while a year later this had risen to 284. More foreign companies entered the market. In 2006, their number increased from 7 to 12. Debuting companies significantly expanded stock market capitalization – as of the end of 2006 national companies were valued at PLN 437.7 billion (i.e. 42% higher than the level of PLN 308.4 billion). Total capitalization (including foreign companies) increased from PLN 424.9 billion in 2005 to PLN 635.9 billion in 2006.

Stock exchange indexes – December 31, 2006

Index	2006	Change (%)	2005	Change (%)	2004
WIG	50,411.82	41.6	35,600.80	33.7	26,636.20
WIG-PL	50,361.39	42.8	35,277.70	32.9	26,540.10
WIG20	3,285.49	23.7	2,654.95	35.4	1,960.60
MIDWIG	3,733.26	69.1	2,207.74	27.6	1,730.10
TECHWIG	1,201.5	42.3	844.41	26.7	666.30
WIRR	12,716.59	132.4	5,471.33	15.5	4,738.60
Sector subindexes					
Banks	70,858.39	51.4	46,787.80	32.0	35,454.40
Construction	77,034.96	148.4	31,007.30	63.1	19,014.60
IT	17,565.84	34.8	13,032.90	0.3	12,996.50
Food	38,323.98	50.6	25,444.10	7.1	23,761.60
Telecoms	13,400.1	8.2	12,382.00	20.9	10,242.90

Source: Warsaw Stock Exchange, Dom Maklerski Banku Handlowego S.A.

Increasing indexes were correlated with investors' activity in the capital market. Turnover in equity securities rose by 83% from PLN 175.4 billion to PLN 320.3 billion, following the bullish trend initiated in 2003.

Turnover in bonds increased by 8.5% and totaled PLN 5.5 billion, as compared with PLN 5.06 billion in 2005.

The increasing indexes and the persistent bull trend in the stock market had a very positive impact on turnover in the futures market – in 2006 they were 19% higher than in 2005.

Turnover on the Warsaw Stock Exchange - December 31, 2006

	2006	Change (%)	2005	Change (%)	2004
Stocks (in millions of PLN)	320,291	82.6	175,403	59.8	109,775
Bonds (in millions of PLN)	5,488	8.5	5,059	-35.3	7,820
Futures (pcs.)	6,386	18.7	5,378	51.4	3,552

Source: Warsaw Stock Exchange, Dom Maklerski Banku Handlowego S.A.

4. Banking Sector

In 2006, the net income of the entire banking sector was PLN 10.7 billion, i.e. it increased by 16.0% as compared with 2005. The excellent result reflects the strength of Poland's economy. The profitability of the sector was mainly influenced by an increase in banking activity (increase in the net interest income and net commission income, the remaining elements of the result on banking activity were in total slightly lower) and a lower increase in costs than the increase in the result on banking activity as well as the costs of loans provisions lower than in the previous years.

In 2006, loans to individual customers increased by 37.5% year on year, including an increase in mortgage loans by 54.7% year on year, while deposits placed by those customers rose by 6.2% year on year. The gap resulted from the fact that bank deposits were relatively unattractive due to low rates and the continued transformation of the savings structure for individual customers (more assets allocated to investment funds).

The corporate loan portfolio rose by 14.0% as compared with the end of 2005. Nevertheless, the good situation continued in the market of corporate deposits (growth by 26.0% year on year). The situation in the market for loans and corporate deposits reflects the over liquidity of enterprises due to very good financial results; investment outlays are to a large extent funded from profits obtained.

II. Selected Financial Data of the Bank

1. Selected Financial Data of the Bank

In millions of PLN	2006	2005
Total assets	35,095.9	32,669.4
Equity	5,304.6	5,171.5
Loans*	9,468.1	8,941.0
Deposits*	18,361.8	16,959.2
Net profit	620.4	589.2
Earnings per ordinary share or convertible (in PLN)	4.75	4.51
Dividend per ordinary share or convertible (in PLN)	4.10	3.60
Capital adequacy ratio	13.40%	13.37%

* Due from and to the non-financial and public sectors.

2. Financial Results of the Bank for the Year Ended December 31, 2006

2.1 Income Statement

The Bank's net profit in 2006 was PLN 620.4 million, i.e. PLN 31.1 million or 5.3% more than in the previous year. The profit before tax obtained by the Bank in 2006 attained the level of PLN 800.8 million, which corresponds to an increase by PLN 52.2 million (i.e. 7%) as compared with 2005.

In 2006, the Bank noted a lower operating income by PLN 38 million (i.e. 1.7%) compared to the previous year, which included the net interest income, dividend income, net gains on financial instruments held for trading and on revaluation, net gains on investment debt securities and on equity securities, net other operating income and net gains on sale of fixed assets.

The revenues obtained were accompanied by a decrease in overheads and general administrative expenses and depreciation by 27.3 million (i.e. 1.8%) as compared with 2005.

A positive impact on the Bank's net profit for 2006 was the reduction in net impairment losses of financial assets, which amounted to PLN 98.1 million in 2006, as compared with PLN 35.2 million in 2005.

The fact that the profit growth rate was lower in the current year was mainly attributable to higher income tax expenses by PLN 21.0 million, i.e. 13.2%.

Selected income statement items

In thousands of PLN	2006	2005	Change	
			PLN '000	%
Net interest income	1,004,234	988,454	15,780	1.6%
Net commission income	572,098	509,660	62,438	12.3%
Dividend income	34,202	21,094	13,108	62.1%
Net gains on financial instruments held for trading and on revaluation	313,351	463,889	(150,538)	(32.5%)
Net gains on investment debt securities	36,571	121,841	(85,270)	(70.0%)
Net gains on investment equity securities	44	15,544	(15,500)	(99.7%)
Net other operating income	89,187	76,707	12,480	16.3%
Overheads and general administrative expenses	(1,333,863)	(1,351,035)	17,172	1.3%
Depreciation	(129,167)	(139,312)	10,145	7.3%
Net gains on sale of fixed assets	116,064	6,589	109,475	1661.5%
Net change in impairment losses	98,097	35,214	62,883	178.6%
Profit before tax	800,818	748,645	52,173	7.0%
Income tax expense	(180,426)	(159,400)	(21,026)	(13.2%)
Net profit for the year	620,392	589,245	31,147	5.3%

2.1.1 Revenue

Operating income decreased by 1.7% from PLN 2,203.8 in 2005 to PLN 2,165.8 in 2006. The decrease was mainly due to:

- A slight decrease in the net interest income by PLN 15.8 million (i.e. 1.6%), which without including an adjustment resulted from enhancements introduced to the system used for calculation of impairment losses, would be higher by PLN 15.2 million (i.e. 3.1%). The lower growth rate was caused by a lower level of market interest rates and lowering of interest rates on credit cards in July 2005. This fall was partially compensated by a significant increase in interest income in Consumer Banking as a result of increase in loans portfolio value and an increase in interest income on debt instruments available for sale as a result of a significant increase in the portfolio of these securities. Furthermore, the considerable changes in price structure introduced on 14 February 2006 as imposed by the Act Amending the Act – Civil Code and Amending Certain Other Acts of 7 July 2005, limiting the maximum interest rate, had a negative effect on the net interest income. Also the increase interest expenses on deposits accepted in the inter-bank market undoubtedly influenced the net interest income,
- An increase in net commissions income by PLN 62.4 million (i.e. 12.3%), above all due to the commissions on insurance and investment products in Consumer Banking, despite the absence of commission income generated by the subsidiaries HanZA and TFI BH sold in the first quarter of 2006.
- An increase in dividend income by PLN 13.1 million (i.e. 62.1%), first of all, due to the payment of a higher of dividend by Dom Maklerski Banku Handlowego S.A., subsidiary of Bank Handlowy S.A. In 2006, the Bank received from this source dividends totaling PLN 29.1 million, and in 2005 it received PLN 16.8 million,

- An increase in net gains on sale of fixed assets by PLN 109.5 million compared to PLN 6.6 million in 2005, mainly due to the inflow on the sale of assets held for sale at the end of 2005, including assets and the related liabilities of the entities Towarzystwo Funduszy Inwestycyjnych Banku Handlowego w Warszawie S.A. and Handlowy Zarządzanie Aktywami S.A., shares in the associated undertaking Handlowy Heller S.A. and the organized part of the Bank's enterprise including the business in settlements of card transactions within the Consumer Banking Sector,
- An increase in net other operating income by PLN 12.5 million (i.e. 16.3%) as a result of obtaining lower costs of provisions for litigation, with an associated increase in operating income resulting from the provision of data processing services by the Bank to CitiGroup Inc. entities and from recognition of income related to shares granted by MasterCard,
- A fall in net gains on financial instruments held for trading and on revaluation by PLN 150.1 million (i.e. 32.5%), mainly by decrease of interest rates in 2006, which resulted to the loss on financial instruments held for trade as a result of deteriorated valuation of interest rate instruments, compensated by net gains on foreign exchange on currency derivatives available-for-sale. Additional influence was negative revaluation of balance sheet balances.
- A fall in net gains on investment debt securities and equity investments by PLN 100.8 million (i.e. 73.3%). Despite such a deep fall, the result obtained on this category of financial instruments in the market conditions of 2006 should be considered very good because the comparative year is 2005, when the results obtained by the Bank followed the real boom in the market of operations on debt securities.

2.1.2 Expenses

Expenses

in PLN'000	2006	2005	Change	
			PLN'000	%
Personnel costs	679,959	660,011	19,948	3.0%
General administrative expenses, including	653,904	691,024	(37,120)	(5.4%)
Costs of telecommunication fees and IT hardware	174,197	182,257	(8,060)	(4.4%)
Building maintenance and rent	110,192	113,979	(3,787)	(3.3%)
Advisory, audit, consulting and other services	106,324	136,604	(30,280)	(22.2%)
Total overheads	1,333,863	1,351,035	(17,172)	(1.3%)
Depreciation	129,167	139,312	(10,145)	(7.3%)
Total expenses	1,463,030	1,490,347	(27,317)	(1.8%)

In 2006, marked effects of restructuring activities conducted in the previous years and aimed to improve the rate of return obtained by institutions through optimization of costs are already visible. The fall was observed in almost all their categories. An exception are personnel expenses which increased by PLN 19.9 million (i.e. 3%) as compared with the corresponding period of 2005, which results, for example, from the lower level of remuneration and incentive programs, and also with an increase in employment in the developing CitiFinancial network of the Bank, including 99 branches and 12 smaller centers as compared with 61 as at the end of December 2005. Taking into account an increase in number of employees in CitiFinancial network, an increase in the number of branches and markedly higher costs arising from marketing conducted in 2006, the fact of the reduction in general administrative expenses by PLN 37.1 million (i.e. 5.4%) is all the more worth mentioning.

This positive trend was complemented by a fall in depreciation costs related to reduced purchases in 2006 and high value of assets liquidated already in 2005.

2.1.3 Net Impairment Losses of Financial Assets and Difference in the Value of Provisions for Off-balance Sheet Liabilities

Net Impairment Losses

in PLN'000	2006	2005	Change	
			PLN'000	%
Net impairment losses incurred but not reported (IBNR)	17,198	20,650	(3,452)	(16.7%)
Net impairment losses on loans and off-balance sheet liabilities	78,438	1,276	77,162	6047.2%
accounted for individually	79,103	124,645	(45,542)	(36.5%)
accounted for collectively (on a portfolio basis)	(665)	(123,369)	122,704	99.5%
Impairment of investments	2,191	11,219	(9,028)	(80.5%)
Other	270	2,069	(1,799)	(87.0%)
Total change in impairment losses	98,097	35,214	62,883	178.6%

Total change in impairment losses of PLN 98,1 million in 2006 was influenced mainly by PLN 80,9 million of impairment losses reversal relating to the subordinate loans granted to the Bank's subsidiary and accounted for individually which was partly repaid.

The net impairment charge of PLN 14,7 million relating to the remaining credit portfolio is relatively small due to stable quality of the loan portfolio and thus to reduction in the dynamics of provision charges as well as due to efficient restructuring and debt collection activities and favorable macroeconomic conditions.

Additionally net impairment losses in 2006 increased by the amount of PLN 21,4 million as a result of implementing of enhancements to the system used to calculate impairment losses (taking into account additional factors in cash flow forecast). Additionally, an annual review of ratios for individual risk groups was performed and a more detailed breakdown of homogeneous portfolios was introduced.

2.1.4 Ratio analysis

Profitability and cost efficiency ratios

	2006	2005
Return on equity (ROE)*	12.0%	10.9%
Return on assets (ROA)**	1.8%	1.8%
Net interest margin (NIM)***	2.9%	3.0%
Earnings per share in PLN	4.75	4.51
Cost/Income****	67.6%	67.6%

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

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

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

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

Return on assets, calculated as the ratio of net profit to total assets, was maintained at the same level as in previous year. The increase in ROE was mainly the result of an increase in net profit by PLN 31.1 million (5.3%).

2.2 Balance Sheet

As at December 31, 2006, the total assets of the Bank were PLN 35,095.9 million, 7.4% more than as at the end of 2005.

