citi handlowy

ANNUAL
REPORT 2007

Our Client Our Partner

Ladies and Gentlemen,

It is with great pleasure and satisfaction that I present you with the report on the activity of the Capital Group of Bank Handlowy w Warszawie S.A. in 2007, which turned out to be one of the best years in the history of the Group. In the past year we consistently delivered on our goals and strategy. Thanks to taking the right direction, the Group strengthened its position of the financial services market leader. We also reinforced our commitment in the area of Corporate Social Responsibility (CSR) setting new standards in the market.

In the year 2007 the profit before tax of the Capital Group for the first time exceeded the PLN 1 billion threshold and amounted to PLN 1,034.2 million, up by more than 24% compared to 2006. The year 2007 was yet another year of YOY net profit growth – it amounted to PLN 824.2 million and was PLN 167.2 million or 25.4% up from a year earlier. The Bank also improved all key profitability and cost efficiency ratios.

Throughout 2007 we focused on increasing customer satisfaction and delivering on our "One Bank" strategy to benefit from synergies between the corporate and consumer sectors of the Bank. In response to the needs of our Clients we simplified our procedures and reduced waiting times for products. We introduced alternative distribution methods – the Bank's credit cards are offered not only by sales agents but also at points of sale at BP gas stations and in shopping malls as well as in selected companies, the seats of our corporate Clients. The best evidence of the implementation of the "One Bank" strategy was the consolidation of our retail and corporate branches to achieve full functionality of all branches. Now they are able to serve both corporate and retail Clients.

The past year confirmed the position of Citi Handlowy as a market leader in the area of prestigious and innovative banking products. On the corporate side one of our greatest successes was the Online Trading Platform, the only such platform in the Polish market allowing customers to perform FX transactions in real time. Last year we also undertook actions aimed at improving the Bank's offer to meet the expectations of the public sector Clients. A product that is tailored to their needs is Micropayments, a special offer for courts and the prosecution administration providing processing capability support in the area of calculation of bail and other deposits of private individuals and legal persons in the course of court proceedings.

As for the Consumer Bank, we expanded our product offer to include a Savings Account. In just four months from its launch our Clients deposited over PLN 1 billion in the account. That's the only account in Poland with an innovative savings program "Keep the Change", which allows customers to save money when they use their debit cards. Citi Handlowy also achieved a record result, the best in the history of the Bank, in terms of the number of credit cards issued – 237 thousand, a 55% increase over the previous year. In 2007 Citi Handlowy launched the first in Poland medical pre-paid card and the first in the Polish market insurance pre-paid card. We also issued new co-branded cards: Citibank-LOT and Citibank-Plus. Additionally, Motocard Citibank-BP exceeded the threshold of 170 thousand cards issued, thus strengthening its position of the best co-branded card in Poland. Thanks to Citigroup's international experience and global reach and the knowledge of the local market, Citi Handlowy is able to offer its Clients unique services and solutions. This can be best illustrated by the launch of a global offer for Polish nationals living and working abroad and their relatives in Poland: fee-free money transfers in eight countries (six EU Member States as well as Australia and India) and a comprehensive offer for Poles in the US.

As for Handlowy-Leasing Sp. z o.o in 2007 the company registered a 105% growth in net value of leasing assets (NAV) to a total amount of PLN 883.4 million compared to the end of 2006. Last year, in line with the adopted strategy, the share of leased machinery in NAV increased. The company also registered substantial increase in sales revenue. Worth underscoring is the very good condition of the company's portfolio, both in terms of the low impairment losses and low arrears in leasing payments. The year 2007 was a period in which we continued with actions aimed at strengthening the market positioning of the company and building a platform for its further dynamic development.

The year 2007 was also successful for Dom Maklerski Banku Handlowego S.A. (DMBH). This can be proved by the value of equity transactions on the Warsaw Stock Exchange (WSE) cleared through DMBH. In the full year it reached PLN 43.8 billion representing an almost 23% YOY growth. As at the end of 2007 DMBH acted as Market Maker for 44 companies, which represented almost 13% of all shares traded on WSE.

While delivering for Clients and investors we never forget about the values we hold dear. In Citi Handlowy we have developed the largest in Poland Employee Volunteer Program, which for the second time running was named the Best in Poland in the Colors of Volunteering competition. On November 17 the Bank celebrated Citi's second annual Global Community Day. Almost 1,900 people – employees of our Bank together with their family and friends – volunteered their time to help local communities. Thanks to them 30,000 people in need received support. Through the Kronenberg Foundation at Citi Handlowy we deliver the largest in Poland financial education programs. Together with the National Bank of Poland and the Junior Achievement Foundation we launched the second round of the "My Finances" program, under which we want to double the number of participants to over 450,000 students and expand the program to include workshops for their parents. We also developed a financial education portal called ZrozumFinanse.pl /UnderstandFinance.pl/, which, in a user-friendly and intuitive way, allows young people to understand the world of finance, explains the basic financial terms and provides the knowledge how to effectively manage personal finance. Additionally, we also held the first in Poland educational campaign aimed at promoting saving – "A Week for Saving Money", which covered 135,000 students.

The year 2007 was also a year of prestigious awards for the Capital Group of the Bank. Citi Handlowy was recognized by the Polish Business Club as the Firm of the Year 2006 for the first in Poland comprehensive and individualized offer for small- and medium-sized companies. We won the Market Leader 2007 title in the Best Service in Poland category for our Escrow Account and Micropayments and we were recognized in the European Promotional Competition EURO LEADER 2007 for our Escrow Account. Our corporate social responsibility efforts were also recognized by independent third-parties. The Kronenberg Foundation operating at Citi Handlowy received the Golden Honorary Decoration from the Polish Economic Society for its long-term commitment to building financial awareness and the Pro Publico Bono Award for its overall contribution to community service. As in the previous years, we were also named „The Benefactor of the Year" of the National Philharmonic in Warsaw. We were also awarded the title of "Investor in People" in recognition of our outstanding HR management program.

The main objective of the Capital Group of Bank Handlowy w Warszawie S.A. in 2008 will be to increase value for shareholders by ensuring an appropriate return on equity and to increase the market share of the Bank and its subsidiaries in key market segments. The Bank will continue to pursue the "One Bank" strategy and build customer satisfaction. I strongly believe that our strategy and intended future activities will strengthen the leading position of the Group in the financial services market.

While handing over this report to you, I would like to thank the employees of the Capital Group of the Bank for their commitment and contribution to strengthening our market position. On behalf of the Management Board of the Bank, I also want to thank the Supervisory Board for fruitful cooperation and substantial contribution to the company's growth in the previous year, and our Clients and Shareholders for the trust they placed in us.

Sławomir S. Sikora
President of the Management Board

AWARDS WON IN 2007

"Benefactor of the Year" title awarded
by the National Philharmonic in Warsaw.

Promotional Emblem "Entrepreneur-Friendly Bank"
in the 9th edition of the contest.

"Market Leader" title in the Best Service in Poland
category for Escrow Account and Micropayments.

"Europrodukt" title for UNIKASA Utility Bill Payment Network.

The Best Employee Volunteer Program in Poland
in the "Colors of Volunteering" competition.

"Investor in People" title for
human resources management program.

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Opinion and Report of the Independent Auditor

Financial Year ended 31 December 2007

OPINION OF THE INDEPENDENT AUDITOR

To the General Meeting of Bank Handlowy w Warszawie S.A.

We have audited the accompanying consolidated financial statements of Bank Handlowy w Warszawie S.A. Group seated in Warsaw, 16 Senatorska Street ("Group"), which comprise the consolidated balance sheet as at 31 December 2007, with total assets and total liabilities and equity of PLN 38 907 984 thousand, the consolidated profit and loss account for the year then ended with a net profit of PLN 824 215 thousand, the consolidated statement of changes in equity for the year then ended with an increase in equity of PLN 185 281 thousand, the consolidated cash flow statement for the year then ended an increase in cash amounting to PLN 2 425 161 thousand and notes to the consolidated financial statements, comprising a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management of the parent entity is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by European Union and with other applicable regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility, based on our audit, is to express an opinion on these consolidated financial statements. We conducted our audit in accordance with section 7 of the Accounting Act dated 29 September 1994 (Official Journal from 2002, No. 76, item 694 with amendments) ("the Accounting Act"), the professional standards established by the Polish National Council of Certified Auditors and International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the accompanying consolidated financial statements of Bank Handlowy w Warszawie S.A. Group have been prepared and present fairly in all material respects the financial position of the Group as at 31 December 2007 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, and are in compliance with the respective regulations that apply to the consolidated financial statements, applicable to the Group.

Other Matters

As required under the Accounting Act we also report that the Report of the Management Board on the Group's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act and 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 consolidated financial statements.

Signed on the Polish original

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Certified Auditor No. 9941/7390
Bożena Graczyk

Signed on the Polish original

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For KPMG Audyt Sp. z o.o.
ul. Chłodna 51; 00-867 Warsaw
Certified Auditor No. 9941/7390
Bożena Graczyk,
Member of the Management Board

Signed on the Polish original

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For KPMG Audyt Sp. z o.o.
ul. Chłodna 51; 00-867 Warsaw
Richard Cysarz,
Member of the Management Board

Warsaw, 13 March 2008

Bank Handlowy w Warszawie S.A. Group

Report supplementing the auditor's opinion on the consolidated fnancial statements

Financial Year ended 31 December 2007

1 General

1.1 Identification of the Group

1.1.1 Name of the Group

Bank Handlowy w Warszawie S.A. Group

1.1.2 Registered office of the Parent Company of the Group

16 Senatorska Street
00-923 Warszawa
Poland

1.1.3 Registration of the Parent Company in the National Court Register

Registration court	District Court in Warszawa, XII Commercial Department of the National Court Register
Date:	22 February 2001
Registration number:	KRS 0000001538

1.1.4 Registration of the Parent Company in the Tax Office and Statistical Office

NIP number: 526-030-02-91
REGON: 000013037

1.2 Information about companies comprising the Group

1.2.1 Companies included in the consolidated financial statements

As at 31 December 2007, the following companies were consolidated by the Group:
Parent Company:
- Bank Handlowy w Warszawie S.A.

Subsidiaries consolidated on the full consolidation basis:
- Dom Maklerski Banku Handlowego S.A.,
- Handlowy-Leasing Sp. z o.o.,
- Handlowy Investments S.A.,
- PPH Spomasz Sp. z o.o. in liquidation.

1.2.2 Entities excluded from consolidation

As at 31 December 2007, the following subsidiaries of the Group were not consolidated:
- Bank Rozwoju Cukrownictwa S.A.,
- Handlowy Investments II S.a.r.l.,
- Handlowy Inwestycje Sp. z o.o.

The entities are immaterial in relation to the consolidated financial statement taken as a whole and represent 0.17% of the Group's total assets and 0.06% of the Group's net income without elimination of intercompany transactions.

1.3 Auditor information

Name: KPMG Audyt Sp. z o.o.
Registered office: Warsaw,
Address: ul. Chłodna 51, 00-867 Warsaw
Registration number.: KRS 0000104753
Registration court: District Court for the Capital City Warsaw in Warsaw, XII Commercial Department of the National Court Register;
Share capital: PLN 125,000
NIP number: 526-10-24-841

KPMG Audyt Sp. z o.o. is entered in the register of entities authorised to audit financial statements under number 458.

1.4 Legal status

1.4.1 Share capital

The Parent Bank was established under the Notarial Deed dated 13 April 1870.

The share capital of the Parent Company amounted to PLN 522 638 400 as at 31 December 2007 divided into 130 659 600 ordinary shares with a nominal value of PLN 4 each.

As at 31 December 2007, the shareholder structure was as follows:

Name of the Shareholder	Number of shares	Voting rights (%)	Nominal value of shares PLN '000	Percentage of share capital (%)
Citibank Overseas Investment Corporation, USA	97,994,700	75.0	391,979	75.0
Other shareholders	32,664,900	25.0	130,659	25.0
Total	130,659,600	100.0	522,638	100.0

1.4.2 Management of the Parent Company

The Management Board is responsible for management of the Parent Company.

At 31 December 2007, the Management Board of the Parent Company was comprised of the following members:

• Sławomir Sikora – President of the Management Board,
• Michał Mrożek – Vice-President of the Management Board,
• Edward Wess – Vice-President of the Management Board,
• Sonia Wędrychowicz-Horbatowska – Vice-President of the Management Board,
• Witold Zieliński – Vice-President of the Management Board,
• Lidia Jabłonowska-Luba – Member of the Management Board.

On 23 May 2007 Michał Mrożek was appointed a Vice-President of the Management Board.

There were no changes in the composition of the Bank's Management Board during 2008, up to the date of the audit opinion and report on the Bank's financial statements for the year ended 31 December 2007.

1.4.3 Scope of activities

The business activities listed in the Parent Company's Statute include the following:

• accepting call and term deposits as well as maintaining deposit accounts,
• maintaining other bank accounts,
• performing domestic and international cash settlements,
• granting credits and cash loans,
• accepting cheques, bills of exchange and warrants,
• granting and confirming sureties,
• issuing and confirming bank guarantees and letters of credit,
• purchasing and selling foreign currencies,
• acting as an intermediary in money transfers and foreign exchange settlements,
• issuing bank's securities,
• rendering services relating to securities issue,
• safe-keeping of valuables and securities and providing bank safes,
• issuing credit cards and performing the related operations,
• acquiring and selling receivables,
• performing term financial operations and other.

The business activities of subsidiaries of the Group include the following:
• Dom Maklerski Banku Handlowego S.A. – brokerage activities,
• Handlowy-Leasing Sp. z o.o. – leasing activities,
• Handlowy Investments S.A. – investment activities,
• PPH Spomasz Sp. z o.o. in liquidation – production of machinery and equipment.

1.5 Prior period consolidated financial statements

The consolidated financial statements for the financial year ended 31 December 2006 were audited by KPMG Audyt Sp. z o.o. and received an unqualified opinion.

The consolidated financial statements were approved at the General Meeting on 21 June 2007.

The closing balances as at 31 December 2006 have been properly recorded as the opening balances of the audited year.

The consolidated financial statements were submitted to the Registry Court on 28 June 2007 and were published in Monitor Polski B No. 229 on 20 February 2008.

1.6 Audit scope and responsibilities

This report was prepared for the General Meeting of Bank Handlowy w Warszawie S.A. seated in Warsaw, 16 Sentaorska Street and relates to the consolidated financial statements comprising: the consolidated balance sheet as at 31 December 2007, with total assets and total liabilities and equity of PLN 38 907 984 thousand, the consolidated profit and loss account for the year then ended with a net profit of PLN 824 215 thousand, the consolidated statement of changes in equity for the year then ended with an increase in equity of PLN 185 281 thousand, the consolidated cash flow statement for the year then ended with an increase in cash amounting to PLN 2 425 161 thousand, and the notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory notes.

The audited Company prepares its financial statements in accordance with International Financial Reporting Standards as adopted by the European Union on the basis of the decision of Extraordinary General Meeting dated 7 December 2004.

The consolidated financial statements have been audited in accordance with the contract dated 24 October 2007, concluded on the basis of the resolution of Supervisory Board dated 20 March 2007 on the appointment of the auditor.

We conducted the audit in accordance with section 7 of the Accounting Act, the professional standards established by the Polish National Council of Certified Auditors and International Standards on Auditing.

We audited the consolidated financial statements in the Parent Company's head office and branches during the period from 7 November 2007 to 11 March 2008.

Management of the Parent Company is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations.

Our responsibility is to express an opinion, and to prepare a supplementing report, on the financial statements.

The Management Board of the Parent Company submitted a statement, dated the same date as this report, as to the true and fair presentation of the consolidated financial statements presented for audit, which confirmed that there were no undisclosed matters which could significantly influence the information presented in the consolidated financial statements.

All our requests for additional documents and information necessary for expressing our opinion and preparing the report have been fulfilled.

KPMG Audyt Sp. z o.o., the members of its Management Board and Supervisory Board and other persons involved in the audit of the consolidated financial statements fulfil independence requirements from the companies included in the Group. The scope of the work planned and performed has not been limited in any way. The method and scope of our audit is detailed in working papers prepared by us and retained in the offices of KPMG Audyt Sp. z o.o.

1.7 Information on audits of the financial statements of the consolidated companies

1.7.1 Parent Company

The financial statements of the Parent Company for the year ended 31 December 2007 were audited by KPMG Audyt Sp. z o.o., certified auditor number 458, and received an unqualified opinion.

1.7.2 Other consolidated entities

Entity's name	Authorised auditor	Financial year end	Type of auditor's opinion
Dom Maklerski Banku Handlowego S.A.	KPMG Audyt Sp. z o.o.	31.12.2007	audit in progress
Handlowy-Leasing Sp. z o.o.	KPMG Audyt Sp. z o.o.	31.12.2007	audit in progress
Handlowy Investments S.A.	KPMG Audit S.a.r.l.	29.02.2008	audit not started yet
PPH Spomasz Sp. z o.o. in liquidation	Was not a subject to audit for the year ended 31 December 2006		

The financial statements of Handlowy Investments S.A. are audited by certified auditors other than KPMG Audyt Sp. z o.o. The total assets presented in the financial statements of this entity as at 31 December 2007 amount to 0.11 % of the total consolidated assets of the Group before consolidation eliminations and the revenues of this entity for the financial year ended 31 December 2006 amount to 1.02 % of the consolidated revenues of the Group, before eliminations of intercompany transactions.

2 Financial analysis of the Group

2.1 Summary of the consolidated financial statements

2.1.1 Consolidated balance sheet

ASSETS	31.12.2007 PLN '000	% of total	31.12.2006 PLN '000	% of total
Cash and balances with central bank	3,321,503	8.54%	535,623	1.49%
Financial assets held-for-trading	5,135,708	13.20%	4,556,471	12.66%
Debt securities available-for-sale	6,467,638	16.62%	8,247,313	22.92%
Equity investments accounted for under the equity method	58,388	0.15%	67,910	0.19%
Other equity investments	21,909	0.06%	54,618	0.15%
Loans and advances	21,205,373	54.50%	19,516,218	54.23%
to financial sector	*8,718,832*	*22.41%*	*9,319,272*	*25.89%*
to non-financial sector	*12,486,541*	*32.09%*	*10,196,946*	*28.34%*
Property and equipment	612,797	1.57%	638,246	1.77%
land, buildings and equipment	*587,769*	*1.51%*	*628,860*	*1.74%*
investment property	*25,028*	*0.06%*	*9,386*	*0.03%*
Intangible assets	1,284,078	3.30%	1,285,753	3.57%
Income tax assets	374,468	0.97%	274,124	0.76%
Other assets	413,477	1.06%	801,920	2.23%
Non-current assets held-for-sale	12,645	0.03%	12,539	0.03%
TOTAL ASSETS	**38,907,984**	**100.00%**	**35,990,735**	**100.00%**

EQUITY AND LIABILITIES	31.12.2007 PLN '000	% of total	31.12.2006 PLN '000	% of total
Liabilities				
Liabilities due to central bank	-	-	250,113	0.69%
Financial liabilities held-for-trading	4,373,146	11.24%	3,316,847	9.22%
Financial liabilities valued at amortized cost	28,000,003	71.96%	25,991,136	72.22%
deposits from	*26,896,411*	*69.13%*	*25,036,782*	*69.57%*
financial sector	*7,085,042*	*18.21%*	*6,156,605*	*17.11%*
non-financial sector	*19,811,369*	*50.92%*	*18,880,177*	*52.46%*
other liabilities	*1,103,592*	*2.83%*	*954,354*	*2.65%*
Provisions	37,548	0.10%	44,378	0.12%
Income tax liabilities	101,889	0.26%	5,687	0.02%
Other liabilities	792,314	2.04%	964,771	2.68%
Total liabilities	**33,304,900**	**85.60%**	**30,572,932**	**84.95%**
Equity				
Share capital	522,638	1.34%	522,638	1.45%
Share premium	3,028,809	7.79%	3,027,470	8.41%
Revaluation reserve	(182,450)	-0.47%	(81,501)	-0.23%
Other reserves	1,454,355	3.74%	1,407,081	3.91%
Retained earnings	779,732	2.00%	542,115	1.51%
Total equity	**5,603,084**	**14.40%**	**5,417,803**	**15.05%**
TOTAL LIABILITIES AND EQUITY	**38,907,984**	**100.00%**	**35,990,735**	**100.00%**

2.1.2 Consolidated profit and loss account

	01.01.2007 - 31.12.2007 PLN '000	01.01.2006 - 31.12.2006 PLN '000
Interest and similar income	1,976,851	1,632,218
Interest expense and similar charges	(772,431)	(605,817)
Net interest income	**1,204,420**	**1,026,401**
Fee and commission income	871,142	721,612
Fee and commission expense	(134,459)	(103,710)
Net fee and commission income	**736,683**	**617,902**
Dividend income	5,940	3,659
Net income on financial instruments and revaluation	422,520	315,906
Net gain on investment (deposit) securities	30,086	36,571
Net profit on investment (capital) instruments	47,489	95,846
Other operating income	107,724	128,373
Other operating expenses	(42,659)	(39,617)
Net other operating income	**65,065**	**88,756**
General administrative expenses	(1,413,707)	(1,371,372)
Depreciation expense	(108,837)	(130,186)
Profit/(loss) on sale of tangible fixed assets	596	118,316
Net impairment charges	52,556	22,535
Operating income	**1,042,811**	**824,334**
Share in profits/(losses) of undertakings accounted for under the equity method	(8,586)	7,780
Profit before tax	**1,034,225**	**832,114**
Income tax expenses	(210,010)	(175,058)
Net profit	**824,215**	**657,056**
Weighted average number of ordinary shares	130,659,600	130,659,600
Net profit per ordinary share (in PLN)	6.31	5.03
Diluted net profit per ordinary share (in PLN)	6.31	5.03

2.2 Selected financial ratios

	31.12.2007 PLN '000	31.12.2006 PLN '000
Total assets	38,907,984	35,990,735
Gross profit	1,034,225	832,114
Net profit	824,215	657,056
Shareholders' equity*	4,778,869	4,760,747
Return on equity*	17.25%	13.80%
Capital adequacy ratio	12.86%	14.10%
Receivables to total assets	54.50%	54.23%
Income generating assets to total assets	93.07%	91.63%
Interest bearing liabilities to total liabilities	83.20%	82.13%

** excluding current-year net profit*

2.3 Interpretation of selected financial ratios

Changes of the most significant items of balance sheet and income statement of the Group are presented below:

Total assets of the Group as of 31.12.2007 have increased by PLN 2 917 249 thousand (8.1%) compared to 31.12.2006 and accounted for PLN 38 907 984 thousand. On the assets side the increase was mainly connected with an increase in cash and balances with central bank by PLN 2 785 880 thousand (520.1%) and loans and advances by PLN 1 689 155 thousand (8.7%). Both increases were partially off-set by a decrease of debt securities available-for-sale by PLN 1 779 675 thousand (21.6%).