Balance sheet

In thousands of PLN	As at		Change	
	31.12.2006	31.12.2005	PLN '000	%
ASSETS				
Cash and balances with central bank	535,623	922,649	(387,026)	(41.9%)
Financial assets held for trading	4,551,094	5,878,624	(1,327,530)	(22.6%)
Debt securities available-for-sale	8,247,313	7,171,157	1,076,156	15.0%
Equity investments	300,534	284,304	16,230	5.7%
Loans and advances	19,030,974	15,839,648	3,191,326	20.1%
to financial sector	9,562,908	6,898,665	2,664,243	38.6%
to non-financial sector	9,468,066	8,940,983	527,083	5.9%
Property and equipment	626,481	687,894	(61,413)	(8.9%)
land, buildings and equipment	617,095	646,946	(29,851)	(4.6%)
investment property	9,386	40,948	(31,562)	(77.1%)
Intangible assets	1,284,883	1,313,418	(28,535)	(2.2%)
Deferred income tax assets	273,216	300,162	(26,946)	(9.0%)
Other assets	233,237	199,221	34,016	17.1%
Non - current assets held-for-sale	12,539	72,348	(59,809)	(82.7%)
Total assets	35,095,894	32,669,425	2,426,469	7.4%
LIABILITIES				
Due to central bank	250,113	-	250,113	-
Financial liabilities held for trading	3,316,847	3,420,219	(103,372)	(3.0%)
Financial liabilities valued at amortized cost	25,529,437	23,223,955	2,305,482	9.9%
deposits from	24,843,591	22,768,006	2,075,585	9.1%
financial sector	6,481,772	5,808,791	672,981	11.6%
non-financial sector	18,361,819	16,959,215	1,402,604	8.3%
Other liabilities	685,846	455,949	229,897	50.4%
Provisions	47,023	57,245	(10,222)	(17.9%)
Income tax liabilities	-	162,788	(162,788)	(100.0%)
Other liabilities	647,910	629,354	18,556	2.9%
Non - current liabilities held-for-sale	-	4,370	(4,370)	(100.0%)
Total liabilities	29,791,330	27,497,931	2,293,399	8.3%
EQUITY				
Issued capital	522,638	522,638	-	0.0%
Share premium	2,944,585	2,944,585	-	0.0%
Revaluation reserve	(81,501)	(64,554)	(16,947)	(26.3%)
Other reserves	1,297,175	1,101,418	195,757	17.8%
Retained earnings	621,667	667,407	(45,740)	(6.9%)
Total equity	5,304,564	5,171,494	133,070	2.6%
Total liabilities and equity	35,095,894	32,669,425	2,426,469	7.4%

2.2.1 Assets

Gross loan receivables*

In thousands of PLN	As at		Change	
	31.12.2006	31.12.2005	PLN '000	%
Bank and other monetary financial institutions	8,891,294	6,021,425	2,869,869	47.7%
Non-banking financial institutions	770,075	1,028,167	(258,092)	(25.1%)
Non-financial sector	7,034,289	7,651,842	(617,553)	(8.1%)
Individuals	3,630,587	2,725,742	904,845	33.2%
Government units	286,361	244,480	41,881	17.1%
Other receivables	3,581	8,291	(4,710)	(56.8%)
Total	20,616,187	17,679,947	2,936,240	16.6%

*receivables without payable interest

The year 2006 did not bring about any significant changes in the level of loan receivables of the Bank. Nevertheless, it is worth noticing that this year was a first period in a long time in which the Bank obtained an increase in the loan portfolio in the non-financial sector of customers. Although this portfolio was not very high above all due to the non-financial sector the receivables of which dropped by PLN 617.6 million, i.e. 8.1%, which was related to significantly lower in 2006 demand for funding the biggest companies in non-financial sector, at the same time the Bank noted a considerable increase in loans to individuals by PLN 904.8 million (33.2 %). At the end of 2006, the portfolio of amounts due from individuals amounted to PLN 3,630.6 million. In this case it may be expected that the recovery in the market and the related high level of optimism among the borrowers as related to their future payment potential and Bank's plan of introducing new credit products, in particular mortgage loan and home equity loans, will result in a further increase in the loan portfolio.

The debt securities portfolio was the second largest component of assets. The fact that it is very large (particularly the treasury bonds portfolio) is mainly due to the Bank's intention to benefit from the very good performance of the market for debt securities and the necessity to invest the cash at the Bank's disposal as a result of the decrease in the non-financial sector loan portfolio in the previous years.

Debt securities portfolio

In thousands of PLN	As at		Change	
	31.12.2006	31.12.2005	PLN '000	%
Treasury bonds	9,149,123	7,076,515	2,072,608	29.3%
NBP bonds	378,413	386,934	(8,521)	(2.2%)
Treasury bills	73,153	40,002	33,151	82.9%
Certificates of deposit and banks' bonds	125,679	30,136	95,543	317.0%
Issued by non-financial entities	54,476	30,553	23,923	78.3%
Issued by financial entities	43,834	35,604	8,230	23.1%
NBP bills	-	1,871,225	(1,871,225)	(100.0%)
Total	9,824,678	9,470,969	353,709	3.7%

2.2.2 Liabilities

Financial liabilities valued at amortized cost

In thousands of PLN	As at		Change	
	31.12.2006	31.12.2005	PLN '000	%
Due to financial sector	6,437,813	5,782,132	655,681	11.3%
- banks and other monetary financial institutions	3,659,554	2,349,433	1,310,121	55.8%
- due to non-banking financial sector	2,778,259	3,432,699	(654,440)	(19.1%)
Due to non-financial sector including:	18,342,094	16,940,201	1,401,893	8.3%
- corporate customers	12,635,065	11,086,223	1,548,842	14.0%
- individuals	4,212,787	4,489,733	(276,946)	(6.2%)
Other liabilities including accrued interest:	749,530	501,622	247,908	49.4%
Total external funds	25,529,437	23,223,955	2,305,482	9.9%

Amounts due to clients from the non-financial sector were the major source of financing for the Bank's assets. The amounts due to clients from the corporate sector increased by PLN 1,548.8 million (i.e. 14.0%) compared with the end of 2005, and amounts due to the financial sector increased by PLN 655.7 million i.e. 11.3%, the largest increase among which – by PLN 1,310.1 million, i.e. 55.8% – was noted in funds on accounts of banks.

Amounts due to non-banking financial sector and to individuals decreased the most in the year ended 31 December 2006. The decrease amounted to PLN 654.4 million i.e. 19.1% in non-banking financial sector, and PLN 276.9 million i.e. 6.2% in individuals, and was connected with the transfer of customers' assets to competitive investment products.

Amounts due to banks, accounting for 56.8% of the total amounts due to the financial sector, as compared with 40.6% as at the end of 2005, increased in 2006 from PLN 2,349.4 million to PLN 3,659.6 million, i.e. by PLN 1,310.1 million (i.e. 55.8%). During the year 2006, the amounts due to banks remained lower than amounts due from banks.

The fact that unrealized gains/losses on derivative transactions accounted for a considerable proportion of assets and liabilities is also significant and reflects the scale of the Bank's off-balance sheet purchase and sale transactions. The carrying amount of these instruments presented in "Financial assets held for trading" and "Financial liabilities held for trading".

2.2.3 Sources and Uses of Funds

Source of funds	31.12.2006	31.12.2005
Banks' and other monetary financial institution's funds	3,849,661	2,506,054
Customers and government units funds	21,679,776	20,717,901
Own funds with net income	5,304,564	5,171,494
Other external funds	4,261,893	4,273,976
Total source of funds	35,095,894	32,669,425
Use of funds	31.12.2006	31.12.2005
Receivables from banks and other monetary financial institutions	8,881,722	6,010,093
Receivables from customers and government units	10,149,252	9,829,555
Securities, shares and other financial assets	13,098,941	13,334,085
Other use of funds	2,965,979	3,495,692
Total use of funds	35,095,894	32,669,425

2.3 Equity and Capital Adequacy Ratio

The Bank's equity increased by PLN 101.9 million (i.e. 2.2%) as compared with the end of 2005, which was mainly due to:

- an increase in the supplementary (additional) capital by PLN 117.6 million originating from the distribution of profit for 2005 and from disclosing in this capital the correction of the net profit in previous years by PLN 78.16 million in relation to adopting the International Financial Reporting Standards by the Bank on 1 January 2005,
- a decrease in the revaluation reserve by PLN 16.9 million, above all due to moving the valuation of sold financial assets available for sale to the net financial profit at an amount of minus PLN 36.6 million and an increase in valuation of financial assets available for sale by PLN 15.6 million.

Equity

In thousands of PLN	As at		Change	
	31.12.2006	31.12.2005	PLN '000	%
Issued capital	522,638	522,638	-	0.0%
Share premium	2,944,585	2,944,585	-	0.0%
Supplementary (additional) capital	907,175	711,418	195,757	27.5%
Revaluation reserve	(81,501)	(64,554)	(16,947)	(26.3%)
General risk reserve	390,000	390,000	-	0.0%
Retained earnings	1,275	78,162	(76,887)	(98.4%)
Total equity	4,684,172	4,582,249	101,923	2.2%
Tier 1 capital	4,764,398	4,568,641	195,757	4.3%
Tier 2 capital	(81,501)	(64,554)	(16,947)	(26.3%)
Retained earnings	1,275	78,162	(76,887)	(98.4%)

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

As at 31 December 2006, the capital adequacy ratio stood at 13.4%, up 0.03 percentage points compared with the end of 2005. Despite the increase in the capital requirements by PLN 135.4 million, which resulted mainly from the increase in the credit risk capital requirement by PLN 97.7 million related to the increase in risk-weighted off-balance sheet assets and contingent liabilities by PLN 1,222.4 million, the capital adequacy ratio remained at the same level owing to an increase in regulatory equity of the Bank by PLN 234.6 million.

2.3.1 Capital adequacy ratio

In thousands of PLN	31.12.2006	31.12.2005
Own funds, as stated on the balance sheet	4,684,172	4,582,249
Less:	1,557,497	1,690,181
- goodwill	1,245,976	1,245,976
- other intangible assets	38,907	67,442
- interests in subordinated financial entities	272,614	376,763
Own funds for the calculation of the capital adequacy ratio	3,126,675	2,892,068
Risk-weighted assets and off-balance sheet liabilities (banking portfolio)	14,622,331	13,399,925
Total capital requirement, including:	1,866,531	1,731,032

In thousands of PLN	31.12.2006	31.12.2005
- capital requirement to cover credit risk	1,169,786	1,071,994
- capital requirement to cover excess exposure concentration and large	332,146	334,654
- total capital requirements to cover market risk	248,415	227,780
- other capital requirements	116,184	96,604
Capital adequacy ratio	13.40%	13.37%

III. Activities of the Bank in 2006

1. Lending and Other Risk Exposures

1.1 Lending

The Group's lending policy is based on active portfolio management and precisely specified target markets, designed to facilitate exposure and credit risk analysis within the framework of a given industry of the customer. In addition, individual borrowers are continuously monitored so that signs of deterioration in creditworthiness can be detected promptly and appropriate corrective steps can be taken. In 2006, the Bank continued works to improve the principles of credit policy and credit offer addressed to small and mid-sized enterprises.

The portfolio of receivables from individuals is managed on the basis of a model that calculates risk and return on the individual loan groups in the loan portfolio. The information acquired from the Credit Information Bureau is now applied on a wider scale in the credit risk assessment process, and is also taken into account in case of unsecured personal cash loans and for scorecard purposes. In 2006, the Bank implemented scorecard models for cash loans portfolios and for unsecured credit lines. Scorecard models, which were previously only applied for the analysis of the portfolio quality, are now also applied in the credit decision-taking process for individual clients. The Bank is considering an approach whereby clients are awarded credit card limits based on their credit worthiness, which also depends on the client quality as assessed on the basis of the client data in the Credit Information Bureau. The new approach is different from the existing model where the credit card limit was assigned based on the client's creditworthiness assessment, which took account of demographic data and the client's history with the Bank.

Lending to non-bank customers (gross)

In thousands of PLN	As at		Change	
	31.12.2006	31.12.2005	PLN '000	%
Loans in PLN	10,363,246	9,763,568	599,678	6.1%
Loans in foreign currency	1,361,646	1,894,954	(533,308)	(28.1%)
Total	11,724,892	11,658,522	66,370	0.6%
Loans to non-financial sector	10,668,456	10,385,875	282,581	2.7%
Loans to financial sector	770,075	1,028,167	(258,092)	(25.1%)
Loans to public sector	286,361	244,480	41,881	17.1%
Total	11,724,892	11,658,522	66,370	0.6%
Non-financial corporates	7,034,288	7,651,842	(617,554)	(8.1%)
Individuals	3,630,587	2,725,742	904,845	33.2%
Non-bank financial entities	770,075	1,028,167	(258,092)	(25.1%)
Public entities	286,361	244,480	41,881	17.1%
Other non-financial receivables	3,581	8,291	(4,710)	(56.8%)
Total	11,724,892	11,658,522	66,370	0.6%

As at 31 December 2006, gross credit exposure to the non-financial sector amounted to PLN 11,724.9 million, representing an increase of 0.6% as compared with 31 December 2005. The largest part of the non-financial sector credit portfolio, which is loans to non-financial corporates (60.0%) decreased by 8.1% in 2005 as a result of improved liquidity positions of the biggest corporate customers. Loans to individuals grew in comparison with the end of 2005 by 33.2% to PLN 3,630.6 million. Growth in loans to individuals has come from a combination of expansion of our sales points, including branches under the 'Citifinancial' umbrella, as well as from prudently expanding the target market to selectively include certain employment segments as well as lower levels of minimum income requirements to qualify for credit.

As at 31 December 2006 the currency structure changed as compared with the end of 2005. The share of foreign currency loans, which in December 2005 was 16.2% decreased to 11.63% in December 2006. The Bank grants foreign currency loans to customers who have foreign currency cash flows or to those who, in the Bank's opinion, are able to predict or absorb the currency risk without significant deterioration of their financial position. Only cash secured overdrafts were provided selectively in foreign currency to individual borrowers.

A substantial part of the Bank's credit exposure to non-bank financial institutions was attributable to the Bank's subordinated entities. As of 31 December 2006, the largest credit exposure amounting to PLN 487.9 million was the funding granted to the Bank's subsidiary, Handlowy-Leasing S.A.

The Bank monitors the concentration of its exposure on a regular basis, seeking to avoid a situation where the portfolio is dependent on a limited group of customers. As of the end of December 2006, the Bank's portfolio of exposure to non-bank entities did not exceed the exposure concentration limits required by the law.

Concentration of exposure – non-bank customers

Exposure concentration by customer*

In thousands of PLN	31 12 2006			31 12 2005		
	Balance Outstanding*	Off-Balance Outstanding	Total Outstanding	Balance Outstanding	Off-Balance Outstanding	Total Outstanding
Group 1	180,299	360,088	540,387	209,183	261,334	470,517
Customer 2	292,447	195,460	487,907	447,722	98,454	546,176
Group 3	327,613	144,832	472,445	234,461	113,661	348,122
Customer 4	127,231	302,773	430,004	15	55,211	55,226
Customer 5	241,001	159,164	400,165	241,396	160,000	401,396
Group 6	255,437	130,836	386,273	257,342	286,903	544,245
Group 7	106,960	260,442	367,402	112,108	75,540	187,648
Group 8	60,792	274,310	335,102	18	60,914	60,932
Group 9	5	309,856	309,861	6	211,303	211,309
Group 10	38,568	244,209	282,777	38,848	212,455	251,303
Total 10	1,630,353	2,381,970	4,012,323	1,541,099	1,535,775	3,076,874

*Excluding commercial papers and subsidiaries

1.2 Quality of loan portfolio

With effect from 1 January 2005 the Bank estimates impairment losses in accordance with IAS 39.

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

At the end of December 2006, the share of loans at risk of impairment was 15.9% of the total portfolio, while as at 31 December 2005 it was 19.6% of the total portfolio. The decrease was related to the classifiable portfolio accounted for individually and was related to the repayment of outstanding amounts in this customer group.