On the equity and liabilities side the most significant influence on the increase of total position balance had the increase of financial liabilities valued at amortized cost by PLN 2 008 867 thousand (7.7%) and the increase in financial liabilities held for trading by PLN 1 056 299 thousand (31.8%). The increase in equity was mainly attributable to the growth of retained earnings by PLN 237 617 thousand (43.8%).

Profit before tax for the year ended 31 December 2007 accounted for PLN 1 034 225 thousand and increased by PLN 202 111 thousand (24.3%), comparing to the year ended 31 December 2006. The increase in the gross profit resulted mainly from the increase in net interest income by PLN 178 019 thousand (17.3%), increase in net fee and commission income by PLN 118 781 thousand (19.2%) and the increase in net trading income and revaluation by 106 614 thousand (33.7%). Those increases were partially off-set by the decrease in profit on sale of tangible fixed assets by PLN 117 720 thousand (99.5%).

Net profit for the year ended 31 December 2007 amounted to PLN 824 215 thousand and increased by PLN 167 159 thousand (25.4%), compared to the year ended 31 December 2006.

3 Detailed report

3.1 Accounting principles

The Parent Company maintains current documentation describing the accounting principles applied by the Group and adopted by the Management Board of the Parent Company.

The accounting principles are described in the notes to the consolidated financial statements to the extent required by International Financial Reporting Standards as adopted by the European Union.

Entities included in the Group apply common accounting principles consistent with the accounting principles applied by the Parent Company.

Except for Handlowy Investments S.A., the financial statements of the entities included in the consolidated financial statements were prepared as of the same balance sheet date as the financial statements of the Parent Company. With respect to Handlowy Investments S.A., the requirements of International Financial Reporting Standards as adopted by the European Union were followed.

3.2 Basis of preparation of the consolidated financial statements

The consolidated financial statements of the Bank Handlowy w Warszawie S.A. Group were prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations.

The consolidated financial statements were prepared on the basis of the consolidation documentation prepared in accordance with the requirements of the Decree of the Ministry of Finance dated 12 December 2001 regarding the consolidated financial statements of banks and consolidated financial statements of financial holding companies (Official Journal from 2001, No.152, item 1728).

3.3 Method of consolidation

The method of consolidation is described in note 2 of the notes to the consolidated financial statements.

3.4 Consolidation of equity

The share capital of the Group is equal to the share capital of the Parent Company.

Other equity items of the Group are determined by adding the equity balances of subsidiaries included in the consolidated financial statements in the proportion reflecting the Parent Company's share in the subsidiaries' equity as at the balance sheet date to the corresponding positions of the equity of the Parent Company.

Only equity of subsidiaries arising after the Parent Company obtained control of the subsidiary is included in the equity of the Group.

3.5 Consolidation eliminations

Intercompany balances within the Group were eliminated on consolidation.

Sales between entities and other intercompany operating revenues and expenses and financial revenues and expenses were eliminated on consolidation.

The consolidation eliminations were based on the accounting records of Bank Handlowy w Warszawie S.A. (or subsidiary entities) and agreed with information received from the subsidiaries.

3.6 Compliance with banking regulations

Base on our audit we have not identified any significant deviations in the Parent Company's compliance with the banking regulatory norm pertaining among other to loan concentration, obligatory reserve and capital adequacy ratio.

3.7 Audit materiality

We have planned and applied an appropriate level of precision in conducting our audit procedures in order to obtain reasonable assurance about whether the consolidated financial statements taken as a whole are free of material misstatements.

3.8 Notes to the consolidated financial statements

All information included in the notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory notes, is, in all material respects, presented accurately and completely. This information should be read in conjunction with the consolidated financial statements taken as a whole.

3.9 Report of the Management Board of the Parent Company on the Group's activities

The Report of the Management Board of the Parent Company on the Group's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act and 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 consolidated financial statements.

3.10 Information on the opinion of the independent auditor

Based on our audit of the consolidated financial statements of the Group as at and for the year ended 31 December 2007, we have issued an unqualified opinion.

Signed on the Polish original

....
Certified Auditor No. 9941/7390
Bożena Graczyk

Signed on the Polish original

....
For KPMG Audyt Sp. z o.o.
ul. Chłodna 51; 00-867 Warsaw
Certified Auditor No. 9941/7390
Bożena Graczyk,
Member of the Management Board

Signed on the Polish original

....
For KPMG Audyt Sp. z o.o.
ul. Chłodna 51; 00-867 Warsaw
Richard Cysarz,
Member of the Management Board

Warsaw, 13 March 2008

The Annual Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. as at 31 December 2007

Selected financial data

	In PLN '000		In EUR '000**	
	2007	2006	2007	2006
Interest income	1,976,851	1,632,218	523,420	418,614
Fee and commission income	871,142	721,612	230,656	185,071
Profit before tax	1,034,225	832,114	273,836	213,412
Net profit	824,215	657,056	218,231	168,515
Increase/decrease of net cash	2,425,161	315,822	677,041	82,434
Total assets	38,907,984	35,990,735	10,862,084	9,394,115
Due to Central Bank	-	250,113	-	65,283
Financial liabilities valued at amortized cost	28,000,003	25,991,136	7,816,863	6,784,072
Shareholders' equity	5,603,084	5,417,803	1,564,233	1,414,127
Share capital	522,638	522,638	145,907	136,416
Number of shares	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN/EUR)	42.88	41.47	11.97	10.82
Capital adequacy ratio (%)*	12.86	14.10	12.86	14.10
Earnings per ordinary share (PLN/EUR)	6.31	5.03	1.67	1.29
Diluted net profit per ordinary share (in PLN)	6.31	5.03	1.67	1.29
Dividend declared or paid per share	-	4.10	-	1.07

** The presented ratios are related to dividends distributed in 2007 from the appropriation of the 2006 profit. As at the date of this report the Bank's Management Board has not made a decision concerning the amount of dividend for 2007 profit.*

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

Consolidated income statement

In thousands of PLN	Note	2007	2006
Interest and similar income	4	1,976,851	1,632,218
Interest expense and similar charges	4	(772,431)	(605,817)
Net interest income	4	**1,204,420**	**1,026,401**
Fee and commission income	5	871,142	721,612
Fee and commission expense	5	(134,459)	(103,710)
Net fee and commission income	5	**736,683**	**617,902**
Dividend income	6	5,940	3,659
Net income on financial instruments and revaluation	7	422,520	315,906
Net gain on investment debt securities	8	30,086	36,571
Net profit on investment equity instruments	9	47,489	95,846
Other operating income		107,724	128,373
Other operating expenses		(42,659)	(39,617)
Net other operating income	10	**65,065**	**88,756**
General administrative expenses	11	(1,413,707)	(1,371,372)
Depreciation expense	12	(108,837)	(130,186)
Profit/(loss) on sale of tangible fixed assets	13	596	118,316
Net impairment charges	14	52,556	22,535
Operating income		**1,042,811**	**824,334**
Share in profits/(losses) of undertakings accounted for under the equity method		(8,586)	7,780
Profit before tax		**1,034,225**	**832,114**
Income tax expenses	15	(210,010)	(175,058)
Net profit		**824,215**	**657,056**
Weighted average number of ordinary shares	16	130,659,600	130,659,600
Net profit per ordinary share (in PLN)	16	6.31	5.03
Diluted net profit per ordinary share (in PLN)	16	6.31	5.03
Including:			
Net profit for Bank's shareholders		824,215	657,056
Net profit for minority shareholders		-	-

Explanatory notes on pages: 19-67 are integral parts of financial consolidated statement

Consolidated balance sheet

In thousands of PLN	Note	31.12.2007	31.12.2006
ASSETS			
Cash and balances with central bank	17	3,321,503	535,623
Financial assets held-for-trading	18	5,135,708	4,556,471
Debt securities available-for-sale	19	6,467,638	8,247,313
Equity investments accounted for under the equity method	20	58,388	67,910
Other equity investments	21	21,909	54,618
Loans and advances	22	21,205,373	19,516,218
to financial sector		*8,718,832*	*9,319,272*
to non-financial sector		*12,486,541*	*10,196,946*
Property and equipment	24	612,797	638,246
land, buildings and equipment		*587,769*	*628,860*
investment property		*25,028*	*9,386*
Intangible assets	25	1,284,078	1,285,753
Income tax assets	27	374,468	274,124
Other assets	28	413,477	801,920
Non-current assets held-for-sale	29	12,645	12,539
Total assets		**38,907,984**	**35,990,735**
LIABILITIES			
Liabilities due to central bank		-	250,113
Financial liabilities held-for-trading	18	4,373,146	3,316,847
Financial liabilities valued at amortized cost	30	28,000,003	25,991,136
deposits from		*26,896,411*	*25,036,782*
financial sector		*7,085,042*	*6,156,605*
non-financial sector		*19,811,369*	*18,880,177*
other liabilities		*1,103,592*	*954,354*
Provisions	31	37,548	44,378
Income tax liabilities	27	101,889	5,687
Other liabilities	32	792,314	964,771
Total liabilities		**33,304,900**	**30,572,932**
EQUITY			
Share capital	33	522,638	522,638
Share premium	33	3,028,809	3,027,470
Revaluation reserve	33	(182,450)	(81,501)
Other reserves	33	1,454,355	1,407,081
Retained earnings		779,732	542,115
Total equity		**5,603,084**	**5,417,803**
Total liabilities and equity		**38,907,984**	**35,990,735**

Explanatory notes on pages: 19–67 are integral parts of financial consolidated statement

Consolidated statement of changes in equity

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

Consolidated statement of changes in equity

In thousands of PLN	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	Minority equities	Total equity
Balance as at 1 January 2007	**522,638**	**3,027,470**	**(81,501)**	**1,407,081**	**542,115**	**-**	**5,417,803**
Valuation of financial assets available-for-sale	-	-	(91,520)	-	-	-	(91,520)
Transfer of valuation of sold financial assets available-for-sale to profit and loss account	-	-	(33,109)	-	-	-	(33,109)
Deferred income tax on valuation of financial assets available-for-sale	-	-	23,680	-	-	-	23,680
Foreign exchange gains and losses	-	-	-	(3,235)	954	-	(2,281)
Net profit	-	-	-	-	824,215		824,215
Dividends to be paid	-	-	-	-	(535,704)	-	(535,704)
Transfers to capital	-	1,339	-	50,509	(51,848)	-	-
Closing balance as at 31 December 2007	**522,638**	**3,028,809**	**(182,450)**	**1,454,355**	**779,732**	**-**	**5,603,084**

Explanatory notes on pages: 19–67 are integral parts of financial consolidated statement

Consolidated statement of cash flows

In thousands of PLN	2007	2006
A. Cash flows from operating activities		
I. Net profit (loss)	**824,215**	**657,056**
II. Adjustments to reconcile net profit or loss to net cash provided by operating activities:	**2,031,723**	**49,918**
Current and deferred tax income, recognized in income statement	210,010	175,058
Share in net profits/(losses) of undertakings accounted for under the equity method	8,586	(6,028)
Amortization	108,837	130,186
Impairment	(41,872)	(10,215)
Net provisions (recoveries)	(10,684)	(12,320)
Income on sale of investments	(1,175)	(117,701)
Received interest	1,792,631	1,549,683
Retained interest	(783,052)	(587,351)
Other adjustments	(1,095,731)	(860,457)
Cash flows from operating profits before changes in operating assets and liabilities	**187,550**	**260,855**
Increase/decrease in operating assets (excl. cash and cash equivalents)	**(439,826)**	**(2,982,537)**
Increase/decrease in credit, loans and receivables	(2,007,554)	(2,896,249)
Increase/decrease in debt securities available for sale	1,754,958	(1,005,578)
Increase/decrease in equity investments	16,877	9,611
Increase/decrease in assets held-for-trading	(593,150)	1,307,261
Increase/decrease in assets held-for-sale	(8,466)	(4,179)
Increase/decrease in other assets	397,509	(393,403)
Increase/decrease in operating liabilities (excl. cash and cash equivalents)	**2,283,999**	**2,771,600**
Increase/decrease in advances from central bank	(250,000)	250,000
Increase/decrease in financial liabilities valued at amortized cost	1,900,449	2,732,088
Increase/decrease in liabilities held-for-trading	1,056,299	(103,372)
Increase/decrease in other liabilities	(422,749)	(107,116)
Cash flows from operating activities	**2,855,938**	**706,974**
Income taxes (paid) refunded	**(217,688)**	**(149,794)**
III. Net cash flows from operating activities	**2,638,250**	**557,180**
B. Cash flows from investing activities		
Cash payments to acquire tangible assets	(75,874)	(55,196)
Cash receipts from the sale of tangible assets	4,943	6,923
Cash payments to acquire intangible assets	(19,426)	(9,165)
Cash receipts from the sale of intangible assets	-	139
Cash receipts from the disposal of tangible assets available-for-sale	7,556	174,395
Dividends received	-	5,411
Net cash flows from investing activities	**(82,801)**	**122,507**
C. Cash flows from financing activities		
Dividends paid	(535,704)	(470,375)
Inflows from long-term loans from financial sector	450,995	231,304
Repayment of long-term loans from financial sector	(36,466)	(121,198)
Net cash flows from financing activities	**(121,175)**	**(360,269)**
D. Effect of exchange rate changes on cash and cash equivalent	**(9,113)**	**(3,596)**
E. Increase in net cash	**2,425,161**	**315,822**
F. Cash at the beginning of reporting period	**1,321,162**	**1,005,340**
G. Cash at the end of reporting period	**3,746,323**	**1,321,162**

Explanatory notes on pages: 19-67 are integral parts of financial consolidated statement

Explanatory notes to the consolidated financial statements

1. General information about the Issuer

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

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

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

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

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

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

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

- brokerage operations,
- provision of financial, lease, and factoring services,
- investment operations.

The Group consists of the Bank and the following subordinated entities:

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

Financial data of subsidiaries that are not fully consolidated are immaterial to the consolidated financial statements.

2. Significant accounting policies

Statement of compliance

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

In addition, the summary annual unconsolidated financial statements have been prepared in accordance with accounting policies described in this note except for the principles of recognition and measurement of equity investments in subordinated and associated entities, which are described in Note 1 of the annual financial statements of the Bank.

Basis of preparation

These consolidated annual financial statements have been prepared for the period from 1 January 2007 to 31 December 2007. The comparable financial data is presented for the period from 1 January 2006 to 31 December 2006. The financial statements are presented in PLN, rounded to the nearest thousand.

The financial statements have been prepared on the fair value basis for financial liabilities and financial assets accounted at fair value through the profit and loss account, including derivatives and available-for-sale assets with the exception of assets and liabilities whose fair value cannot be estimated in a reliable way. Other assets and liabilities are presented at amortized cost (loans and receivables, financial liabilities other than valued at fair value through the profit and loss account) or at purchase method decreased by impairment losses.

Currently, equity compensation programs offered by the Group are deemed to be cash-settled programs. In accordance with IFRIC 11 interpretation these programs should be deemed as shares payments settled in capital instruments. Interpretation is in force for annual periods beginning on or after 1 March 2007. The Group is estimating what will be the impact of the change on the financial statement.

IFRS 8 concerning operational segments, which replaced IAS 14, was published on 30 November 2006. IFRS have been approved by European Union on 21 November 2007 and is effective for reporting periods beginning on 1 January 2009 or after that day.

The Group has not used a possibility of implement IFRS 8 and IFRIC 11 earlier.

Other standards, amendments to the standards and IFRIC interpretations recently endorsed or awaiting endorsement are either not relevant to the Group's activity or would not have a material impact on the current year financial statements.

In order to prepare financial statements in accordance with IFRS, management has to make judgments, estimates and assumptions that have an impact on the amounts presented in the financial statements.

Judgments, estimates and assumptions are made on the basis of available historical data and many other factors that have been recognized as material in the presented period. These factors are the base to make estimates of the balance sheet value of assets and liabilities whose value cannot be estimated on the basis of other sources. Actual results could differ from those estimates.

The estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In presented financial statement the Group has adopted IFRS 7 "Financial instruments: Information Disclosure" for the first time. IFRS 7 was not effective until 1 January 2007.

In order to retain comparability of the financial data with the current period presentation, adequate changes have been introduced to the way the financial data for 2006 have been presented, compared with the data previously published in the Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for 2006. The changes concerned the manner of grouping and presentation of financial data in selected explanatory notes and have not impacted the balance sheet footing or the financial result of the Group.

Basis of consolidation

Subordinated entities comprise subsidiaries and associates.

Subsidiaries

Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank has directly or indirectly power to govern the financial and operating policies to obtain financial benefits from its activities. Control is usually connected with the possession of a majority of votes in governing bodies.

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured, as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Any identifiable purchased assets and assumed liabilities, including contingent liabilities, acquired in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. Any excess of the cost of acquisition over the fair value of the Group's interest in the acquired identifiable net assets is recognized as goodwill. If the cost of acquisition is lower than the fair value of the net assets of the acquired subsidiary, the difference is recognized directly in the income statement.

Intra-group transactions and balances are eliminated on consolidation. Material unrealized gains and losses on transactions between Group companies are also eliminated. Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency in all material aspects with the policies adopted by the Group.

Subordinated entities, which are not fully consolidated due to the immateriality of their financial statements in the consolidated financial statements of the Group, are presented in accordance with the equity method.

Associates

Associates are those entities in which the Group indirectly or directly has significant influence but not control, usually accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method. Initially, investments in associates are recorded at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment write-off) determined at the acquisition date.

The Group's share in its associates' post-acquisition profits or losses is recognized in the income statement, and its share in post-acquisition movements in other reserves is recognized in other reserves. When the Group's share in losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Material unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Accounting policies of associates have been changed where necessary to ensure consistency in all material aspects with the policies adopted by the Group.

Foreign currency translation

Balance sheet and off balance sheet denominated in non – PLN currencies are translated into PLN equivalents using the NBP mid exchange rate prevailing at the balance sheet date.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction.

Foreign exchange gains and losses resulting from revaluation of balance sheet items denominated in foreign currencies and settlement of transactions in foreign currencies are included in net profit on foreign exchange.

The exchange rates of the major currencies applied in the preparation of these financial statements are:

In PLN	31 December 2007	31 December 2006
1 USD	2.4350	2.9105
1 CHF	2.1614	2.3842
1 EUR	3.5820	3.8312

Financial assets and financial liabilities

Classification

The Group classifies its financial instruments into the following categories:

- financial assets or financial liabilities valued at fair value through profit or loss;
- loans and receivables;
- available-for-sale financial assets;
- other financial liabilities.

In the reporting period, the Group did not classify any assets to investments held-to-maturity.

The Group classifies financial assets to particular categories on the date of their first recognition.

a) Financial assets or financial liabilities valued at fair value through profit or loss

This category has two sub-categories: financial assets and liabilities held-for-trading and those designated to measurement at fair value through profit or loss at initial recognition.
Assets or liabilities are included in this category when they were purchased with the primary objective of selling or purchasing to generate short-term profits, are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of generating short-term profits, or when they are classified to this category at management's discretion. All derivative instruments and selected debt securities are also categorized as "Held-for-trading".

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides funds, goods or services directly to the debtor for any purpose except for the generation of short-term profits from trading in such loans or receivables. This category comprises in the first instance amounts due in respect of loans, purchased debts and receivables securities that are not quoted in an active market.

c) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are classified by the Group to this category at the beginning of the period or were not classified in any of the other categories. Selected debt and equity securities are classified to this category.

d) Other financial liabilities

"Other financial liabilities" are financial liabilities, which are not classified as financial liabilities measured at fair value through profit or loss. Customers' deposits are classified to this category.

Recognition and exclusions

Purchases or sales of financial assets measured at fair value through profit or loss (except for derivatives) and purchases or sales of financial assets classified as available-for-sale are recognized using transaction settlement date, i.e. the date on which the Group will receive or transfer the ownership right to the assets. The rights and liabilities from a transaction are measured at fair value from the transaction date to the transaction settlement date.

Loans and receivables are recognized at the time of payment of cash to the borrower.

Financial assets are derecognized when the rights to receive cash flows from the assets have expired or the Group has transferred substantially all risks and rewards of ownership.

Financial obligations are excluded from the balance sheet when and only when the obligation expired i.e. the obligation described in the agreement had been fulfilled, written off or expired.

Measurement

When financial assets or financial liabilities are recognized initially, they are measured at fair value plus, in the case of assets and liabilities not valued at fair value through profit or loss, significant transaction costs that are directly attributable to the acquisition or issue of the financial assets or financial liabilities.