Loans to non-financial sector (gross) by the risk of impairment

In thousands of PLN	As at			
	31.12.2006		31.12.2005	
Loans to non-banking sector (gross)				
		Share in %		Share in %
Not at risk of impairment	9,861,135	84.1%	9,370,722	80.4%
At risk of impairment	1,863,757	15.9%	2,287,800	19.6%
accounted for individually	1,402,386	12.0%	1,706,293	14.6%
accounted for collectively (on a portfolio basis)	461,371	3.9%	581,507	5.0%
Total non-banking sector (gross)	11,724,892	100.0%	11,658,522	100.0%

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

As at 31 December 2006, the impairment of the portfolio was PLN 1,575.6 million, down from PLN 1,829.0 million in December 2005, mainly due to the repayment of outstanding amounts as well as written-down a part of non-recoverable loans

Impairment of non-bank loan portfolio

In thousands of PLN	As at		Change	
	31.12.2006	31.12.2005	PLN '000	%
Impairment due to incurred but not reported (IBNR) losses	58,485	64,317	(5,832)	(9.1%)
Impairment of receivables	1,517,155	1,764,649	(247,495)	(14.0%)
accounted for individually	1,133,919	1,346,759	(212,840)	(15.8%)
accounted for collectively (on a portfolio basis)	383,236	417,890	(34,654)	(8.3%)
Total impairment	1,575,640	1,828,966	(253,326)	(13.9%)
Total provision coverage index	13.4%	15.7%		
Provision coverage index for receivables at risk	81.4%	77.1%		

1.3 Off-balance Sheet Exposures

As at 31 December 2006, off-balance sheet exposures amounted to PLN 12,679.3 million, representing an increase by 6.7% as compared with 31 December 2005. The largest change related to unused commitments lines which represented 74.6% of off-balance sheet contingent liabilities and which increased by PLN 526.7 million (5.9%). This was due to an increase in revolving loans and an increase in overdrafts.

Off-balance sheet exposures

In thousands of PLN	As at		Change	
	31.12.2006	31.12.2005	PLN '000	%
Guarantees	2,781,785	2,781,872	(87)	(0.0%)
Letters of credit issued	155,677	137,423	18,254	13.3%
Third-party confirmed letters of credit	40,270	17,465	22,805	130.6%
Committed loans	9,459,737	8,933,061	526,676	5.9%
Underwriting	217,000	-	217,000	-
Forward placements	24,860	15,439	9,421	61.0%
Total	12,679,329	11,885,260	794,069	6.7%
Provisions for off-balance sheet liabilities	27,684	38,939	(11,255)	(28.9%)
Provision coverage index	0.22%	0.33%		

As at 31 December 2006, the total amount of collateral held on accounts (or assets) of borrowers amounted to PLN 5,032 million, (31 December 2005: PLN 4,631.0 million).

In 2006, the Bank issued 4,246 enforcement titles amounting to PLN 118.7 million (in 2005: 4,241 enforcement titles amounting to PLN 139.1 million).

2. External Funding

As at 31 December 2006, the total value of external funding of the Bank was PLN 25,529.4 million and was higher by PLN 2,305.5 million (9.9%) as compared with 31 December 2005. Liabilities to the non-financial sector, which rose by PLN 1,402.6 million (8.3%), had the largest impact on changes of the external funding of the Bank's activity – their increase resulted to a large extent from the growth of term deposits.

External funding

In thousands of PLN	As at		Change	
	31.12.2006	31.12.2005	PLN '000	%
Due to financial sector	6,481,772	5,808,791	672,981	11.6%
Funds on current accounts, including:	1,365,733	942,547	423,186	44.9%
- <i>funds on current accounts of banks and other monetary financial institutions</i>	1,196,869	724,947	471,922	65.1%
Deposits, including:	5,072,080	4,839,585	232,495	4.8%
- <i>deposits of banks and other monetary financial institutions</i>	2,462,685	1,624,486	838,199	51.6%
Accrual interest	43,959	26,659	17,300	64.9%
Due to non-financial sector	18,361,819	16,959,215	1,402,604	8.3%
Funds on current accounts, including:	5,595,423	5,402,290	193,133	3.6%
- <i>corporate customers</i>	3,353,436	3,370,841	(17,405)	(0.5%)
- <i>individuals</i>	1,718,548	1,456,282	262,266	18.0%

In thousands of PLN	As at		Change	
	31.12.2006	31.12.2005	PLN '000	%
Deposits, including:	12,746,671	11,537,911	1,208,760	10.5%
- corporate customers	9,281,629	7,715,382	1,566,247	20.3%
- individuals	2,494,239	3,033,451	(539,212)	(17.8%)
Accrual interest	19,725	19,014	711	3.7%
Other liabilities, including:	685,846	455,949	229,897	50.4%
Sell-Buy-Backs	223,329	8,174	215,155	2632.2%
Accrual interest	3,484	3,056	428	14.0%
Total external funding	25,529,437	23,223,955	2,305,482	9.9%

Looking at all sectors as a whole, the largest growth of external funding was recorded for non-financial economic entities by approximately 13.6%, while the largest decrease was for non-banking financial institutions by PLN 655.8 million (19.1%). An increase in deposits of corporate customers occurred while deposits of individuals decreased. It should be noted that the decrease in the deposits of was compensated by the sale of investment products that is mainly due to the increasing competitiveness of alternative investments in the environment of declining interest rates, aggressively advertised investment funds and positive trends on the stock exchange, which created an additional incentive to invest.

Liabilities to non-bank customers

In thousands of PLN	As at		Change	
	31.12.2006	31.12.2005	PLN '000	%
Liabilities towards:				
Individuals	4,284,044	4,581,213	(297,169)	(6.5%)
Non-financial economic entities	13,290,396	11,699,126	1,591,270	13.6%
Non-profit institutions	442,064	471,382	(29,318)	(6.2%)
Non-bank financial institutions	2,779,472	3,435,239	(655,767)	(19.1%)
Public sector	561,534	430,852	130,682	30.3%
Other liabilities	68,173	57,177	10,996	19.2%
Total	21,425,683	20,674,989	750,694	3.6%
PLN	16,333,807	15,638,870	694,937	4.4%
Foreign currency	5,091,876	5,036,118	55,758	1.1%
Total	21,425,683	20,674,989	750,694	3.6%

3. Corporate and Investment Bank

3.1 Transaction Services

The Bank offers comprehensive, differentiated and attractive products in the area of trade and transaction services to corporate customers. In parallel with traditional banking services, such as current bank accounts, domestic and international money transfers, accepting deposits, granting overdrafts, the Bank has extensively broadened its product offer and carried out acquisition of customers in the scope of more sophisticated transaction services including flagship electronic and web-based banking proposals.

3.1.1 Transaction Servicing

a) Liquidity Management Products

Current accounts and deposits

In 2006, the Bank retained its leader position with respect to cash saved on corporate customer current accounts with an increase in balances – as compared to the previous year – by 25% and the market share of 15.3%. This is an almost 40% advantage over the second top bank in the market.

With respect to balances on current accounts increased by deposits, the Bank held a high third position in the market, increasing the balances by 15% as compared with 2005, with a market share of 9.5%.

In services for insurance companies and pension funds, in 2006 the Bank once again, similarly as in several previous years, held the top position with an over 100% advantage over the subsequent bank on the list.

Accounts in suspense

In 2006, the Bank intensified its actions aimed to increase the number of transactions in the dynamically developing real estate sector. Owing to these actions, the number of agreements in this sector increased in 2006 by 100%, with a concurrent increase in the respective revenue by 132% as compared with 2005.

b) Cash Products

In 2006, a number of new solutions, which guarantee an increased safety of cash processing within the group of cash products and increase the quality and functionality of the products offered. At the same time, an increase was noted in the number of calculated cash deposits by 10% as compared with 2005.

The range of cash deposit products was supplemented by the service of training in recognition of forged money intended for employees of the Bank's customers. The purpose of the training is to expand the customers' knowledge in recognition of authenticity of the banknotes and coins (PLN, EUR) introduced into circulation. The training is intended for tellers in points of sale and service and for other employees of the Bank's customers, whose job includes accepting cash from contractors. Bank Handlowy w Warszawie S.A. is the first bank in the Polish market which offers such services to the customers.

The current offer of cash payments in a post office (Wpłaty PLUS) was supplemented by introduction of a joint service of cash convoy from a client's premise to the nearest post office.

For customers who are interested in secured forms of cash payments Bank implemented a new service of secure envelopes delivery to a disclosed address. Customer can order secure envelopes via electronic mail.

In order to make a process of cash payments more efficient for Bank's customers there were certain enhancements to the secured forms of cash payments processes introduced. Instead of cash check, which was basis to give an order of payments, a new form signed in accordance with specimen of signature was implemented. This resulted in easily and effectively way of cash payments ordering.

c) Electronic Banking

In 2006, the number of customers serviced through the CitiDirect web platform increased by about 11% as compared to the previous year. The customers using the CitiDirect Internet system constitute currently 99.2% of all Bank's customers using electronic banking systems; for comparison, they constituted about 72% of the customers in the previous year. As a result, CitiDirect became the main electronic banking system of the Bank.

This met with appreciation of an independent body assessing financial services. The Bank won the ranking competition of the best Internet banks organized by the international financial monthly "Global Finance", in the category of the best Internet product range for corporate customers and institutional customers in Poland in 2006.

The Bank, aiming to improve the efficiency of customer service, attached great importance to automation of processes. As a result, the Bank obtained high ratios in electronic transaction processing and in delivering bank statements to customers. The number of money transfers accepted by electronic route attained 99.4% of the total volume.

Furthermore, the number of bank statements delivered to customers exclusively in the electronic form increased and attained 83% of the total volume of bank statements; for comparison, the respective level was 74% in the previous year.

Owing to process automation and switching to electronic systems, the Bank obtained important cost savings in the area of transaction processing and bank statement printing.

d) Payments and Receivables

At the end of 2006, the number of outgoing foreign money transfers increased by 20% as compared with the orders performed at the end of 2005. In 2006, a 44% increase in revenues from foreign money transfers was noted as compared to the previous year.

In the area of settlements in US dollars, a solution was introduced to qualitatively support settlements in full amounts, limiting the risk of cost deductions by third-party banks. The change introduced a new quality in the area of dollar settlements and met with positive acceptance in the settlement market.

The number of Direct Debit instructions increased at the end of 2006 by 20% as compared with the level at the end of 2005. In the area of Direct Debits, product promotions were conducted to make this service more popular with the customers so as to ensure their increased use of this modern payment instrument, which supports settlements.

The number of Electronic Postal Money Transfers in 2006 was 155.000, which constitutes an increase by 72% as compared with the number of orders implemented in 2005.

e) Unikasa

Unikasa is a Payment Processing Network which complements the package of receivables offered to the mass invoice issuers (corporate customers).

Taking into account the interests of the consumer and corporate banking customers, the Bank took a decision to upgrade the IT system at the turn of 2005 and 2006 to increase the effectiveness of settlement of the payments accepted within the Unikasa network. The introduced modification increased the efficiency of the operating processes on the Bank's side, shortening to two days the period between acceptance of payments within the Unikasa network and their transfer to the issuer's account. The changes made in the operating processes of the Bank met with great appreciation on the customers' side.

The Unikasa network was also enlarged by the possibility of accepting new types of invoices issued by the financial sector. The number of these transactions has regularly increased by several percent monthly.

The Bank has also held a pan-Polish marketing campaign the purpose of which was to strengthen the Unikasa brand and to convince retail customers to this method of regulation of its payments. The press and the business environment have positively assessed the marketing campaign. The Bank has been conducting continuous education of consumer banking customers for this service, aiming to promote and create a modern channel of mass payments in the Polish market.

f) Card Products

At the end of 2006, the number of issued business payment cards was 15,300, which constitutes a 14% increase as compared with the number of cards issued at the end of 2005.

The number of issued prepaid cards at the end of 2006 was higher by 48% with respect to the number of cards issued at the end of 2005 and attained more than 226,000 cards. In 2006, the Prepaid Social Benefit and Scholarship Cards (*Przedpłacone Karty Zasilkowe i Stypendialne*) were honored by the prestigious award granted by the international "The Banker" magazine in the category of Investment Banking Projects. In 2006 this product was also honored by the second-degree award for the most innovative product 2005 in corporate banking in Europe, granted by the European Payments Consulting Association (EPCA) and the European Card Review (ECR). The Bank cooperates in total with 20 Social Service Centers at issuing the Prepaid Social Benefit and Scholarship Cards.

g) European Union Unit

In 2006, a considerable increase in the interest in the European Union products offered by the Bank was noted, owing to the creation of a special product range for customers of the sector of small and medium-sized enterprises, and also owing to the preparation of a wide product package for local self-governments. An additional stimulus was also implementation of a unit of European Union advising services for customers. A reflection of increased demand for European Union products is the increase in Bank revenues in 2006 from the provision of these services by 130% as compared to the previous year.

In January 2006, within the framework of enlargement of the target group of the Bank's customers, an individualized range of European Union products was prepared for the customers of the small- and medium-sized enterprise sector.

In February 2006, a conference for self-government entities was organized, with a central topic of "Funding Investment Projects by Self-Government Entities – Methods of Obtaining Funds for Implementing Investments Funded from European Union Funds". The participants received at the conference a unique guidebook prepared under the patronage of the Bank, concerning the management of projects funded by the Norwegian Financial Mechanism and Financial Mechanism of the European Economic Area.

In the second quarter of 2006, a new service of European Union advising provided for the customers and potential customers of the Bank was introduced. Within the framework of these services, the European Union office prepares the lists of the available sources of co-funding of projects from the European Union funds and develops application documentation and accounts for projects, and also provides ongoing advisory services before and during project implementation.

In August 2006, the investment loan for small and medium-sized enterprises, refunded by Kreditanstalt für Wiederaufbau in cooperation with the European Commission, received the Europroduct title granted by the Polish Commercial Society (Polskie Towarzystwo Handlowe) under the patronage of the Ministry of Economy and of the Polish Agency for Enterprise Development.

3.1.2 Trade Finance Products

The key objectives implemented by the Bank in 2006 in the area of trade finance products were to:

a) implement a cycle of "Trade Academy" workshops for the customers conducted in various regions of Poland by Bank specialists, aimed to expand the customers' knowledge of the solutions related to trade finance products, and especially to present to them the most recent products offered by the Bank in this area;

- b) continue marketing activities, including the launch of a wide “product campaign” in the mass media (for example, by sponsored press publications, advertisements in the Internet), activation of periodic promotional campaign aimed to encourage a wider group of customers to use the trade finance products proposed by the Bank;
- c) develop further various options of supplier financing solutions based on financing receivables documented by invoices (factoring);
- d) continue cooperation with Korporacja Ubezpieczeń Kredytów Eksportowych S.A., agree new price terms of insurance as related to the solution based on funding of domestic and foreign receivables with limited recourse for the Bank’s customers;
- e) agree new loan terms for the customers of the segment of small and medium-sized enterprises wanting to obtain funding based on assignment of receivables and assignment of rights from insurance policies for receivables;
- f) expand the range of products offered by the Bank in the guarantee area by signing with the National Fund for Environmental Protection and Water Management the respective agreement concerning the specific terms and conditions of cooperation with respect to accepting by this institution financial security in the form of the Bank’s guarantee covering the funding of collection, processing, recovery, including recycling, and disposal of used electric and electronic equipment;
- g) expand the functionality of the electronic data transmission system, i.e. a so-called electronic platform intended, for example, for processing customers’ applications so as to ensure the possibility of negotiation of guarantee content and terms;

The important transactions and programs conducted or implemented in 2006 include:

- launching the supplier funding program based on discounting receivables documented by invoices for one of the key construction investors in the Polish market, building roads and motorways in Poland;
- granting the customs guarantee for more than PLN 50 million to one of the major tobacco companies in Poland;
- granting a two-year guarantee of advance payment reimbursement for an amount of PLN 111 million, for one of the key companies building railway and tram infrastructure in Poland;
- granting the guarantee for loan repayment for an amount of about PLN 84 million on order of one of the major electricity generating plants in Poland;
- granting a payment guarantee for an amount of about USD 82 million on order of one of the major Polish liquid fuel processing companies;
- implementation of an innovative solution based on adaptation of the global Citigroup program of discounting receivables with limited recourse to the assignor, for one of the IT sector companies.

3.1.3 Custody and Depositary Services

The Bank operates custody services pursuant to the applicable laws of Poland and to international standards. These services are offered to investors and brokers active in international markets of securities. The Bank is able to meet the requirements of the largest and most demanding institutional customers. In 2006, the Bank retained its leader position in the segment of bank depositaries in Poland. It offers both custody services to foreign institutional investors and depositary services to the Polish financial institutions especially pension funds, investment funds and investment funds with insurance options.

As part of its statutory activities, pursuant to the relevant license of the Polish Securities and Exchange Commission, the Custody Department operates securities accounts, settles securities transactions, handles dividend and interest payments, portfolio valuations, individual reports, and arranges for customer representation at general meetings of shareholders of listed companies. It also maintains registers of foreign securities, which also involves intermediation in the settlement of transactions for domestic customers on foreign markets.

Furthermore, the Bank processes transactions made by corporate customers on the electronic platform for trading in debt securities, operating under the name of MTS-Poland, organized by MTS-CeTO S.A., and also processes transaction in securities for remote members of Giełda Papierów Wartościowych w Warszawie S.A. (the Warsaw Stock Exchange) and MTS-CeTO S.A. We have noted a visible increase in interest of foreign brokers in the product intended for remote members of the Exchange, which allows expecting an increase of activity of the new customer segment, and thus higher volumes of transactions settled by the Bank in the next year.

The Bank continued activities to improve legal regulations in force in the market of securities, participating through delegated representatives in the work of the Council of Depositary Banks at the Association of Polish Banks and the advisory committee at Krajowy Depozyt Papierów Wartościowych S.A. The strong position of the Bank justifies the presentation of proposal of amendments to legal regulations and creation of practices approaching our market to international standards. Using their own resources, experience and competences, the Bank employees cooperate with the Financial Supervision Commission, Krajowy Depozyt Papierów Wartościowych S.A. and Giełda Papierów Wartościowych w Warszawie S.A. at introduction of new systemic solutions.

In June, the professional journal *Global Investor*, which conducts annual assessment of settlement services in Europe within the framework of so-called *European Clearing Survey*, granted to Bank Handlowy w Warszawie S.A. the award of the “*Best Bank for Settlement*” for the year 2006 in the categories of “*Equities*” and “*Fixed Income*”. This award is granted on the basis of the corporate customers’ opinions.

As of December 31, 2006, the Bank maintained 10,312 securities accounts.

In 2006, the Bank was the depositary for seven Open Pension Funds:

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

and also for:

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

In 2005, the Bank also acted as the depositary of 31 funds and sub-investment funds, managed by the following investment companies:

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

- GE Debt TFI S.A.

3.2 Treasury

In 2006, the Bank was the leading market player in foreign exchange transactions with non-banking customers. The turnover in this segment increased in 2006 by 27% as compared with the previous year, and the level of profit from these instruments increased in the same period by 9%.

The Internet platform used for foreign exchange transactions, proved to be a highly praised by the Bank's customers. The Bank will continue the strategy of development of this product.

In the market of compound derivatives, the Bank provided to corporate customers the products hedging commodity transactions and the interest rate risk. The diversified range of structured products offered reinforced the Bank's position in the market. The Bank provided to institutional investors in Poland the structured interest rate instruments based on the American dollar yield curve and expanded its product range by structured bonds with embedded credit risk. These instruments met with interest of the Polish investors as a novel product in the local market. Furthermore, the Bank entered into the transaction of sale of a twenty-year zero-coupon bond of the European Investment Bank with embedded call options.

The year 2006 was a period of further reinforcement of the Bank's position in the foreign exchange market of derivative instruments, especially in the small and medium-sized enterprise sector. The level of turnover on FX options with non-banking customers was maintained at a level of PLN 9 billion. The year 2006 was also a good period for market-linked deposits. The appropriately designed market structures bringing the desired rates of return to the customers caused increased interest in this product, which was translated by an increase in the volume of these transactions by 35% as compared with the previous year. An increase in volumes was accompanied by a substantial increase in revenue.

In the area of transactions in treasury bonds made with financial institutions, the volume of turnover in 2006 was a reflection of the situation in the Polish market. A change in the foreign investors' interest in the Polish treasury securities was reflected in the volume of total turnover in the local market, also among the Polish financial institutions. At the same time, the Bank maintained its market share in this segment.

In the area of inter-bank transactions, the year 2006 was difficult with respect to taking long-term investment decisions. A high instability of attitudes among foreign investors caused by low perspective for decisions of the Monetary Policy Council changing the level of interest rates in the short term, combined with changeable situation in the Bank's external environment, caused unexpected change in the interest rate market, without any fundamental reasons. While the local currency appreciation trend help implement budget plans in FX transactions, the net gain on bonds and interest rate derivative instruments was lower than in 2005. This situation resulted to a large extent from the unfavorable pricing of the banking portfolio of treasury bonds, which did not allow obtaining profits at the level of 2005.

In 2006, the Bank maintained the role of the market maker in the area of derivative products, both foreign currency-based as well as interest rate-based, which confirms how much the Bank contributes to market liquidity and stability of the financial system.

3.3 Commercial banking

The Bank is one of the leader of the commercial banking market in Poland. Its share in total corporate loans amounted to 4.6% at the end of 2006, as compared with 5.6% at the end of 2005, and in total corporate deposits was 9.5% as compared with 10.4% at the end of 2005. The Bank's share in the issues of short-term debt securities, measured by the amount of debt, fall to 16.1% as of December 31, 2006, from 21.4% as of 31 December 2005.

Since 2005, the Bank operated on the basis of a new service model for corporate customers. The new customer service model enabled the Bank to extend its product range for large and medium-sized enterprises. The Bank now offers an individual approach toward its largest customers.

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

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

3.3.1 Corporate and investment banking

The Corporate and Investment Bank provides comprehensive services for more than 140 largest customers, which, in addition to the basic product range, require financial engineering advice. Individual departments of the Division coordinate treasury and financial management products, prepare offers of various financing forms, and provide merger and acquisition services and other investment banking services. Innovativeness and competitiveness in the area of modern financing structures offered by this Division result from the combination of local knowledge and experience, and also from cooperation within the framework of the global Citigroup structure.

In 2006, the Bank focused not only on enhancing cooperation with the existing customers but also developed relationships with new, dynamically growing companies, both in the domestic as well as international markets. In supporting those businesses, the Bank provided financing on its own or arranged and participated in the biggest syndicate deals as well as was involved in key transactions in the Polish financial market. It is worth emphasizing that the total amount of syndicated loans for which the Bank was the main arranger or co-arranger exceeded PLN 14 billion, and the total amount of issued debt securities amounted to as much as PLN 29 billion.

At the beginning of 2006, the Department servicing the public sector was formed in the Division. The main purpose of this Department is to offer various financing structures for the key infrastructural projects implemented at the central and local level.

The list of major transactions in 2006 includes:

- financing organized for PKN Orlen enabling it to take over the Lithuanian refinery AB Mazeikiu Nafta. The financing, in the form of two credit facilities for the total amount of EUR 1.6 billion, was provided by a syndicate of eight Polish and foreign banks, with Bank Handlowy w Warszawie S.A. The financing consists of a 5-year revolving loan of EUR 800 million and a 6-month bridge loan of EUR 800 million, thus constituting the largest financing program in the history of the corporation and the largest one-off financing organized for a Polish enterprise;
- financing organized for Ciech S.A. for the acquisition of a chemical company, Organika Sarzyna S.A. The total amount of the 8-year facility is PLN 216 million, out of which Bank, as the lead co-arranger, contributed PLN 65 million;
- transaction with Korporacja Ubezpieczeń Kredytów Eksportowych SA (KUKE) and one of Russian ship owners relating to 90% KUKE guaranteed financing of production and delivery of four container ships;

- issue of a revenue bond second tranche for the municipal water and sewage system company (Miejskie Wodociągi i Kanalizacja) in Bydgoszcz, totaling PLN 50 million. The bonds are due in 2024, thus carrying the longest tenor among debt securities denominated in PLN and issued in Poland. The investors, attracted by the construction of the revenue bonds and because of the bonds' investment grade assigned by Fitch Ratings, wished to purchase three times more bonds than offered. The success of this issue shows the huge potential of financing Polish companies by investment grade bonds. Bank Handlowy w Warszawie S.A. was the lead co-arranger of this bond issue.

It should be emphasized that the Structured Financing Unit in the Treasury conducted a number of hedging transactions to secure against the interest rate and the FX risk carried by long-term exposures of the major corporate customers. At the same time, it continued and developed its business and relationships with companies in risk management on the commodities markets, among other things, the energy resources and metals.

In 2006, Bank Handlowy w Warszawie S.A. was the leading bank in Poland by the issue value of short-term debt securities (i.e. up to one year), with a market share of about 16% (data by the Fitch Ratings bulletin of 29 December 2006). The Bank maintained at that time 28 issue programs.

Owing to the high quality of offered financial products and services and their innovativeness, the Bank maintains its leading position, supporting customers to accomplish their plans of development using the newest structures and financial instruments in the ever more competitive and demanding Polish banking market as well as participates in financial transactions of key importance to the customers and the Polish economy.

3.3.2 Commercial banking

The Commercial Bank Division services the customers whose annual sales revenue range between PLN 8 million to PLN 1 billion.

To ensure more effective service of such a large and diversified customer group of the small and medium-sized enterprise ("SME") segment, the Bank introduced in mid-2006 a new customer service model. This model promotes more individual services for small enterprises in the situation of existence of wide product requirements on the customer's side and changes the approach to acquiring new customers.

As a result of the revised approach to new customer acquisition as well as to several efficient dedicated acquisition campaigns targeted on selected customer groups (conducted with the slogans "Trade with us", "Invest with us" and "We construct assets"), the Bank acquired in 2006 more than 930 new customers in the SME segment, 40% of which in the fourth quarter. Good results in the fourth quarter were supported by implementation of a new lending program and innovative solutions in terms of f/x settlements (foreign exchange internet platform).

In 2006, the Bank presented to its SME customers several new banking products. Due to the fact that this segment is the main beneficiary of the assistance funds granted by the European Union within the new budgeting period, in 2006 the customers were proposed European Union advisory services offered by the European Union Unit functioning in the Bank. The customers may use these services at each stage of applying for the EU subsidy – from analysis of the available funding sources, through preparation of the application for the subsidy, to accounting for the project.

The product range offered to the Public Sector included an attractive long-term investment loan co-funded by Kreditanstalt für Wiederaufbau in cooperation with the European Commission – within the framework of the investment funding program "Municipal Finance Facility". This loan was used in 2006 by eight local self-government units located in various regions of Poland. Prepaid cards were another solution offered to the Public Sector on a large scale in 2006.

Owing to the new distribution channel for FX transactions, in the corporate banking area a significant increase was noted in the value of FX transactions performed by the customers was noted in 2006.

Furthermore, the year 2006 was a period of active promotion of the Corporate Finance products among the major SME customers, an example of which is signing in July the mandate for public issue of 5-year bonds for PLN 100 million with one of the customers.

4. Consumer Banking

4.1 Credit cards

Throughout the year the Bank undertook a number of actions aimed both to increase the number as well as the value of transaction made with the use of credit cards. Thus the Bank remained the market leader by the value of conducted transactions and the customers' outstandings, and the number of issued credit cards reached almost 663 thousand at the end of December 2006. This constitutes a 14% growth compared to the corresponding period in the previous year. Citibank Credit Cards also remained the most frequently used cards in the market – the average number of transactions exceeded over 2.5 times the number of transactions with other cards, which gives the Bank a market share of about 25%.

In June 2006, the Bank implemented an innovative process for credit card sale, within the framework of which a customer applying for credit card doesn't have to submit documents that confirm his earnings. Based on the declaration of earnings made by a client in the credit card application one can be offered a credit card with high limit. A client can obtain even a golden credit card in this way.

In August 2006, new selling channel – “stands” (small branches in which consultants offer credit cards to customers), was open. “Stands” are placed in shopping malls and BP petrol stations, i.e. in places that guarantee a large number of potential customers. As at 31 December 2006 there were seven outlets located in shopping malls and over fifty BP located in petrol stations.

Within the framework of the strategy of focusing on customer's needs, an important change was introduced in the Safety Package for credit cards. Since 1 January 2006, the Safety Package has been optional. Three new insurance types were added to the package. Currently, the Safety Package consists of five insurance types: “Bezpieczna Podróż” (“Safe Journey”), “Opóźnienie Odlotu” (“Delayed Flight”), “Opóźnienie Bagażu” (“Delayed Luggage”), “Bezpieczne Zakupy” (“Safe Purchases”) and “Tańsze Zakupy” (“Cheaper Purchases”).

In the sphere of expanding the product range offered, the Bank issued in March limited MasterCard FIFA 2006 Credit Card – on occasion of the FIFA 2006 World Cup. In the second quarter of 2006, the Bank obtained very good results in the sale of the MasterCard FIFA credit cards.

Additionally, in the same month the Bank offered to Citibank Credit Card holders the unique possibility in the Polish market to considerably increase the credit limit and to make the transfer to the debit of the increased limit. The customer in equal monthly installments repays such debt. This service was very successful – the respective outstanding amount totaled almost PLN 160 million.