After initial recognition, the Group measures financial assets, including derivatives that are assets, at their fair values, without deducting transaction costs that it may incur in connection with the sale or disposal of assets, except for loans and receivables, which are measured at amortized cost using the effective interest method, and investments in equity instruments for which no quotations in an active market are available and whose value cannot be reasonably determined which are measured at cost.

After initial recognition, financial liabilities are valued at amortized cost using the effective interest method, except financial liabilities that are measured at fair value through profit or loss. Financial liabilities that are measured at fair value through profit or loss, including derivatives liabilities, are carried at fair value.

A gain or a loss resulting from financial assets or financial liabilities that are measured at fair value through profit or loss is shown in revenues or expenses. Profits or losses resulting from financial assets that are classified as available-for-sale are recognized directly in equity through the statement of changes in equity, except for impairment losses, and foreign exchange gains and losses. When financial assets are derecognized accumulated profits or losses, which were previously included in equity, are recognized in the income statement. However, interest accrued using the effective interest method is recognized in the income statement. Dividends on available-for-sale equity investments are recognized in the profit and loss account when the entity's right to receive payment is established.

The fair value of shares in companies other than subsidiaries and associates quoted in an active market results from their current purchase price. If the market for specific financial assets is inactive (this also applies to not-quoted securities), such investments are stated at purchase method less impairment write-downs.

Finance lease receivables

The Group enters into lease agreements, on the basis of which the Group transfers to the lessee in return for a payment or series of payments the right to use an asset for an agreed period.

Leases where the Group transfers substantially all the risk and rewards incidental to ownership of the leased assets are not included in the balance sheet. A receivable representing an amount equal to the net investment in the lease is recognized.

The recognition of finance lease receivables is based on an effective interest method reflecting a constant periodic rate of return on the Group's net investment in the finance lease.

Equity investments – stocks and shares in other entities

Stocks and shares in entities other than subordinated entities are classified as available-for-sale financial assets.

Derivative instruments

Derivative financial instruments are stated at their fair values on the trade date. Fair values are determined by reference to their prices in an active market, including prices in recent market transactions, or using valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivative instruments with positive fair values are shown in the balance sheet as financial assets held-for--trading and all derivative instruments with negative fair values, as financial liabilities held-for-trading.

Embedded derivatives are accounted for as separate derivatives, if the risks and economic characteristics of the embedded derivative are not closely related to the risks and characteristics of the host contract and the host contract is not measured at fair value in the profit and loss account.

Hedge accounting

The Group does not apply hedge accounting.

Offsetting financial instruments

Financial assets and financial liabilities are offset and presented in the balance sheet on a net basis when there is a legally enforceable right to offset and their settlement is intended to take place on a net basis or to realize the asset and settle the liability simultaneously. Currently, the Group does not offset and present its financial assets and liabilities on a net basis.

Cash pooling

The Group offers its clients cash management services, which consolidate balances within the structure of related accounts ("cash pooling"). Such transactions net the positive and negative balances of participants' current accounts on a designated account of the entity, which manages the settlements. The consolidation of balances is executed at the end of the working day and at the beginning of the next working day the transaction is reversed. Cash pooling transactions do not meet the requirements of IAS 39 regarding derecognizing of financial assets and liabilities from the balance sheet and thus are presented on a gross basis – accounts receivable are presented as loans and accounts payable as deposits.

Sale and repurchase agreements

The Group enters into purchase and sale transactions under agreements to resell and repurchase the same financial assets, so called repurchase and reverse repurchase transactions on securities.

Securities sold under repurchase agreements continue to be shown as the Group's assets and the Group discloses liabilities resulting from the repurchase clause. In the case of securities purchased under agreements to resell, securities are presented in the balance sheet as loans and advances. Any differences between sale/purchase prices and repurchase/resale prices are recognized respectively as interest income and expense using the effective interest rate method.

Impairment of assets measured at amortized cost

On a commitment basis, the Group classifies assets measured at amortized cost into the portfolio of assets that are individually significant and the portfolio of assets that are not individually significant (portfolio basis). On the balance sheet date, the Group assesses if there is objective evidence of impairment of a financial asset or a group of financial assets.

Objective evidence of impairment of a financial asset or group of financial assets includes the following events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payments status of borrowers in the group; or
  - national or local economic conditions that correlated with defaults on the assets in the group.

The losses expected as a result of future events, no matter how likely, are not recognized.

Write-downs to a provision created to cover incurred but not recognized credit losses

The Group creates a provision for incurred but not recognized credit losses ("IBNR"). The IBNR provision reflects the level of a credit loss in the period from the last individual assessment of receivables to the balance sheet date, which is assessed on the basis of historic losses on assets with similar risk characteristics as the risk characteristics of the asset group covered by the IBNR provision calculation process. The IBNR provision covers all receivables for which no evidence of impairment was found at the individual level or for which such evidence was found, but the individual assessment of possible impairment did not confirm the need to write them down. The IBNR provision is calculated using statistical models for asset groups that are combined in portfolios having similar credit risk characteristics. In the presentation of the financial statements of the Group, the provision for incurred but not recognized credit risk is deducted from credit exposures.

Write-downs for impairment of individually significant assets

The level of the provision for receivables that are deemed individually significant, for which evidence of impairment was detected, is calculated as the difference between the carrying value of an asset and the present value of the future cash flows from expected repayments by the borrower, from cash-settlement of collateral or from sales of receivables. The future cash flows are discounted to the present value with the effective interest rate for a given instrument.

If the present value of the estimated cash flows increases following an event occurring after impairment was identified, the write-down previously made will be reversed through the profit and loss account.

Write-downs for impairment of not individually significant assets

The level of the provision for receivables that are deemed not individually significant, for which evidence of impairment was detected, is calculated on the basis of a portfolio assessment, which is based on the history of losses incurred on assets with similar risk characteristics.

Provisions for receivables from the financial sector, non-financial sector and public sector, and write-downs for permanent impairment of securities and other assets adjust the value of particular asset categories of the balance sheet. Provisions for off-balance sheet commitments are shown in "Provisions" in the liabilities section of the balance sheet.

Non-recoverable loans (i.e. loans for which the Group does not expect any future cash flows and that may be treated as tax deductible costs under separate tax regulations or that were unconditionally written-off under an agreement with the customer) are on the basis of Bank's decision written-down against provisions. If a written-down amount is subsequently recovered, the amount of income is presented in "Other operating income".

Impairment of financial assets available-for-sale

For financial assets classified as available-for-sale, for which there is objective evidence of impairment, accumulated losses recorded in equity as the difference between the purchase price less subsequent repayments and amortization and fair value (taking into account previous impairment write-downs) are transferred to the income statement. Losses on impairment of equity investments classified as available-for-sale are not subject to reversal through the profit and loss account. Losses on impairment of debt instruments classified as available-for-sale are reversed through the profit and loss account if the fair value of a debt instrument increases in subsequent periods and such increase may be reasonably connected with an event that occurred after recognizing the loss.

Impairment of financial assets valued at cost

The category of financial assets valued at cost in the financial statements of the Group consists of shares and shares in entities other than subordinated entities classified as available-for-sale for which the fair value cannot be reasonably measured (for example the assets are not quoted). In case of objective evidence of impairment of equity investments the amount of impairment is measured as the difference between the carrying amount of the financial asset and the current value of the estimated future cash flows discounted at the current market rate for similar financial assets. Losses related to impairment of shares and shares in entities other than subordinated entities classified as available-for-sale where the fair value cannot be reliably measured are not reversed through the profit and loss account.

Impairment of assets other than financial assets

The carrying amounts of the Group's assets, excluding deferred tax assets and goodwill and including in particular tangible and intangible assets, are reviewed at each balance sheet date to determine whether there is any evidence of impairment. If so, the asset's recoverable amount is estimated. For goodwill, revaluation write-downs for impairment are recognized if the book value of an asset or of its cash-generating unit exceeds the recoverable amount. Revaluation write-downs for impairment are measured through profit or loss.

In the case of a cash-generating unit, revaluation write-downs for impairment are first deducted from goodwill allocated to such cash-generating units (group of units) and then reduce proportionally the carrying value of other assets in the unit (group of units).

Calculation of recoverable amount

The recoverable amount of other assets is the greater of their net selling price (fair value less costs to sell) and their value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using the pre-tax discount rate that reflects current market assessments of the time value of money and the specific risk of a given asset. For assets that do not generate independent cash flows the recoverable amount is determined for a cash-generating unit to which assets belong.

Reversal of impairment losses

An impairment loss, except for that in respect of goodwill, is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Goodwill

In the consolidated financial statements goodwill represents the excess of the cost of the acquisition over the fair value of the Group's interest in identifiable assets, liabilities and contingent liabilities acquired. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortized, but is tested annually for impairment independently from detecting the evidence of impairment. The impairment loss in respect of goodwill is not reversed.
In respect of associates, goodwill is included in the carrying amount of the investment in the associate.

Profits or losses on the disposal of a subsidiary or an associate include the carrying value of goodwill allocated to the entity sold.

Goodwill resulting from takeovers that occurred before 31 March 2004, i.e. the effective date of IFRS 3 (Business Combinations), was calculated in accordance with the previous accounting policies, as the difference between the cost of acquisition of an entity and the net asset value of the acquired entity at the acquisition date.

Property and equipment and intangible assets (excluding goodwill)

Items of property and equipment and intangible assets (excluding goodwill) are stated at historical cost less accumulated depreciation or amortization and impairment losses. The historical cost of an item of property and equipment includes directly attributable costs of purchasing and bringing the asset into use.

Subsequent expenditure relating to an item of property and equipment is added to the carrying amount of the asset or recognized as a separate asset (where appropriate) only when it is probable that future economic benefits will flow to the Group and the cost of the asset can be measured reliably. Any other expenditure e.g. on repairs and maintenance is recognized as an expense when incurred.

Depreciation and amortization are calculated using the straight-line method over the expected useful life of an asset on the basis of rates that are approved in the depreciation and amortization plan for 2007.

Annual depreciation and amortization rates applied by the Bank are presented in the table below:

Buildings and structures	1.5 - 4.5 %
Motor vehicles	14.0 - 20.0 %
Computers	34.0 %
Office equipment	20.0 %
Other tangible fixed assets	7.0 - 20.0 %
Computer software and licenses (except the main operating system, which is depreciated at the rate of 20%)	34.0 %
Other intangible fixed assets	20.0 %

At each balance sheet date the residual values of non-current assets and their useful lives are reviewed and the depreciation and amortization schedule is adjusted, where appropriate.

Assets with original cost less than PLN 3,500 are fully depreciated on a one-off basis when brought into use. The total cost of other tangible fixed assets depreciated on a one-off basis is not material to the financial statements.

Assets in the course of construction are stated at the total of costs directly attributable to construction, assembly or improvement in progress less impairment write-offs.

Property and equipment includes rights to perpetual usufruct of land obtained by the Bank.

Items of property and equipment are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount of an item of property and equipment or intangible asset is written down to its recoverable amount if the carrying amount exceeds the recoverable amount. The recoverable amount of an item of property and equipment is the higher of its fair value less costs to sell and value in use.

Investment properties

Properties classified by the Group as investment properties are presented in the financial statements as part of property and equipment. The Group applies the fair value model to their valuation. The valuation of investment properties is based on the research of independent experts with appropriate professional qualifications. The changes in value of investment properties are recognized in the profit and loss account.

Employee benefits

Short-term employee benefits

The Group's short-term employee benefits include wages, bonuses, holiday pay, sick pay and social security contributions.

Depending on their individual compensation category, employees may receive an award from the incentive fund, a bonus under the bonus scheme applicable in a given area or a discretionary annual bonus under the internal employee compensation regulations. Bonuses and awards are granted after completion of the period for which the employee's performance is evaluated.
Short-term employee benefits are recognized as an expense in the period when they were incurred.

Share-based payments

The Group's employees are entitled to participate in Citigroup equity compensation plans. In accordance with these plans the Group's employees may receive awards under stock option programs based on stock options granted on Citigroup common stock and also under stock award programs based on shares of Citigroup common stock in the form of deferred stock. These programs are deemed to be cash-settled programs. A provision is created for future payments and is shown in "Other liabilities" and in "General administrative expenses" in the profit and loss account. The costs of the program are determined on the basis of a valuation model. According to IFRS 2, the fair value is, measured at grant date and, subsequently, at each reporting date until the final settlement. Total expenses recorded in a given period are based on the fair value of the options or deferred shares at the reporting date and the part of the rights that were deemed acquired in that period.

Long-term employee benefits

Under its compensation scheme, the Group guarantees its employees retirement benefits, which depend on the length of service with the Group directly prior to the acquisition of the title to such benefits. Employees who are hired under a contract of employment in accordance with the Company Collective Labor Agreement have the right to an additional award for a fixed length of service. A provision is created for future payments. The provision is shown in "Other liabilities" and in "General administrative expenses" in the profit and loss account. Provisions for the future costs of retirement benefits and long-service awards are calculated on the basis of actuarial assumptions. The actuarial measurement is subject to periodic revaluations.

Defined contribution plans

The Group enables its employees to join a pension plan, which is described in detail in Note 42. The Group pays contributions for employees who participate in the plan into a separate fund and has no subsequent obligation to pay further contributions. Hence, this is a defined contribution plan in accordance with IAS 19 (Employee Benefits). Contributions are recognized as an expense in the period to which they relate.

Provisions

A provision is recognized in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and if it is probable that the discharge of this obligation will result in an outflow of economic benefits, and the provision amount can be reliably estimated.

Restructuring provision

A restructuring provision is recorded when the following conditions have been met: (i) the Group has a detailed and formalized restructuring plan; (ii) the restructuring has already begun or has been publicly announced; (iii) the provision amount can be reliably estimated. The restructuring provision does not include future operating expenses.

Equity

Equity is stated at nominal value, with the exception of the revaluation reserve of available-for-sale financial assets that is stated after the effect of deferred income tax.

Dividends are recognized as liabilities on the date at which the General Meeting of the Bank has approved the appropriation of earnings.

Calculating net income

Net income is calculated in compliance with the concept of prudence, accrual accounting and the matching concept. Net income reflects all income and relevant expenses set off against income within a particular reporting period, irrespective of the day on which these are received or paid.

Accruals and prepayments

The Group records accruals and prepayments of expenses, primarily in relation to the Group's overhead expenses, in reporting periods to which they relate.

Interest income and interest expenses

For financial instruments, interest income and interest expense is recognized through the profit and loss account using the effective interest method.

The effective interest method calculates the amortized cost of a financial asset or a financial liability and allocates interest income or interest expense to appropriate periods. The effective interest rate is a rate that precisely discounts the estimated future inflows or payments in the expected period until the maturity of the financial instrument to the carrying value of a financial asset or a financial liability. When calculating the effective interest rate, the Group takes into account all the terms and conditions of a financial instrument agreement (e.g. prepayments, call options, etc.), but excludes potential future losses in connection with non-recoverable loans. The calculation covers all the commissions payable to and receivable from the parties to the agreement, integral components of the effective interest rate, transaction costs and any other premiums and discounts. As a result, commissions that are an integral part of the effective interest rate are recognized as components of interest income.

In the case of financial assets or groups of similar financial assets for which impairment losses were recognized, interest income is measured using the interest rate that was used to discount the future cash flows to estimate such impairment losses.

Fee and commission income and expenses

Fee and commission income is generated when the Bank renders financial services to its customers. The Group classifies its commission into the following categories:

- commissions that are an integral part of the effective interest rate;
- commissions for services rendered;
- commissions for executing significant transactions.

Commissions, that are an integral part of the effective interest rate, are recognized in the income statement adjusted by the calculation of the effective interest rate and shown in the interest income.

Commissions for services rendered and for executing significant transactions are recognized in the income statement, in proportion to the completion of the services rendered, or a single amount after completing the rendering of a service, respectively and are shown in commission income.

In the case of loans and borrowings with undetermined installment payment dates, e.g. overdrafts or credit cards, commissions and fees are recognized using the straight-line method until the expiry date of a credit limit. Such commissions and fees are recognized as commission income.

Other operating income and expenses

Other operating income and expenses comprise income and expenses that are not directly related to banking activities. They include proceeds from and costs of selling or disposing of property, plant and equipment and assets held for disposal, income from processing data for related companies, compensation, penalties and fines.

Income tax

Income tax consists of current tax and deferred tax. Income tax is recognized in the income statement, except for taxes related to amounts that are allocated directly to equity.

A deferred tax provision is calculated using the carrying value method by computing temporary differences between the carrying value of assets and liabilities, in the balance sheet, and the tax base of assets and liabilities. In the balance sheet, the Group discloses deferred tax assets net of deferred tax provisions. A deferred tax asset is recognized only to the extent that it is probable that a tax benefit will be realized in the future.

Following the introduction of the EU Guarantee Fund Act of 16 April 2004 (Journal of Laws No. 121 item 1262) and the related new Art. 38a in the Corporate Income Tax Act, the Bank has recognized a receivable from the Budget in respect of its right to reduce its tax liabilities in the years 2007 to 2009.

Segmental reporting

A segment is a separate area of an entity's operations that either distributes goods or renders services in a specific sector environment (business segment) or distributes goods or renders services in a specific economic environment (geographical segment). A segment is exposed to certain risks and derives benefits that are specific only to that segment. The business segment has been adopted as the reporting segment in the Group since both risks and rates of return result from differences between products. The Group is managed at the level of three main business segments – Corporate and Investment Bank and Consumer Bank. Detailed information about the segments is presented in Note 3.

Assets and liabilities, revenues and financial results of the Group's segments, are measured in accordance with the accounting policies adopted by the Group.

Non-current assets held-for-sale

Assets or groups of assets together with liabilities directly associated with those assets shall be classified as non-current assets held-for-sale, if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. For this to be the case the assets or group of assets must be available for immediate sale in their present condition and the sale is highly probable, which means that there is a commitment to a plan to sell the assets and an active program to locate a buyer and complete the plan was initiated. Further, the assets or group of assets must be actively marketed for the sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held-for-sale are measured at the lower of their carrying amount and fair value less costs to sell and are not subject to depreciation.

Accounting estimates and judgments

The determination of the carrying values of selected assets and liabilities at the balance sheet date requires estimating the effect of uncertain future events on these items. The estimates and assumptions are subject to continuous evaluation and are based on historical experience and other factors, including expectations for future events, which seem justified in a given situation. The most crucial estimates applied in the preparation of the financial statements are presented below:

Fair value of derivatives

The fair value of financial instruments not quoted on active markets is determined using valuation techniques. If valuation techniques are used to determine the fair values, these methods are periodically assessed and verified. All the models are approved before application. As far as possible, only observable data are used in the models, although in some areas, the entity's management must use estimates. Changes in the assumptions relating to the estimated factors may affect the fair values of financial instruments disclosed.

The Group applies the following methods of measurement of particular types of derivative instruments:

- fx forwards – discounted cash flows model;
- options – Garman-Kohlhagen model;
- interest rate transactions – discounted cash flows model;
- futures – current quotations.

Impairment of loans

At each balance sheet date, the Group assesses whether there is objective evidence of impairment of loan exposures. If so, the Group records a write-down equal to the difference between the carrying value and the estimated present value of the future cash flows from a given loan exposure. The Group applies statistical analysis of financial assets in respect of which evidence of impairment has not been identified individually, or despite evidence of impairment, the individual assessment of the given asset has not indicated the necessity of recording an impairment write-down.

The Group uses estimates to determine whether there is objective evidence of impairment and to calculate the present value of future cash flows. The methodology and assumptions used to determine the impairment level of loans are regularly reviewed and updated, as required.

Impairment of available-for-sale assets

In the case of objective evidence of impairment of financial assets classified as available-for-sale assets, cumulative losses that were previously recognized in equity are recognized in the profit and loss account, except financial assets that were not excluded from the balance sheet. The amount of cumulative losses removed from equity and recognized in the profit and loss account represents the difference between the acquisition cost (net of any principal payments and amortization) and current fair value (less impairment of this asset previously recognized in the profit and loss account).

Impairment of financial assets valued at cost

In the case of objective evidence of impairment of equity instruments that are not valued at fair value because the fair value cannot be reliably measured or in the case of a derivative that must be settled by delivery of such an instrument the amount of impairment loss is measured by the difference between the carrying amount of financial assets and the present value of future cash flows discounted at the present market rate for similar financial assets.

Impairment of goodwill

The Group carried out impairment tests of goodwill as at 31 December 2006 and 31 December 2007. The estimate of goodwill has been performed on the basis of the provisions of IAS 36 concerning determination of the value in use of cash generating units. The tests did not show any impairment.

Employee benefits

Provisions for future payments in respect of employee benefits guaranteed by the Company Collective Labor Agreement are subject to periodic estimation by an independent actuary.
At each balance sheet date, the Group estimates the level of the provision related to bonuses granted to employees in the form of Citigroup stock option programs and stock award programs. The amount of the provision is determined on the basis of the methodology described in IFRS 2, using an option-pricing model. Determination of the provision amount requires application of estimates relating to the expected level of employee turnover, the expected level of dividends paid by Citigroup and expected option exercise dates.

3. Segmental reporting

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

- Corporate Bank

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

- Consumer Bank

  Within the Consumer Bank segment the Group provides products and financial services to individuals and also to micro enterprises and individual entrepreneurs though the Citibusiness offer. Apart from maintaining bank accounts and providing an extensive lending and deposit offer, it also offers cash loans, mortgage loans, credit cards to customers, provides asset management services, and acts as agent in the sale of investment and insurance products. Customers of the Consumer Bank have the branch network, ATMs, telephone services, and electronic banking services at their disposal and a network of financial agents offering products of this segment.

The valuation of segment assets and liabilities, income and segment results is based on the Group's accounting policies as described in note 2 (Significant accounting policies).