In October, a new product appeared in the Polish market – the Citibank Credit Card for students. The card is granted to students in any year of studies and any faculty, solely on the basis of the ID card and the student ID card. The card is offered to this group of customers on special very advantageous conditions: the Bank does not require any revenue confirmations, possessing a personal account or reaching a particular grade average. Every student receives a credit limit of PLN 2,000 (the limit is raised to PLN 3,000 after presenting a scholarship certificate). While studying, the customer does not pay any annual fees, which is a unique offer in the Polish market. The product was welcomed with a very keen interest of students, as shown by the distribution figures in the first pilot universities.

In November 2006, the Bank offered to its existing credit card holders an additional card for young people. The card is available to teenagers of at least 13 years of age and constitutes as an alternative to “pocket money”, with the adults determining the limit of available funds. The customers do not pay any fees for the issuance and usage of the additional card over the entire usage period, and the Bank guarantees to all existing privileges related to the card type.

For the holders of Motokarta Kredytowa Citibank – BP, a new service, MotoVip, was made available. The service consists of 24-hour support regarding the customer's car, including: 24-hour support of a consultant, advice on what to do in case of an accident, first aid advice, help in obtaining compensation from the insurance company as well as special offers for services in a few hundred car service points in Poland. The customers have also the possibility to purchase tires and windscreens at reduced prices. All of these services are available to Citibank credit card holders. With the help of the card they can make transactions over the phone. The MotoVIP service is provided to the holders of Motokarta Kredytowa Citibank - BP free of charge.

Furthermore, the Discount Program for Citibank Credit Cards was extended by new points granting discounts to the holders of all Citibank Credit Cards. The discounts are currently offered at more than 2300 shops and points of service.

In April 2006, in recognition of accomplishment and effort in the development of the prestigious credit cards market in 2005, Bank was honored by MasterCard Golden Rock Award. The prize was awarded during annually official Master Card event which took place on 19 April 2006. This is an evidence, that Bank maintains a leading position on the prestigious credit cards market and demonstrates its innovative approach to identify and address customers' needs in various segments.

4.2 Retail Banking

Bank's share in the retail loans market (including mortgage loans) decreased to 2.4% as at the end of 2006 from 2.5% as at the end of 2005. Bank's share in the deposits market amounted to 2.0% in comparison to 2.2% as at the end of 2005.

4.2.1 Bank accounts

In 2006, the Bank conducted several marketing activities focused on acquisition of new active customers, both in the affluent segment (CitiGold offer) and the medium-wealth segment. As a result of this, both the number of customer relations as well as the total number of accounts serviced increased during the year, despite the comprehensive action of closing inactive personal accounts conducted at the beginning of the year. Quality of the portfolio of accounts serviced improved, which is reflected *inter alia* in an increase by 20% in the mean account balance (December 2006 on December 2005).

At the same time, to acquire and maintain deposits, starting from April 2006 the Bank conducted marketing campaigns offering upon advantageous terms both ordinary deposits as well as combined products consisting of traditional deposit and one of the investment products. These campaigns were supported by the intense marketing communication and contributed to acquisition of a large amount of new deposits, and also to an increase in the customers' interest in modern investment products.

At the end of 2006, the Internet account called CitiOne Direct was introduced into the product range offered. The distinguishing features of this product are the possibility to open and use the account without the need to visit the branch and low fees. CitiOne Direct is a proposal for the persons who want to manage their finances freely, contacting the Bank mainly over the Internet or phone.

Furthermore, the Bank lowered the interest rate on the personal account overdraft, retaining the 7-day interest-free period in each month, which is unique in the market. Work was also conducted to simplify the procedure of granting and increasing the overdraft so as to make it easily available to the largest possible group of customers. For the majority of customers, the Bank offers the personal account overdraft on the basis of the declared cash inflows to the account.

4.2.2 *Loan Products*

In February 2006, the Citibank Loan was fully adjusted to the requirements of the Act Amending the Act - Civil Code and Amending Certain Other Acts of 7 July 2005. Within the framework of these activities, new interest rates on loans were introduced consistently with the requirements of the 4-time level of the Lombard Rate. The Bank ensured that if this interest rate changes, the interest rates on loans are automatically adjusted to the requirements of this Act. The maximum front-end fee does not exceed 5% of the loan value. The information on collection fees was introduced into the Loan Rules.

The above changes had no significant effect on the product profitability, because the interest rate on the Citibank Loan was in the majority of cases lower than required by this Act.

In November 2006, the product range offered by the Bank was enhanced by mortgage loans ("Pożyczka Hipoteczna"). The Bank offers PLN loans of up to 80% of the real estate value. Under this offer, the loan granted cannot exceed PLN 1.5 million (PLN 3 million for Citigold customers) and a tenor of up to 30 years. The interest rate depends on the assessment of the credit history and reliability of the customers. Available funds can be used for any consumer purpose, for example consolidation of all liabilities of the customer, repayment of an existing mortgage/housing loan, renovation /finishing of a real estate, etc.

4.2.3 *Investment and Insurance Products*

In 2006, the investment fund product range offered by the Bank was supplemented by the BlackRock Merrill Lynch foreign funds and six new domestic funds: ING Fundusz Parasolowy and ING Fundusz Małych i Średnich Spółek, UniStoprocent Bis, UniAktywna Alokacja95%, UniAkcje Nowa Europa. The structured bonds offer developed dynamically. The number of subscriptions almost doubled as compared with the previous year. Consequently the value of CitiGold customers structured bonds portfolio increased by 50%.

Bank also implemented a number of innovations within insurance products. In March 2006 Bank expanded its offer by new insurance-investments products: Portfel Funduszy Zagranicznych Euro and Portfel Funduszy Zagranicznych Dolar related to insurance capital funds: Franklin Templeton, Credit Suisse and Merrill Lynch.

In April 2006, the insurance products sold by the Bank were supplemented by a new SuperEmerytura annuity life insurance, unique in the Polish market. The insurance is offered by STUnŻ Ergo Hestia S.A. This Insurance Company guarantees the level of the lifetime monthly benefit or one-off payment form. In 2006, a product range of the Polisa Gwarancyjna (i.e. simple in service, from the customer point of view, life insurance, which is a kind of savings with only one paid premium) was supplemented by introduction of insurance policies for shorter terms as well as nominated in American dollars. Currently, this insurance is offered to customers in PLN for five years, three years and one year, and in USD – for three years. Taking into account the increase of Portfel Inwestycyjny assets, which is the product serviced by AEGON Towarzystwo Ubezpieczeń na Życie S.A., 2006 was a record year. The premium revenue amounted to PLN 782 million. Taking into account the increase of Portfel Inwestycyjny assets, growth rate compared with the prior year amounted 128%.

In 2006 the Bank strengthened its position on the private banking market by achieving 16 % share in the market in terms of value of assets. Assets of CitiGold clients increased by 14% and number of CitiGold accounts increased by 19% and exceeded 20 thousand. CitiGold Wealth Management is distinguished by wide range of investment and insurance products offered within "open product architecture" from its competitors.

4.2.4 *Internet and other remote service channels*

In 2006, the Bank continued popularizing the internet platform Citibank Online (CBOL), and the number of users who accessed the platform at least once reached more than 455,000, which corresponds to a 34% growth as compared with the end of 2005. The number of transactions conducted with the use of Citibank

Online constituted more than 80% of total financial transactions initiated by individual customers of the Consumer Bank.

Furthermore, the Bank actively promotes the service called Wyciąg Online (Online Bank Statement), noting a stable increase in the number of users of the service, which allows considerable savings. At the end of 2006, the number of customers using this service exceeded 69,000.

In May 2006, the Bank introduced additional safety features of e-banking Citibank Online, which include the introduction of single-use passwords for authorization of new recipients. The passwords are sent to customers via SMS messages.

Since 4 March 2006, the Bank has been offering to its customers the CitiAlerts service which replaced the previous CitiGSM service. CitiAlerts involves systematic sending by the Bank the information on the Citibank Credit Card and Citibank Personal Account. The CitiAlerts messages are sent on an ongoing basis or daily, in the form of an e-mail or SMS message. Such messages relate, for example, to the Credit Card debit balance, the date of credit card debt repayment, transactions made with the use of the credit card, the balance and operations on the account. The CitiAlerts service is available in the form of 2 packages diversified with respect to the scope of information transferred and the frequency of its sending. The Standard or Premium packages may be selected. At the end of December, the number of users of this service attained almost 77,000, and thus rose by 20% as compared with December 2005.

4.3 SME Banking and CitiBusiness

Since 2004, the Consumer Bank offers CitiBusiness services designed for small enterprises with annual sales revenue not exceeding PLN 8 million, irrespectively of the legal form of the business activity conducted.

At the turn of 2005 and 2006, reorganization of the CitiBusiness segment took place with an aim to improve efficiency in back office, credit and distribution processes, to improve the customer service model and ensure sustainability of business development.

The CitiBusiness product range is based on the concept of sale of products and services in the form of product packages meeting the specific requirements of businesses with various activity profiles. In October 2006, the list of the packages of basic banking services of CitiBusiness Development and CitiBusiness Premium was supplemented by the new package of CitiBusiness Exchange. This package was created especially for the dynamically developing segment of companies conducting export and/or import operations and includes a number of solutions particularly advantageous for entities, which make foreign trade transactions and settlements in foreign currencies. New package launch was accompanied by an extensive number of business accounts opened as well as by an increase in the volume of foreign exchange transactions handled by the Bank in the last quarter of 2006.

The range of basic banking products offered is complemented by the set of modern tools for funding small enterprises, introduced in April 2006 as the CitiBusiness Loan Program. This program takes into account the diversity of the small enterprise segment in the area of legal forms, the types of accounting standards adopted and the size of revenues, and therefore, to ensure the effectiveness of loan decision making processes, differentiates the product offering and the methods of creditworthiness analysis depending on the enterprise profile.

In July 2006, the Price Reduction Program was added to the loan products offered by CitiBusiness. This program is a modern system allowing the CitiBusiness salespersons to negotiate terms of each loan transaction entered into with a customer new for the Bank. This tool supported to a significant extent the CitiBusiness loan sale processes existing so far.

Responding to the steadily increasing needs of the micro-enterprises segment customers, the Bank adapted in 2006, for the purposes of the CitiBusiness product range, also other banking products and services which had been previously available only within the product range offered to larger enterprises.

In March 2006, the European Union advisory product has been launched, which enabled small enterprises to obtain professional assistance at searching for available sources of funding for their requirements from the EU funds, at initial assessment of the possibility to receive subsidies, at development of application documentation, and also at monitoring or managing an EU project.

In June 2006, a joint initiative of the Bank and the oldest Italian bank – Monte dei Paschi di Siena – was launched in CitiBusiness, involving the advisory support for business cooperation between the Italian and Polish enterprises in both countries.

In October 2006, the product range offered by CitiBusiness was supplemented by an extensive selection of "charge"-type Citibank Visa Business cards, which markedly increase the efficiency of expense management processes in businesses and include diverse packages of additional services, including insurance ones.

The constant development of the product range offered in 2006 was accompanied by numerous X-Sell actions and by acquisition of new customers for the Bank. Among these activities, the precisely targeted loan sale campaigns directed to the existing portfolio of CitiBusiness customers, activities aimed to acquire customers for the same segment among the self-employed Bank customers as well as the national acquisition campaign under the slogan "Oferta na Twoich Warunkach" (Offer on Your Terms) conducted in the fourth quarter of 2006 are worth mentioning.

4.4 CitiFinancial

Until the end of 2002, under the CitiFinancial brand, the Bank offers products for the segment of customers with average or low income. The basic product range offered consists of the Cash Loan, Loan for Debt Consolidation and Mortgage Loan. The products are offered through the network of the Bank's own branches, and also by authorized points and via the centralized process, i.e. financial intermediaries and brokers.

During the year, also work related to changes in the policy of granting loans in order to expand the group of potential customers was conducted. Among other things, the offering of granting the Cash Loan for the selected professional groups on the basis of documents confirming qualification for the performance of the specific profession (freelance professions) was tested.

To ensure better access to products to the customers, in 2006 the Bank launched 38 new branches and 12 authorized points of sale. At the end of 2006, the CitiFinancial distribution network consisted of 99 branches and 12 authorized points of sale.

Also in the fourth quarter of 2006, the CitiFinancial branches started distributing the Citibank Visa Silver Credit Card. By means of a simplified application, it can be requested by customers applying for a Cash Loan or a Mortgage Loan.

In 2006, also the Internet channel launched at the end of 2005 gained in importance. At the end of 2006, about 2% of new customers originated from this channel. Their acquisition cost was considerably lower than those of other customers, and the level of acceptance of applications from this channel was definitely below the average.

5. Branch Network

In 2006, the network of CitiFinancial branches was dynamically developed and work on restructuring of the network of corporate and retail branches was conducted at the same time in order to optimize their costs of operation and their availability to customers.

The branch network of CitiFinancial was enlarged to 111 outlets (an increase by 50 entities as compared with the end of 2005). In total, 38 branches and 12 sub-branches – partnership outlets operating under the CitiFinancial logo – were opened.

At the end of 2006, the branch network of Consumer Banking consisted of 86 branches, similarly as one year ago. In the course of 2006, 1 CitiBanking branch in Warsaw was closed, and afterwards was launched in a new location, at the same time expanding its functionality to the CitiGold branch standard. Additionally, 23 corporate branches conduct retail customer service (without changes as compared with the end of the previous year).

The corporate network was reduced to 39 branches (drop by 2 entities as compared with the end of 2005) as a result of closures of non-profitable sub-branches in Żywiec and Kędzierzyn Koźle. The number of retail branches providing services to foreign corporate customers did not change and amounted to 13. In total, the corporation customers are serviced at 52 outlets (fall by 2 as compared with the end of 2005).

In total, at the end of 2006, the Bank had at its disposal a network of 236 branches (224 own branches and 12 agency branches), which constitutes an increase by 48 units as compared with the end of 2005.

6. Changes in IT

The objective of IT development is to provide optimal processes while ensuring data security and continuity, and implementation of new solutions reflecting technological progress, product needs and the Bank's regulatory environment.