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

Income statement by business segment for 2007

For the period In thousands of PLN	2007			2006		
	Corporate Bank	Consumer Bank	Total	Corporate Bank	Consumer Bank	Total
Net interest income	533,757	670,663	1,204,420	447,055	579,346	1,026,401
Net fee and commission income	309,994	426,689	736,683	298,316	319,586	617,902
Dividend income	5,923	17	5,940	3,659	-	3,659
Net income on financial instruments and revaluation	389,500	33,020	422,520	280,186	35,720	315,906
Net gain on investment (deposit) securities	30,086	-	30,086	36,571	-	36,571
Net gain on investment (capital) instruments	43,700	3,789	47,489	95,846	-	95,846
Other operating income	72,787	(7,722)	65,065	71,483	17,273	88,756
General administrative expenses	(657,773)	(755,934)	(1,413,707)	(675,152)	(696,220)	(1,371,372)
Depreciation expense	(76,710)	(32,127)	(108,837)	(95,300)	(34,886)	(130,186)
Profit/(loss) on sale of tangible fixed assets	597	(1)	596	105,236	13,080	118,316
Net impairment losses	100,390	(47,834)	52,556	61,066	(38,531)	22,535
Operating income	**752,251**	**290,560**	**1,042,811**	**628,966**	**195,368**	**824,334**
Share in profits/(losses) of undertakings accounted for under the equity method	(8,586)	-	(8,586)	7,780	-	7,780
Profit before tax	**743,665**	**290,560**	**1,034,225**	**636,746**	**195,368**	**832,114**
Income tax expenses			(210,010)			(175,058)
Net profit			**824,215**			**657,056**

As at	31.12.2007			31.12.2006		
Assets including:	34,030,227	4,877,757	**38,907,984**	32,161,847	3,828,888	**35,990,735**
Non-current assets held-for-sale	*12,645*	-	*12,645*	*12,539*	-	*12,539*
Liabilities	31,464,198	7,443,786	**38,907,984**	29,824,930	6,165,805	**35,990,735**

4. Interest income

In thousands of PLN	2007	2006
Interest and similar income from:		
Central Bank	40,251	14,220
Placements in banks	338,853	249,291
Loans and advances, of which:	1,135,502	930,588
financial sector	*17,730*	*14,382*
non-financial sector	*1,117,772*	*916,206*
Debt securities available-for-sale	386,655	353,455
Debt securities held-for-trading	75,590	84,664
	1,976,851	**1,632,218**
Interest expense and similar charges for:		
Central Bank	(100)	(9)
Deposits from banks	(127,283)	(108,855)
Deposits from financial sector (excl. banks)	(96,278)	(69,365)
Deposits from non-financial sector	(528,085)	(415,621)
Loans and advances received	(20,685)	(11,967)
	(772,431)	**(605,817)**
	1,204,420	**1,026,401**

Net interest income for 2007 includes interest received on impaired loans, of PLN 18,362 thousand (for 2006: 30,803 thousand)

5. Net fee and commission income

In thousands of PLN	2007	2006
Fee and commission income:		
Insurance and investment products	294,836	202,826
Payment and credit cards	189,482	151,235
Payment services	133,255	123,164
Custody services	97,621	88,972
Brokerage operations	76,218	69,583
Cash management	34,785	38,371
Off-balance sheet guarantee liabilities	18,300	18,043
Off-balance sheet financial liabilities	7,855	6,893
Other	18,790	22,525
	871,142	**721,612**
Fee and commission expense:		
Payment and credit cards	(76,565)	(59,817)
Brokerage operations	(28,938)	(20,023)
Fees paid to the National Depository for Securities (KDPW)	(14,377)	(9,592)
Brokers fees	(10,271)	(8,270)
Other	(4,308)	(6,008)
	(134,459)	**(103,710)**
	736,683	**617,902**

The net commission result for 2007 comprises commission incomes (other than incomes covered by the calculation of the effective interest rate process), which are related to financial assets and liabilities not valued at their fair value through profit and loss account in amount of PLN 200,230 thousand (for 2006: PLN 163,301 thousand) and commission expenses in amount of PLN 76,565 thousand (for 2006: PLN 59,817 thousand).

6. Dividend income

In thousands of PLN	2007	2006
Securities available-for-sale	5,674	3,388
Securities held-for-trading	266	271
	5,940	**3,659**

7. Net gain on financial instruments an revaluation

In thousands of PLN	2007	2006
Net income on financial instruments valued at fair value through profit and loss account:		
Debt instruments	42,506	29,457
Capital instuments	125	278
Investment certificates	(1)	-
Derivative instruments including:	46,408	(30,936)
Interest rate	*41,504*	*(37,352)*
Equity	*4,707*	*4,541*
Commodity	*197*	*1,875*
	89,038	**(1,201)**
Net income on FX operations		
Operations on FX derivative instruments	404,599	546,908
FX gains and losses (revaluation)	(71,117)	(229,801)
	333,482	**317,107**
	422,520	**315,906**

Net income from debt instruments includes the net results on trading in government securities, corporate debt securities and money market instruments.

Income from derivative instruments comprises net income on interest rate swaps, options, futures and other derivatives.

Net result on FX operations contains gains and losses from revaluation of assets and liabilities denominated in foreign currency and from FX derivative instruments like forward, swap and options.

8. Net gain on investment debt securities

In thousands of PLN	2007	2006
Profits realized on available-for-sale securities:	34,398	43,654
Losses realized on available-for-sale securities:	(4,312)	(7,083)
	30,086	**36,571**

9. Net gain on investment equity securities

In thousands of PLN	2007	2006
Net gain on investment equity securities available-for-sale	**47,489**	**95,846**

10. Net other operating income

In thousands of PLN	2007	2006
Other operating income:		
Data processing for related parties	61,616	63,062
Settlement of perpetual usufruct right to land	758	6,456
Investment property	156	6,206
Other income related to shares granted by MasterCard	-	6,120
Income from office rent	9,778	3,719
Other	35,416	42,810
	107,724	**128,373**
Other operating expenses:		
Provisions for UOKiK dispute	(10,228)	-
Investment property	(3,317)	(7,537)
Vindication expenses	(5,214)	(5,446)
Other	(23,900)	(26,634)
	(42,659)	**(39,617)**
	65,065	**88,756**

11. General administrative expenses

In thousands of PLN	2007	2006
Staff expenses:		
Remuneration costs, including:	(557,475)	(521,362)
Provisions for retirement benefits	*(14,993)*	*(13,872)*
Perks and rewards including:	(146,934)	(180,184)
Payments related to own equity instruments	*9,786*	*(20,889)*
Rewards for long time employment	*(9,353)*	*(6,012)*
	(704,409)	**(701,546)**
Administrative expenses:		
Telecommunication fees and hardware purchases	(180,858)	(175,107)
Advisory, audit, consulting and other services	(113,502)	(117,560)
Building maintenance and rent	(107,646)	(110,381)
Marketing	(73,384)	(55,374)
Transaction costs	(64,952)	(51,230)
Postal services	(29,210)	(28,517)
Training and education	(14,196)	(12,072)
Other expenses	(125,550)	(119,585)
	(709,298)	**(669,826)**
	(1,413,707)	**(1,371,372)**

Staff expenses in 2007 include PLN 13,512 thousand of remuneration and bonuses paid and payable to current and former members of the Management Board (in 2006: PLN 17,092 thousands).

12. Depreciation expense

In thousands of PLN	2007	2006
Depreciation of tangible assets	(87,797)	(96,168)
Depreciation of intangible assets	(21,040)	(34,018)
	(108,837)	**(130,186)**

13. Profit/(loss) on sale of tangible fixed assets

In thousands of PLN	2007	2006
Profits on:		
Assets held-for-sale*	-	114,129
Investments in subordinated entities	177	3,269
Other tangible fixed assets	1,870	1,489
	2,047	**118,887**
Losses on:		
Assets held-for-sale*	(1,137)	(317)
Other tangible fixed assets	(314)	(254)
	(1,451)	**(571)**
	596	**118,316**

** Refers to fixed assets classified as at 31 December 2005 as held-for-sale and sold in presented periods (see Note 29)*

14. Net impairment losses

Net impairment write-downs of financial assets

In thousands of PLN	2007	2006
Impairment write-downs:		
Loans and receivables valued at amortized cost	(357,977)	(575,285)
Other	(18,363)	(43,784)
	(376,340)	**(619,069)**
Reversals of impairment write-downs:		
Loans and receivables valued at amortized cost	**418,212**	**629,284**
	41,872	**10,215**

Net (charges to)/releases of provisions for off-balance liabilities:

In thousands of PLN	2007	2006
Charges to provisions for off-balance sheet commitments	(59,806)	(80,208)
Releases of provisions for off-balance sheet commitments	70,490	92,528
	10,684	**12,320**
Net impairment losses	**52,556**	**22,535**

15. Income tax expense

Recognized in the income statement

In thousands of PLN	2007	2006
Current tax:		
Current year	(319,489)	(138,758)
Adjustments for prior years	8,857	(350)
	(310,632)	**(139,108)**
Deferred tax:		
Origination and reversal of temporary differences	100,974	(34,522)
Movement in receivables arising from tax deductions	(352)	(1,428)
	100,622	**(35,950)**
Income tax expense	**(210,010)**	**(175,058)**

Reconciliation of effective tax rate:

In thousands of PLN	2007	2006
Profit before tax	1,034,225	832,114
Income tax at the domestic tax rate of 19%	(196,503)	(158,101)
Expenses not tax deductible	(13,899)	(38,603)
Taxable income not in income statement	(74,115)	(60,611)
Deductible expenses not in income statement	58,391	48,383
Non taxable income	8,171	16,885
Other	7,945	16,989
Income tax expense	**(210,010)**	**(175,058)**
Effective tax rate	**20%**	**21%**

Deferred tax recognized directly in equity

Deferred tax recognized directly in equity as at 31 December 2007 is related to debt and capital instruments available-for-sale and amounts to PLN 42,797 thousand (31 December 2006: PLN 19,118 thousand).

16. Earnings per share

As at 31 December 2007 earnings per share amounted to PLN 6.31 (31 December 2006: PLN 5.03)

The calculation of earnings per share as at 31 December 2007 was based on the consolidated profit attributable to owners of ordinary shares of PLN 824,215 thousand (31 December 2006: PLN 657,056 thousand) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2007 of 130,659,600 (31 December 2006: 130,659,600). The Bank does not have any ordinary shares that may have a dilution impact.

17. Cash and balances with the Central Bank

In thousands of PLN	31.12..2007	31.12.2006
Cash at hand	395,549	366,211
Current balances with Central Bank	2,925,954	169,412
	3,321,503	**535,623**

On the current account in the National Bank of Poland (NBP), the Group maintains an obligatory reserve with the declared balance as at 31 December 2007 of PLN 869,304 thousand (31 December 2006: PLN 756,858 thousand).

The Group may use the obligatory reserve provided that the sum of the average monthly balance on the current account in NBP is not lower than the declared balance.