In 2006 the following solutions influenced the development of a leading-edge product range, improvement of its quality and efficiency, and reduction of its cost were introduced:

- replacement of the server infrastructure and implementation of a new version of the eOrders application used for placing orders by customers. Owing to this, the costs of the service could be reduced by almost 30% and the number of servers could be reduced by almost 50% (15 servers);
- implementation of the mechanism of sending information on transactions of the SpeedCollect service customers several times daily, owing to which the customers may accelerate the process of settlement of their transactions in their accounting systems;
- introduction of a new, more efficient method of sending to the CitiDirect e-banking system the information on transactions conducted by corporate customers of the Bank. The new solution enables more rapid updating of information for customers within the electronic banking system and increases the efficiency of the process of reconciliation of transactions initiated in CitiDirect;
- launching a more efficient server infrastructure and implementation of a new version of the main Kondor+ system in the Treasury Division;
- implementation of partial automation of transaction processing and customer validations of payment orders, initiated in the paper form, on the basis of the available systems and the Adobe Forms technology;
- implementation of changes enabling reporting from the eTIS application, supporting the crediting process in the Bank, consistently with the Basel II project requirements in the Credit Risk area;
- migration of the server environment for critical Sorbnet and Elbon applications to the standard in force in the Bank combined with replacement of the Sybase database version to the manufacturer-supported version 9.0.2;

- migration of connections between the CitiFinancial branch network and the Bank head office to the MPLS technology on the basis of an agreement with the suppliers. Introduction of this new technology allows obtaining a wider connection band with a more effective cost model;
- implementation of the central system of making backup copies for data stored on servers disseminated within the network of the Bank branches;
- in the area of credit cards, a new functionality was introduced, enabling the sending of bank and card statements by e-mail, based on the customer profile. The service eliminates the necessity to send statements by ordinary mail and supplements the previously implemented e-statement services. This functionality makes it also possible to send sms messages consistently with the profile selected by the customer, e.g. reminding the customer on loan repayment, debiting the card account, etc. Furthermore, also a loyalty-building program was implemented, which allowed to diversify the annual fee depending on the history of card use throughout the year;
- In the area of E-Banking Systems and Data Warehouses, changes were introduced in the area of security for the CBOL system, which involved the introduction of payer authorization; these changes allowed minimizing the risk related to fraud in e-banking through implementation of single-use passwords for authorization of new recipients. This is the first phase of changes planned for 2006, and related to protection of the Internet platform and customer authentication;
- Improvement of the process of loan decisions through automation of the credit policy criteria, which will result in immediate loan decisions and the possibility to independently test new credit strategies.

The total investment in IT incurred in 2006 amounted to PLN 27 million in the Corporate and Investment Bank and PLN 7 million in the Consumer Bank.

7. Equity investments

The capital exposures of the Bank are classified as part of the strategic- and divestment portfolios. In 2006, the Bank continued its so far capital investment policy, whereunder the following elements were used as indicators for the strategic portfolio: maximization of profits in the long term; increase of the market share and development of cooperation with the Bank; as regards the divestment portfolio, the following factors are taken into account: optimization of the financial result on the capital transactions and minimization of risk inherent in such transactions.

7.1 Strategic Portfolio

Strategic companies include entities that run their business in the financial sector, whose performance has impact on the result of banking operations of the Group; which help the Bank expand its offer, and which increase the prestige and competitive edge of the Group on the market of financial services in Poland (Handlowy-Leasing Sp. z o.o., Dom Maklerski Banku Handlowego S.A.). Strategic companies also include infrastructural companies that provide services for the financial sector; these companies are not controlled by the Bank as such, but they are of strategic importance for the Bank in view of the operations they perform (e.g. the Warsaw Stock Exchange, MTS-CeTO, the Domestic Clearing House, or the Credit Information Bureau).

Regarding the strategic involvement in such infrastructural companies, the Bank intends to keep its share and be active in outlining the strategic directions of their development while exercising its right of vote. In terms of corporate oversight of these companies, it is the overriding objective of the Bank to ensure their smooth development and continued operations in the existing form, to be used by the players on the financial markets, including the Bank.

7.2 Divestment Portfolio

The companies for sale are entities where the Bank's exposure is not strategic; the companies in that portfolio include both entities that are owned by the Bank, directly or indirectly (e.g. Lubelska Fabryka Maszyn Rolniczych S.A., Pol-Mot Holding S.A., or NFI Magna Polonia S.A.), as well as special purpose investment companies that are used by the Bank for capital operations (Handlowy Investments S.A., Handlowy Investments II S.a.r.l.). Some of these companies for sale are restructured companies that follow operations involving conversion of debt in exchange for shares in equity.

The strategic assumptions of the Bank with regard to the companies for sale provide for gradual decrease of the Group's involvement in these companies. It is assumed that the individual entities will be sold at the best possible moment in view of market developments. The divestment portfolio comprises capital exposures without pre-determined rate of return. The Bank does not plan any new capital investments to be divested at a later date. The divestment portfolio may grow only as a result of converting debt claims into shares in equity.

8. Other Information about the Bank

8.1 Rating

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

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

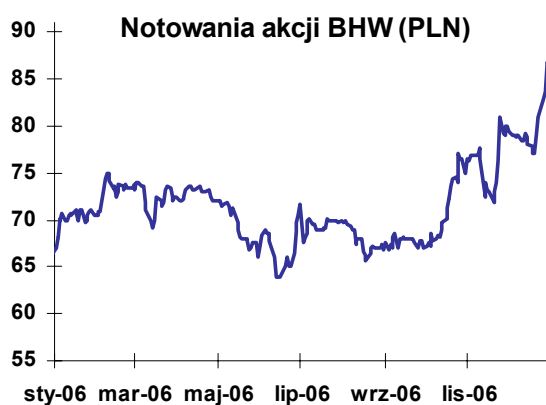
Additionally, on 26 February 2007, the agency notified the Bank about change of the financial strength rating from D+ to C-. This change results from new methodology of valuating financial strength of Banks introduced by Moody's as well as changes in the bank assessment.

Moreover on 3 March 2007 agency notified the Bank about Aa2 rating granted (3rd from the top) for long-term deposits in PLN and Prime-1 for short-term deposit in PLN.

8.2 The Bank's Performance on the Warsaw Stock Exchange

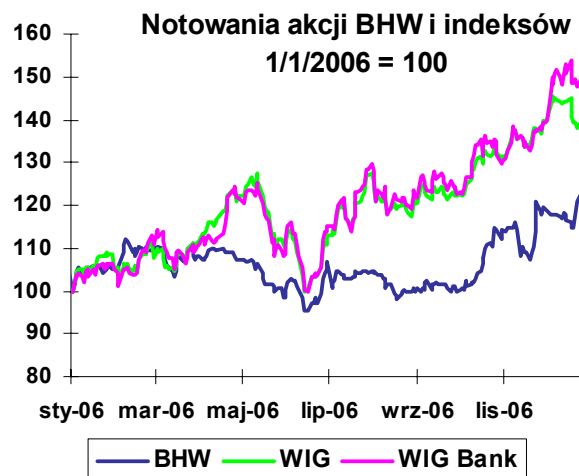
In 2006, the price of the Bank's shares on the Warsaw Stock Exchange (WSE) rose from PLN 67.0 (2 January 2006) to PLN 86.8 (29 December 2006), by PLN 19.8, i.e. 30%. A definite increase was visible in the fourth quarter of 2006, when – starting from October – the share price systematically climbed, which resulted above all from an increase in outstanding shares as a result of the change in the structure of the Bank's shareholders.

Prices of BHW shares (PLN)



Jan 06 Mar 06 May 06 Jul 06 Sep 06 Nov 06

Prices of BHW shares and indexes



Jan 06 Mar 06 May 06 Jul 06 Sep 06 Nov 06

8.3 Interest rates

The average interest rate used by the Bank for deposits and loans in 2006 is included in explanatory notes to the Financial Statements.

8.4 Awards and Honors

In 2006, the Bank received the following awards and honors:

- Micro-payments, the investment loan for small and medium-sized enterprises, and also the Comprehensive Cash Service and the eTrade Citibank Handlowy electronic platform received awards in the 10th edition of the Europroduct competition;
- Bank won the first place and obtained the title of the "Best Bank for Settlements" in the "Clearing Survey" ranking of the "Global Investor" journal in the categories of debt instruments and equity instrument settlements;
- For the second time in a row, the Bank won the first place in the category of a financial institution in the Pan-Polish "Kompas" Ranking of Employers co-organized by the Consulting Student Scientific Circle of SGH, SMG KRC Millward Brown Company and Radio PIN;
- The Bank was awarded in the "Firma w Twoim Stylu" ("Corporation in Your Style") competition organized by the Twój Styl magazine, for the Citigroup Women Poland program and for the cycle of training planned especially for women;
- Citibank Handlowy was honored by the title of the Patron of the Year 2006 of the National Philharmonic in Warsaw;
- Citibank Handlowy was awarded with honors by the financial "Bank" monthly for the best corporate bank in the ranking of "50 top banks in Poland 2006", in the best financial result category;
- The Citibank Handlowy Branch in Bydgoszcz was acknowledged for the sixth time as the best bank of the Kujawy and Pomorze Region in the "Złota Setka Pomorza and Kujaw" ("The Gold Hundred of Pomorze and Kujawy") ranking organized by Gazeta Pomorska under the honorable patronage of the President of the National Bank of Poland, Marshal of the Kujawsko-Pomorskie Voivodeship, Kujawsko-Pomorskie Voivod, President of the Confederation of Polish Employers and pod under the press patronage of the Rzeczpospolita daily;
- Citibank Handlowy received the Golden Rock Award Statue granted by MasterCard for particular achievements in the development of the prestigious card sector in 2005 in Poland;
- The Prepaid Social Benefit and Scholarship Cards (*Przedpłacone Karty Zasiłkowe i Stypendialne*) issued by Citibank Handlowy received the second-degree award for the most innovative product in 2005 in the corporate sector in Europe, granted by the European Payments Consulting Association (EPCA) and the European Card Review (ECR);
- The Chief Economist of Citibank Handlowy won the 12th edition of the competition organized by the Parkiet Stock Exchange Gazette in the category of Economist 2005;
- Dom Maklerski Banku Handlowego S.A. received for the third time running the Golden Bull Award granted by the President of the Warsaw Stock Exchange for the largest share in the equity market turnover on the Warsaw Stock Exchange for 2005;
- the team of Citibank Handlowy macroeconomic analysts won the first place in the ranking of best macroeconomic analysts in 2005, developed by the Parkiet stock exchange gazette.

8.5 Sponsoring Activity and Cultural Patronage

Patronage of culture and arts and cooperation with the National Philharmonic brought to the Bank for the subsequent time the title of the Patron of the Year 2006. This distinction is particularly important for the Bank, because we consider social commitment the Bank's particular pride and distinctive feature. In May 2006, Citibank Handlowy was a sponsor of the concert performed by the Orchestra and Choir of the National Philharmonic directed by Jerzy Semkow, with participation of the following solo singers: Bożena Harasimowicz - soprano, Ewa Marciniak - alto, Dariusz Stachura - tenor and Romuald Tesarowicz - bass. In December 2006, the Bank sponsored the concert of Evelyn Glennie, a charismatic drum player and

composer from Scotland, who was accompanied by the Chamber Orchestra of the National Philharmonic. In 2006, Citibank Handlowy was also the sponsor of the underwater photograph exhibition "Wielki Błękit" ("The Big Blue") – extraordinary images of the most beautiful diving sites of the world, photographed by one of the most talented underwater photographers – Dariusz Sepiolo.

Furthermore, the Kronenberg Foundation operating on the Bank's behalf supports the major Polish nationwide and local educational and local development projects with particular consideration of economic education and cultural heritage. In 2006, the Foundation celebrated its 10th anniversary.

The most important activities conducted by the Foundation in 2006:

- My Finances ("Moje Finanse") – the largest Polish economic education program for pupils of higher secondary level schools. It is conducted in cooperation with the National Bank of Poland and the Foundation of Entrepreneurship of Young People. In 2006, more than 2000 teachers and more than 144 000 pupils in the whole of Poland participated in "My Finances". Some workshops and training sessions were conducted by the group of 70 volunteers of Citibank Handlowy. The classes with their participation took place both at schools as well as in the selected branches of the Bank, where the pupils played the roles of bankers and customers. Within the framework of this program, in combination with Gazeta Wyborcza, a competition "My Finances – from class to teller window" was organized so as to contribute to obtaining by the pupils the ability to make right financial decisions. Thirty thousand pupils of lower secondary and higher secondary schools participated in this competition;
- Employee Volunteerism Program in Citibank Handlowy – the purpose of this program is to involve the Bank employees in contributing their knowledge, experience and abilities to social projects. In 2006, almost 1400 employees of the Bank in the whole of Poland participated in the program. The most important project implemented in 2006 within the program was participation of volunteers of the Bank in the global action – World Citigroup Day for Community. The employees implemented 57 social projects created in cooperation with local institutions. The project recipients were a group of about 250 thousand persons. Their implementation was conducted by 822 employees and 219 members of their family and friends;
- Gieysztor's Award – the most prestigious award for services for protection of the Polish cultural heritage is granted yearly to institutions or individual for the activity aimed to protect the Polish cultural heritage. The winner of the seventh edition of the Award was Prof. Krzysztof Kazimierz Pawłowski – Vice-President of the Polish National Committee of the International Council on Monuments and Sites (ICOMOS);
- Competition for the Award of Bank Handlowy w Warszawie S.A. – the most prestigious competition for scientists, economy and finance theoreticians in Poland. The winner of the 12th edition of the competition was Dr Andrzej Rzońca of the Warsaw School of Economics, the author of the study "Non-Keynes effects of fiscal policy tightening: theory and studies of selected Central Europe countries";
- competition Micro-entrepreneur of 2006 – the basic concept of this competition is not only encouraging to setting up small businesses, but also presentation and promotion of the best of them as examples of effective business activities. The title of the Micro-entrepreneur of 2006 was won by Elżbieta Olszewska "To-Tur Toruńska Turystyka" from Toruń, who runs the Live Gingerbread Museum.
- Wokulski - competition for the best business plan for students intending to take up business activity. The winner of the 8th edition of the competition was Piotr Antoszek, a student of the Agricultural Academy in Lublin and of the Catholic Lublin University, the author of the business plan "www4you", the basic assumption of which is creation of a company which deals with the positioning and sale of domains in the Internet;
- Banks in Action ("Banki w Akcji") – a program addressed to young people. The purpose is to present to young people the specific features of work in the banking sector – the program is based on active teaching methods – the young people play the roles of bankers and compete in the simulation game "Banks in Action". The sessions are conducted in English, and volunteers from the Bank participate in program implementation;

- Traces of the Past (“Ślady Przeszłości”) – the purpose of this program is to increase among young people the interest in the cultural heritage of the past. The pupils search for interesting historic buildings and monuments in their neighborhood, learn their history and undertake their care. Furthermore, they conduct educational and promotional activities, owing to which the forgotten places become part of tradition, a symbol and tourist attraction of their town. Fifteen thousand pupils participated in the program. The program is conducted in combination with the Civic Education Center;
- Subsidy Program – in 2006, the Kronenberg Foundation granted 87 subsidies for the total amount of PLN 1.9 million. The projects supported by the Foundation include, for example, the Anna Dymna’s Foundation “Mimo Wszystko” – for awards in the Festival of Enchanted Song, Educational Entrepreneurship Foundation (“Fundacja Edukacyjnej Przedsiębiorczości”) for organization of the competition for economy students “Entrepreneurship, Finances and Management”, the Jewish Culture Festival Society in Kraków for supplementary funding of educational workshops within the framework of the 16th Festival;
- actions for philanthropy development – the Foundation actively participates in the activities of the Polish corporate foundations and other non-governmental organizations, participating, for example, in the work of the Forum of Donors, which plays the role of the advocate and forum for exchange of experiences of the major Polish institutional donors. The Foundation undertakes also actions promoting philanthropy among businesses and corporations. In both these roles, membership and active participation in the work of the European Foundation Centre are very helpful.

IV. Significant Risk Factors relating to the Bank’s Operations

1. Major Risk Factors and Threats to the Bank’s Operating Environment

1.1 Economy

According to the macroeconomic forecasts developed by the Bank, the economic growth in Poland may slow down to about 4.9% in 2007, as compared with 5.8% in 2006. Most probably, the basic growth driver will still remain the domestic demand, including above all the high pace of growth of investment outlays. Economic revival and improvement in the labor market may make the Monetary Policy Council increase the interest rates by about 50 bp in 2007. Due to the increasing demand for labor and economic emigration of some employees, the most important risk factor is the possibility of excessive increase in wage demands. Wage surges, much exceeding the growth in labor productivity, may make the monetary authorities tighten the monetary policy.

In 2006, the budgetary situation was very good. Nevertheless, it cannot be excluded that in the case of the potential slowdown the condition of public finances might deteriorate. This might lead to an increase in volatility on financial markets and to weakening of the Polish currency.

1.2 Regulatory Risk

Any changes in economic policy and the legal system may significantly affect the financial situation of the Bank. Regulations of the banking sector, including regulations issued by the Finance Minister, resolutions of the Management Board of the National Bank of Poland (“NBP”), orders issued by the President of the NBP and resolutions of the Commission for Banking Supervision (“KNB”), are of utmost importance.

The most relevant regulations cover:

- acceptable concentration of loans and total receivables (Banking Act);
- maximum limit of equity that may be invested in the capital market (Banking Act);
- solvency and credit risk standards (resolutions of the KNB);

- mandatory reserves (establishment and transfers) (NBP Act, Banking Act, resolutions of the KNB and resolutions of the Management Board);
- taxes and similar charges;
- Act Amending the Act — Civil Code and Amending Certain Other Acts of 7 July 2005 limiting the maximum interest rate on a consumer loan and the maximum fees related to such a loan;
- restrictions in granting mortgage-secured foreign currency loans, arising from Recommendation S of the Commission for Banking Supervision.

Furthermore, the year 2007 will be a year when all the financial institutions in the European Union market will have to adjust their activities to the requirements set forth in Directive 2004/39/EC of 21 April 2004 on markets in financial instruments (so-called MiFID Directive).

Additionally, the Bank will adjust its operations to the legal requirements in connection with the change in the regulations concerning the implementation of the New Capital Accord.

1.3 *Competition within the Banking Sector*

Competition between banks in various segments of the Polish banking sector seems to be strong. Companies will increasingly utilize financial alternatives to bank loans, such as issuance of short-term debt securities and leases or factoring, and will fund their operations from earnings. The pressure imposed by companies in good financial condition to reduce credit and non-credit margins will not come to an end in the near future.

After Poland's accession to the European Union, foreign banks have shown more interest in the Polish market of banking services. Banks from the European Economic Area now have an advantage as they do not have to start from scratch or acquire a bank. An institution based in any member state of the European Economic Area has only to notify its intent to operate in another market to the European supervision authorities. Foreign banks may operate cross-border activities in Poland, i.e. without their actual presence. By the end of 2006, the Commission for Banking Supervision received 139 notifications from the competent supervisory authorities of the Member States of the European Economic Area announcing the intention to undertake by the credit institutions subjected to their supervision cross-border activity in the territory of the Republic of Poland. In this period, also the Chief Inspectorate of Banking Supervision confirmed to the competent supervisory authorities of the Member States of the European Economic Area the reception of 16 notifications announcing the intention to undertake by the credit institutions subjected to their supervision cross-border activity in the territory of the Republic of Poland via a branch. For the time being, the operations of these banks are oriented mainly on services for large enterprises and the wealthiest customers in the consumer banking sector (private banking). It is possible that foreign banks may attempt conquering the retail market in the future. It is highly probable that the increasing foreign investments in the banking sector and the emerging unified European market of financial services will lead to greater competition in the market for banking services, also in activities such as FX transactions, settlements of foreign trade transactions and investment banking, depositing and investing funds of natural persons.

Despite the large number of institutions that have notified their intent to open operations in Poland, we do not expect sizeable changes in the structure of the banking sector. Those institutions that are really interested in the Polish market, and that deem it attractive, have already been developing their presence here for several years. As a result, banks operating in Poland offer products comparable with those that are distributed in other EU countries. The competitive struggle will focus on the quality of services and the efficiency and speed of customer service. The factor that could potentially reduce competition is the continued consolidation of the banking sector.

Another risk factor is offering the products which have so far been restricted to banks by non-bank entities such as loan brokers or shopping networks. This factor cannot cause lowering of margins in the banking sector.

The Bank is well prepared to face European rivals, there is, however, a risk that the increasing competition could affect its earnings.

2. Major Risk Factors connected with the Bank and its Operations

2.1 Liquidity Risk

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

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

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

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

2.2 Foreign Exchange Risk

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

2.3 Interest Rate Risk

As is the case with other Polish banks, the Bank is exposed to a mismatch risk regarding the interest rate changes on its assets and the underlying liabilities. The interest rate risk can arise where it proves impossible to offset the fall in income caused by lower rates of interest on loans through a corresponding reduction in the rates of interest paid to depositors. This risk also applies to situations where a rise in deposit rates cannot be offset by a corresponding rise in lending rates. The management of interest rate risk is one of the functions of the Bank's Asset and Liability Committee, which determines the Bank's pricing policy in respect of interest rate risk. The present level of interest rate risk is moderate.

2.4 Credit Risk

Lending and guarantee business is inherently linked with the risk of payment delinquency (in terms of both loan principal and interest) and also with the risk that the asset represented by an outstanding loan or granted guarantee will prove impossible to recover. The Bank monitors its risk assets on an ongoing basis, classifies them in accordance with the relevant regulations and establishes provisions against loans. The Bank's Management Board is of the opinion that the current level of provisions is appropriate. In connection with the possibility of changes in the external environment that could have a negative impact on the financial situation of the Bank's customers, there is no certainty that in the future the need to provision adequately against the existing asset portfolio will not have an adverse effect on the Bank's financial condition or that the provisions and collateral in place will prove sufficient to absorb possible losses arising out of lending activity.

2.5 Equity Investment Risk

Equity investments can be divided into two categories: strategic and for sale. The strategic portfolio includes the Bank's shares in Polish financial institutions of a strategic significance to the Bank due to their operations. Commitments for sale originate from operations of receivable conversion into equity interests. Investments are owned directly by the Bank or indirectly via the Bank's wholly-owned special purpose investment vehicles. In the case of some of the equity investments, their valuation is based on the assumption of finding a strategic investor for the company whose shareholder is the Bank. Therefore, maintenance of the high level of foreign investment may be of key importance for the valuation of these investments. Moreover, due to a number of macroeconomic effects, the situation in equity markets and other factors having an impact on activities of the companies in which the Bank is a shareholder may mean that the selling price of owned shares may turn out to be lower than expected, or even lower than their value in the Bank's books of account. The Bank has already created substantial write-offs related to impairment of investments, hence, the risk level connected with a further drop in the value of the Bank's investment portfolio is low.

2.6 Operating Risk

As in other financial institutions in the market, the Bank is exposed to the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. Following the publication of the Basel Committee's recommendations and the recommendations of the Commission for Banking Supervision, the Management Board enhanced qualitative and quantitative measurements of operating risk. The monitoring and reporting of operating losses, divided into several categories, were also implemented. As a result of various tools and methods adopted by the Bank to manage operating risk (e.g. policies, procedures, checklists, limits, self-assessment process, analyses of sources of operating events and adequate repair activities, information security systems, contingency plans and audits) such risk is considerably mitigated, although it is not wholly eliminated. However, the overall level of operating risk is assessed as moderate.

2.7 Contributions to the Bank Guarantee Fund

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

Due to a general deterioration within the banking sector or the bankruptcy or financial distress of one of the participating institutions, the Bank and other participants in the Bank Guarantee Fund may be required to make large payments to the Fund, in proportion to the sums held within the individual deposit protection funds established for given institutions. This could adversely affect the Bank's earnings.

V. Development Prospects for the Bank

1. General Development Objectives

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

In the 2007, the Bank wants to continue active acquisition of new customers, including individual consumers, SME customers and corporate customers, in all market segments, with special emphasis on the former. Bank is going to follow the "client first" strategy and improve customer satisfaction through simplification of operational processes and procedures, coverage model review as well as regular client feedback review. In 2007 Bank plans to use leverage on synergies between corporate and retail banking, both in products area and common distribution network channels. Product synergies predict launching brokerage retail activity in cooperation with retail banking, as well as offering Treasury products to small enterprises (Citibusiness) of retail banking, and enabling monthly loan repayments through Unikasa payment network.

The Bank aspires to a double digit market share in a few years (measured as the share in the result on banking activity for the entire banking sector). In 2006, its share was approximately 6%. The increase in market share will be achieved when the Bank is able to maintain its leading position in corporate banking and retail banking. New client acquisition is going to be achieved through increase of efficiency and further development of distribution network and launching new products.

In 2007 Bank will still aim for savings and focus on improving cost discipline. Simultaneously marketing expenses are expected to rise rapidly contributing to development of product offer as well as new products' sale increase.

1.1 Commercial Banking

In corporate banking the Bank is aiming to increase income in the small and medium-sized enterprises (SME). The Bank is going to acquire new customers on this market as well as deepen the relations with its present customers. The Bank is going to finance SME in an active way as well as to enlarge the offer dedicated to SME customers, and also to increase the number of branches providing services for enterprises.

The majority of the Bank's revenues will be generated by cash management, trade finance services and treasury products. The solutions and innovations in these product groups will be the key factors determining the competitive advantage of the Bank, in particular in cooperation with the most demanding international and leading Polish companies. The Bank will aim also to use to a much higher extent the possibilities offered by the sale of such products which have been so far restricted only for the largest businesses in the national small and medium-sized enterprises segment, for example "Online trading" offered by the Treasury Division.

Although SME maintaining is realized mainly by electronic channels the physical branches located next to housing estates are still needed. For this reason in 2006 decision about increase number of branches available for these customers from 51 to 120 was made. The corporate and retail branches will merge, thus all branches (excluding CitiFinancial) will maintain corporate and retail customers

1.2 Consumer Banking

Consumer Bank is involved in cooperation with all segments of customers. It is reflected in special tailored product offers, which take into consideration a variety of customer needs from different market segments. Bank plans to further develop both asset and liability products, as well as to launch Mortgage

Loan Package (including loans to finance buildings under construction), and to introduce first on the market mortgage account as well as saving account and new debit card.

It is of key importance for the Bank to maintain its top position in credit cards – in whose market Citigroup is the world leader. Bank plans to undertake actions aiming to increase the number and value of transactions made with credit cards. The emphasis will be placed both on new customer acquisition as well as on enlargement and continuous improvement of the product range offered. Within the framework of strategy of focusing on the customer's needs, the Bank will offer new types of cards as well as loyalty programs with new partner. The target group of customers to whom the Bank will offer its cards will be expanded.



The Bank has a very strong position in the affluent customer segment. What sets the Bank apart its competitors is that these customers are offered global services. In 2007 Bank will continue to build a leader position in the affluent customer segment by innovative product offering and development of the branch network.

The Bank will also expand its offering to medium-income customers, holding CitiOne or CitiKonto accounts. In addition to developing classic deposit services and increasing transactional functionality of accounts, special emphasis will be placed on extending investment and insurance products. Along with the increasing customer demand for new methods of placing their savings, the Bank will expand its investment fund offering.

Customer acquisition, modernization of distribution channels and new product launching is also planned in CitiFinancial. Bank is going to offer selected product of retail segment: home equity, mortgage loans and credit cards to this group of customers.

In 2006, the product range offered by the Consumer Bank was expanded by the modified real estate-secured loan – Mortgage Loan ("Pożyczka Hipoteczna") (which had been offered until then only in the CitiFinancial network). Owing to using the real estate as a collateral, individual clients may obtain a loan with a favorable interest rate intended for any consumer purpose, for consolidation of all financial liabilities or for repayment of an existing mortgage/housing loan. In 2007 enlargement of this offer is planned by loans intended for the purchase of finished real estate, thereafter by loans for buildings under construction in PLN as well as in foreign currencies. At the same time, mortgage loans in foreign currencies (loan in PLN indexed on the basis of a foreign currency) are being prepared for the Customers.

1.3 *Distribution Network*

The Bank operates in the market under two brands:  for distribution of consumer, corporate and investment banking products and  for CitiFinancial's distribution channels. For the Bank, the creation of the brand awareness among existing and prospective customers of particular segments is a top priority task.

The Bank's customer service is based on the network of outlets, consultants and relationship managers, third party direct sales agents and remote distribution channels, such as Internet banking, Call Center, IVR (interactive automatic telephone service) and multi-functional ATMs.

The streamlining of the branch network is being implemented by optimization of available space, closure of the least profitable outlets and merger of corporate and retail outlets. In 2007, the functionality of all retail branches will be expanded by the performance of simple operations for enterprises, and the functionality corporate branches will be expanded by the service of retail customers. Bank will still open micro-branches at BP fuel stations and at prestigious shopping centers.

The utilization of the Bank's distribution network takes into account plans to increase the scope of activities of the Consumer and Corporate Bank, especially in the area of small and medium-sized enterprises (MSP), and also synergies between the Consumer Bank and the Commercial Bank. The priority is to increase the functionality and availability of remote distribution channels and to further enhance the qualifications of banking consultants, in particular those handling large entities that need more sophisticated financial products. In the case of the Consumer Bank, substantial emphasis will be placed on the further growth of Internet usage (Citibank Online). As a target, the Internet is to become the basic source of conducting transactions for private individuals.

High functionality and high quality of access to call centers via CitiPhone for individuals and small businesses and CitiService for large and medium-sized enterprises will be maintained.

2. Synergies

Wide-ranging experience and diverse operations provide the Bank with strong competitive leverage and allow it to offer its customers comprehensive solutions by taking advantage of the opportunities afforded by synergies between corporate and consumer banking, between banking and brokerage services, etc.

Packages of deposit and loan products are offered to staff members of the largest corporate customers. A typical package includes personal current accounts (e.g. CitiKonto) together with payroll support facilities, credit cards and other credit products. In addition to pricing incentives, the Bank is prepared to conduct financial educational seminars for their employees.

The Bank will also continue to sell corporate products to its consumer banking customers of the CitiGold sector. In particular, specialized treasury products, brokerage services and asset management facilities will be offered. All groups of consumer customers will further be offered investment products.

VI. Corporate Governance

1. Good Corporate Practices and Principles of Management at the Bank

As declared by the Bank's Management adopted by the resolution of 16 May 2006 and included in the current report no. 30/2006 of 22 June 2006 the Bank has undertaken to follow the corporate governance practices determined in the "Good Practice for Public Companies".

The Supervisory Board issued a positive opinion on that statement (the Supervisory Board's resolution of 24 May 2006), and subsequently it was approved by the General Meeting of Shareholders of 22 June 2006.

The Bank's aim is to be the most respected financial services company in Poland, with a strong sense of business and social responsibility. Since 2003 the Bank respects the corporate governance rules adopted by the Warsaw Stock Exchange in the form of the "Best Practices in Public Companies". The main purpose for adoption of the corporate governance rules as the standard in the Bank is to build transparent relationships between all entities involved in the Company and to ensure proper and diligent management of the Company and its business and ensure fairness to all shareholders.

In order to ensure transparency in the Bank, including in particular relationships and processes between statutory bodies of the Company, the following Best Practices have been introduced in the Bank.

1.1 Investor Relations

An integrated part of the Bank's information policy, whose aim is to provide information to all individuals and institutions that need information about the company, are investment relations that provide the

information for present and potential investors and capital market analysts. The Bank's information policy is implemented, among other things by:

- Organizing regular meetings with investors and analysts in the form of briefings and conference calls, also in the Bank's headquarters, with participation the Management Board.
- Support from Investment Relations Office during the press conferences for media that are organized during the reports publication.
- Publishing on the Bank's website current information about the Bank and its businesses, and also all current and periodical reports; the website facilitates contact with the Investor Relations office, which provides information about the Bank and its capital group.
- Enabling media representatives to participate in General Meetings.

1.2 Transparency

The Bank permanently undertakes actions to improve transparency in the Bank's organization, division of powers and functioning of particular bodies and their mutual relations as follows:

- The Bank presents its financial statements in accordance with International Financial Reporting Standards (IFRS) since 1 January 2005 including the annual consolidated financial statements.
- One half of the Bank's Supervisory Board members are independent members, including the Chairman of the Board.
- Within the Bank's Supervisory Board there is the Audit Committee composed of two independent members, including the independent Chairman of the Committee.
- According to the corporate governance rules, the total value of remuneration for all members of the Management Board is included in the annual report. Remuneration of particular Management Board members reflects their scope of duties and liability.
- All significant internal regulations, information and documents related to the Company's Shareholders Meetings are available in the Company's headquarters and on its website.

1.3 Minority shareholders protection

The Bank ensures due protection of minority shareholders' rights within the limits defined by the nature of the company and primacy of the majority rule related to it. In particular, in order to ensure equal treatment of all shareholders the Bank adheres, among others, to the following rules:

- General Meetings always take place in the Company's seat in Warsaw.
- According to the practice adopted in the Company, all important materials for the General Meeting, including draft resolutions with justification and opinion of the Supervisory Board, are made available to Shareholders not later than 7 days before the date of the General Meeting, at the Company's seat and on the Bank's website.
- General Meeting has stable regulations defining the detailed principles of debate management and adoption of resolutions.
- Members of the Management Board and Supervisory Board take part in General Meetings and provide explanations and information about the Bank to participants in the meeting within the limits of their competencies.
- Participants in the General Meeting objecting to a resolution are given an opportunity to provide a brief justification of their objections. Additionally, each participant in the General Meeting is given an opportunity to submit written statements to the meeting's minutes.

2. Bank's Authorities and Other Corporate Governance Rules

In 2006, no principles of management used by the Bank were amended. These principles are presented in the respective Note to the Bank's Financial Statements.

2.1 *Changes in the Composition of the Bank's Management Board and Supervisory Board in 2006*

2.1.1 *Changes in the Composition of the Management Board in 2006*

Sławomir Sikora	President of the Bank's Management Board
Sanjeeb Chaudhuri	Vice-President of the Bank's Management Board until 21 September 2006
Reza Ghaffari	Vice-President of the Bank's Management Board until 22 February 2006
Edward Wess	Vice-President of the Bank's Management Board from 28 March 2006
Sonia Wędrychowicz-Horbatowska	Vice-President of the Bank's Management Board from 1 October 2006
Witold Zieliński	Vice-President of the Bank's Management Board
Lidia Jabłonowska-Luba	Member of the Bank's Management Board
Michał Mrozek	Member of the Bank's Management Board

2.1.2 *Changes in the Composition of the Supervisory Board in 2006*

Stanisław Sołtysiński	Chairman of the Supervisory Board*
Shirish Apte	Vice-Chairman of the Supervisory Board*
Andrzej Olechowski	Vice-Chairman of the Supervisory Board *
Sanjeeb Chaudhuri	Member of the Supervisory Board from 1 October 2006
Goran Collert	Member of the Supervisory Board*
Susan Dean	Member of the Supervisory Board
Todd Gravino	Member of the Supervisory Board from 22 June 2006 until 13 September 2006
Mirosław Gryszka	Member of the Supervisory Board*
Rupert Hubbard	Member of the Supervisory Board
Edward Kuczera	Member of the Supervisory Board until 31 January 2006
Stephen H. Long	Member of the Supervisory Board
Jarosław Myjak	Member of the Supervisory Board until 2 October 2006
Krzysztof L. Opolski	Member of the Supervisory Board from 27 February 2006
Aneta Popławska	Member of the Supervisory Board
Frederick F. Seegers	Member of the Supervisory Board until 19 June 2006
Wiesław Smulski	Member of the Supervisory Board from 5 December 2006

*) Members of the Supervisory Board appointed for the subsequent term of office by the General Meeting on 22 June 2006. On 22 June 2006, the Supervisory Board elected Mr. Andrzej Olechowski the Vice-Chairman of the Supervisory Board.

2.2 *Changes relating to Appointments and Discharges of Members of the Management Board and Powers of Members of the Management Board*

The Bank Management Board consists of five to nine members. Members of the Management Board are appointed by the Supervisory Board for a 3-year term. At least half of the Members of the Management Board should have Polish citizenship. Their mandate expires:

- on the date of a General Meeting that approved the Management Board's report on the Bank's operations and the financial statements for the last full financial year during which a member sat on the Management Board;

- upon death of a member of the Management Board;
- upon the discharge of a member of the Management Board;
- upon the submission of a written resignation to the Chairman of the Supervisory Board.

2.3 Powers of Members of the Management Board

The Management Board makes decisions, by way of resolution, concerning matters that are not entrusted by law or the Articles of Association to other governing bodies of the Bank, and in particular the Management Board:

- 1) formulates the Bank's strategy;
- 2) creates and liquidates committees and determines their powers and responsibilities;
- 3) determines the Bank's Regulations and submits them to the Supervisory Board for approval;
- 4) determines, and submits to the Supervisory Board for approval, regulations of management of special funds created from net income;
- 5) determines dividend payment dates, on the basis of limits voted by the General Meeting;
- 6) appoints commercial proxies, general authorized representatives and general authorized representatives entitled to substitution;
- 7) makes decisions concerning the matters defined in the Management Board Rules;
- 8) settles the matters submitted to it for consideration by the President of the Bank's Management Board, Vice-President or member of the Management Board;
- 9) makes independent decisions on the purchase and sale of real estate, perpetual usufruct or interests in a real estate;
- 10) adopts annual financial plans, investment plans and reports on their performance;
- 11) approves reports on operations and financial statements;
- 12) recommends the appropriation of profits or coverage of losses,
- 13) approves HR and credit policy, as well as legal principles of the Bank's operations;
- 14) approves the capital management policy;
- 15) approves the employment structure;
- 16) determines the basic organizational structure of the Bank, appoints and discharges heads of Sectors and Divisions, and defines their powers and responsibilities;
- 17) determines control plans for the Bank and approves audit and control reports;
- 18) decides on other matters that, according to the Articles of Association, are to be submitted to the Supervisory Board or the General Meeting;
- 19) makes decisions to incur liabilities or sell assets the total value of which with respect to one entity exceeds 5% of the Bank's shareholders' equity or grants authorizations to the indicated persons to make such a decision, also with respect to the matters within the competencies of the Committees appointed within the Bank; the decisions are made after the respective Committee is consulted.

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

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

In thousands of PLN

	Short terms salaries, awards and benefits		Capital assets granted
	Base salaries and awards	Other benefits	
Sławomir Sikora	2,666	220	244
Edwards Wess	1,951	345	105
Sonia Wędrychowicz-Horbatowska	1,395	115	116
Witold Zieliński	1,276	69	251
Lidia Jabłonowska-Luba	1,259	28	82
Michał Mrozek	1,568	40	146

In thousands of PLN

	Short terms salaries, awards and benefits		Capital assets
	Base salaries and awards	Other benefits	granted
<i>Former members of the Bank Management Board:</i>			
Reza Ghaffari ⁽¹⁾	669	385	187
Sanjeeb Chaudhuri ⁽²⁾	1,483	31	275
Sunil Sreenivasan ⁽³⁾	-	34	-
Philip King ⁽⁴⁾	-	152	-
Cezary Stypulkowski ⁽⁵⁾	-	2,000	-
	12,267	3,419	1,406

(1) until 31 May 2006

(2) until 21 September 2006

(3) until 30 April 2005

(4) until 31 October 2005

(5) until 31 May 2005

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

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

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

Capital assets granted include Citigroup shares granted in the previous years and distributed in 2006 as well as value of options on Citigroup common stocks for which exercise rights were granted in 2006. Capital assets granted are reported under new methodology. According to the previous methodology these awards included capital assets granted in a given reporting period for which an exercise right was deferred for next few years subject to the durability of employment. The new methodology depicts a content of capital assets awards in more precise way than the old methodology did.

The total amount of salaries, awards and benefits paid or payable to the current and former members of the Bank Management Board in 2005 is as follows:

In thousands of PLN

	Short terms salaries, awards and benefits		Capital assets granted
	Base salaries and awards	Other benefits	
Slawomir Sikora	2,243	167	-
Sanjeeb Chaudhuri	24	-	-
Reza Ghaffari	1,595	209	146
Lidia Jablonska-Luba	1,196	28	18
Michał Mrozek	1,506	37	42
<i>Former members of the Bank Management Board:</i>			
Philip King ⁽¹⁾	2,150	470	1,508
David Smith ⁽²⁾	14	-	-
Sunil Sreenivasan ⁽³⁾	992	5	486
	9,720	916	2,200

(1) until 31 October 2005

(2) until 3 February 2005

(3) until 30 April 2005

Base salaries and awards include gross salary paid and payable for 2005 as well as salaries and awards granted for 2005.

According to a decision of the Supervisory Board the amount of awards granted to the members of the Bank's Management Board for 2004 and paid in 2005 in total amounted to PLN 4,055 thousand.

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

Capital assets granted include Citigroup shares granted in the previous years and distributed in 2005 as well as value of options on Citigroup common stocks for which exercise rights were granted in 2005.

The total amount of salaries, awards and benefits paid or payable to the current and former members of the Supervisory Board of the Bank in 2006 and 2005 is as follows:

<i>In thousands of PLN</i>	2006	2005
Stanisław Sołtysiński	276	190
Göran Collert	93	73
Mirosław Gryszka	168	116
Andrzej Olechowski	156	116
Edward Kuczera (from 31 January 2006)	28	116
Jarosław Myjak (from 2 October 2006)	74	73
Krzysztof L. Opolski (from 27 February 2006)	97	-
	892	684

Data specify time of affiliate/resignation of Member of the Management Board position

2.5 Total Volume and Nominal Value of the Bank's Shares and Shares in Affiliated Companies of the Bank that are held by Members of the Management Board and the Supervisory Board

No member of the Management Board is a shareholder of the Bank or any affiliated company of the Bank. One member of the Supervisory Board owns 1200 shares of Bank Handlowy w Warszawie S.A. (total nominal value of PLN 4,800).

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

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

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

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

3. Other Rules

3.1 Holders of Securities with Attached Special Control Powers towards the Bank

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

3.2 Limitations related to the Transfers of Ownership Title to the Bank's Securities and Limitations in the scope of Voting Rights connected with the Banks' Shares

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

Other information that are required by the Decree of the Ministry of Finance dated 19 October 2005 on current and periodic information provided by issuers of securities (Official Journal from 2005, No 209, item 1744) and the information is consistent with the financial statements of Bank Handlowy w Warszawie SA.

VII. Agreements concluded with registered audit company

On 28 March 2006, the Supervisory Board of the Bank appointed a registered audit company, KPMG Audyt Sp. z o.o. ("KPMG") having its registered office in Warsaw, at ul. Chłodna 51, registered audit company no. 458, to conduct an audit and a review of the Bank's financial statements for the year ended 31 December 2006. KPMG was selected in compliance with the applicable laws and regulations

The contractual fees of KPMG (paid or payable) for the years ended 31 December 2006 and 2005 are presented in the table below:

	Applicable to year	2006	2005
<i>In thousands of PLN</i>			
Audit and review fees (1)		1,143	1,351
Other assurance fees (2)		-	70
		1,143	1,421

(1) The contract fees for the audit include fees paid or payable to KPMG for the annual audit of the stand-alone and consolidated financial statements of the Bank - parent entity (agreement signed on 16 November 2006) and for the review of the semi-annual stand-alone and consolidated financial statements (agreement signed on 20 July 2006)

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

Other information that are required by the Decree of the Ministry of Finance dated 19 October 2005 on current and periodic information provided by issuers of securities (Official Journal from 2005, No 209, item 1744) and the information is consistent with the financial statements of Bank Handlowy w Warszawie SA.

Signatures of all Management Board Members

16.03.2007	Sławomir Sikora	President of Management Board	
..... Date	..... Forename and surname	..... Position / function	..... Signature
16.03.2007	Edward Wess	Vice-President of Management Board	
..... Date	..... Forename and surname	..... Position / function	..... Signature
16.03.2007	Sonia Wędrychowicz- Horbatońska	Vice-President of Management Board	
..... Date	..... Forename and surname	..... Position / function	..... Signature
16.03.2007	Witold Zieliński	Vice-President of Management Board	
..... Date	..... Forename and surname	..... Position / function	..... Signature
16.03.2007	Lidia Jabłonowska-Luba	Member of Management Board	
..... Date	..... Forename and surname	..... Position / function	..... Signature
16.03.2007	Michał H. Mrozek	Member of Management Board	
..... Date	..... Forename and surname	..... Position / function	..... Signature