18. Financial assets and liabilities held-for-trading

Financial assets held for trading

In thousands of PLN	31.12.2007	31.12.2006
Debt securities		
Bonds and notes issued by:		
Banks	-	84,368
Financial sector	50,771	43,834
Non-financial sector	70,847	54,476
Government	916,555	1,353,377
Other debt securities issued by:		
Banks	85,883	41,311
	1,124,056	**1,577,366**
Including:		
Listed	*915,891*	*1,353,177*
Unlisted	*208,165*	*224,189*
Derivative financial instruments	**4,005,981**	**2,973,728**
Equity instruments	**5,671**	**5,377**
Including:		
Listed	*5,671*	*5,376*
Unlisted	*-*	*1*
	5,135,708	**4,556,471**

Debt securities held for trading (maturity):

In thousands of PLN	31.12.2007	31.12.2006
up to 1 month	4,598	32,234
1 month - 3 months	108,804	156,559
3 months - 1 year	88,516	185,929
1 year - 5 years	250,381	602,736
over 5 years	671,757	599,908
	1,124,056	**1,577,366**

Financial liabilities held-for-trading:

In thousands of PLN	31.12.2007	31.12.2006
Short positions in financial assets	34,932	278,109
Derivative financial instruments	4,338,214	3,038,728
	4,373,146	**3,316,847**

As at 31 December 2007 and 31 December 2006 the Group did not hold any financial assets and financial liabilities initially designated for valuation at fair value through the profit and loss account.

Derivative financial instruments as at 31 December 2007

In thousands of PLN	Notional amount with remaining life of				Total	Fair values	
	less than 3 months	between 3 months and 1 year	between 1 year to 5 years	more than 5 years		Assets	Liabilities
Interest rate instruments	**12,975,579**	**190,584,210**	**208,779,554**	**52,547,416**	**464,886,759**	**2,839,478**	**3,152,736**
FRA - purchase	-	67,438,340	23,621,000	-	91,059,340	160,812	24,143
FRA - sale	-	66,632,380	27,250,000	-	93,882,380	14,063	188,464
Interest rate swaps (IRS)	12,110,230	52,631,300	156,068,847	48,747,574	269,557,951	2,336,848	2,535,774
Currency- interest rate swaps (CIRS)	183,183	1,462,465	1,622,170	2,299,842	5,567,660	317,098	396,239
Interest rate options purchased	-	100,000	50,000	750,000	900,000	6,412	-
Interest rate options sold	-	100,000	50,000	750,000	900,000	-	6,417
Future contracts - purchase*	95,537	1,876,835	-	-	1,972,372	4,225	1,518
Future contracts - sale*	586,629	342,890	117,537	-	1,047,056	20	181
Currency instruments	**33,244,381**	**22,548,321**	**5,174,028**	**613,228**	**61,579,958**	**1,152,436**	**1,172,230**
FX forward	6,127,526	5,576,040	542,844	302,814	12,549,224	195,399	420,746
FX swap	15,478,832	5,751,616	197,539	-	21,427,987	626,750	423,692
Foreign exchange options purchased	5,739,636	5,548,032	2,183,571	146,884	13,618,123	312,749	17,537
Foreign exchange options sold	5,898,387	5,672,633	2,250,074	163,530	13,984,624	17,538	310,255
Securities transactions	**140,306**	**1,404**	**102,806**	**-**	**244,516**	**8,025**	**7,206**
Share options (purchase)	-	702	51,403	-	52,105	3,720	3,311
Share options (sale)	-	702	51,403	-	52,105	3,311	3,720
Securities purchased pending delivery	93,589	-	-	-	93,589	504	75
Securities sold pending delivery	46,717	-	-	-	46,717	490	100
Commodity transactions	**-**	**43,260**	**32,164**	**-**	**75,424**	**6,042**	**6,042**
Swaps	-	12,882	13,208	-	26,090	2,873	2,873
Purchase options	-	15,189	9,478	-	24,667	3,169	-
Sold options	-	15,189	9,478	-	24,667	-	3,169
Derivative instruments total	**46,360,266**	**213,177,195**	**214,088,552**	**53,160,644**	**526,786,657**	**4,005,981**	**4,338,214**

** Exchange-traded products*

Derivative financial instruments as at 31 December 2006

In thousands of PLN	Notional amount with remaining life of				Total	Fair values	
	less than 3 months	between 3 months and 1 year	between 1 year to 5 years	more than 5 years		Assets	Liabilities
Interest rate instruments	**10,379,000**	**127,810,506**	**162,394,716**	**36,837,648**	**337,421,870**	**2,601,365**	**2,672,608**
FRA - purchase	-	48,134,300	21,550,000	-	69,684,300	4,739	80,699
FRA - sale	97,000	47,669,440	26,750,000	-	74,516,440	81,169	6,479
Interest rate swaps (IRS)	9,449,582	30,870,857	111,354,658	33,303,156	184,978,253	2,222,075	2,379,685
Currency- interest rate swaps (CIRS)	682,455	90,471	2,740,058	2,034,492	5,547,476	281,870	195,598
Interest rate options purchased	-	-	-	750,000	750,000	8,806	-
Interest rate options sold	-	-	-	750,000	750,000	-	8,806
Future contracts - purchase*	118,096	769,496	-	-	887,592	-	1,341
Future contracts - sale*	31,867	275,942	-	-	307,809	2,706	-
Currency instruments	**31,299,157**	**11,314,005**	**592,047**	**690,632**	**43,895,841**	**346,268**	**341,285**
FX forward	5,000,068	3,138,063	126,006	342,246	8,606,383	84,589	118,015
FX swap	19,661,080	1,558,737	171,919	-	21,391,736	127,738	90,079
Foreign exchange options purchased	3,286,353	3,261,761	146,471	165,291	6,859,876	133,864	15
Foreign exchange options sold	3,351,656	3,355,444	147,651	183,095	7,037,846	77	133,176
Securities transactions	**545,442**	**36,446**	**1,502**	**-**	**583,390**	**6,269**	**5,019**
Share options (purchase)	-	18,223	751	-	18,974	4,450	90
Share options (sale)	-	18,223	751	-	18,974	90	4,450
Securities purchased pending delivery	92,207	-	-	-	92,207	924	74
Securities sold pending delivery	453,235	-	-	-	453,235	805	405
Commodity transactions	**4,055**	**95,857**	**1,799**	**-**	**101,711**	**19,826**	**19,826**
Swaps	1,343	45,465	1,799	-	48,607	15,066	15,066
Purchase options	1,356	25,196	-	-	26,552	4,760	-
Sold options	1,356	25,196	-	-	26,552	-	4,760
Derivative instruments total	**42,227,654**	**139,256,814**	**162,990,064**	**37,528,280**	**382,002,812**	**2,973,728**	**3,038,738**

** Exchange-traded products*

Foreign currency contracts

The table below summarizes, by major currency, the contractual amounts of forward, swap and options contracts, with details of the contracted exchange rates and remaining periods to maturity. Foreign currency amounts are translated at rates ruling at the balance sheet date.

In thousands of PLN	Weighted average contracted exchange rates		Notional amount	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Buy Euro				
Less than three months	3.7729	3.9438	9,510,016	3,510,777
Between three months and one year	3.7351	3.9961	8,756,471	2,789,323
More than one year	3.7478	3.9239	2,172,671	633,090
Sell Euro				
Less than three months	3.7110	3.9028	12,190,066	4,541,265
Between three months and one year	3.6762	3.9694	7,780,681	3,120,562
More than one year	3.7279	3.9195	1,853,468	487,578
Buy US Dollars				
Less than three months	2.5844	2.9581	6,272,420	8,925,606
Between three months and one year	2.7148	3.0706	3,132,427	2,547,342
More than one year	2.7516	2.8704	1,144,284	410,142
Sell US Dollars				
Less than three months	2.5587	2.9483	8,065,961	12,868,304
Between three months and one year	2.7710	3.0562	3,359,748	2,813,338
More than one year	2.7376	2.8685	922,329	402,183
Buy Swiss Franc				
Less than three months	2.1985	2.3869	6,484	103,475
Sell Swiss Franc				
Less than three months	2.1564	2.3857	18,178	219,585
Buy Pound Sterling				
Less than three months	5.4832	5.7153	64,519	91,303
Between three months and one year	5.5551	5.8512	86,060	4,394
More than one year	5.7650	-	26,292	-
Sell Pound Sterling				
Less than three months	5.2544	5.7129	45,498	1,256
Between three months and one year	5.7292	-	43,385	-
More than one year	5.7650	-	26,292	-

19. Debt securities available-for-sale

In thousands of PLN	31.12.2007	31.12.2006
Bonds and notes issued by:		
Central Bank	377,428	378,413
Non-financial sector	88,135	-
Government	6,002,075	7,868,900
	6,467,638	**8,247,313**
Including:		
Listed instruments	*5,933,705*	*7,795,947*
Unlisted instruments	*533,933*	*451,366*

Debt securities available-for-sale (maturity):

In thousands of PLN	31.12.2007	31.12.2006
up to 1 month	4,994	16,996
1 month - 3 months	-	12,887
3 months - 1 year	602,493	399,147
1 year - 5 years	2,761,921	5,030,034
over 5 years	3,098,230	2,788,249
	6,467,638	**8,247,313**

The total amount of debt securities available-for-sale includes bonds of the National Bank of Poland with a nominal value of PLN 366,665 thousand, purchased on 28 February 2002, in connection with the reduction of the rates of mandatory reserves maintained by banks in NBP. These bonds include bearer bonds with interest calculated according to the interest rate of 52-week T-bills.

The movement in debt securities available-for-sale is as follows:

In thousands of PLN	2007	2006
As at 1 January	**8,247,313**	**7,171,157**
Increases (in respect of)		
Purchases	113,732,927	91,359,979
Amortization of discount, premium and interest	95,641	142,082
Decreases (in respect of)		
Purchases	(115,121,563)	(90,209,113)
Revaluation	(116,619)	(28,885)
FX differences	(306,985)	(149,215)
Amortization of discount, premium and interest	(63,076)	(38,692)
As at 31 December	**6,467,638**	**8,247,313**

20. Equity investments accounted for under the equity method

In thousands of PLN	31.12.2007	31.12.2006
Stocks and shares in subordinated entities	**58,388**	**67,910**
Including:		
Listed instruments	-	-
Unlisted instruments	*58,388*	*67,910*

The movement in equity investments accounted for under the equity method is as follows:

In thousands of PLN	2007	2006
As at 1 January	**67,910**	**61,884**
Increases (in respect of)		
Revaluation	599	6,850
Decrease (in respect of)		
Revaluation	(10,121)	(824)
As at 31 December	**58,388**	**67,910**

21. Other equity investments

In thousands of PLN	31.12.2007	31.12.2006
Stocks and shares in other entities	57,028	87,642
Impairment	(35,119)	(33,024)
	21,909	**54,618**
Including:		
Listed instruments	*1,300*	*34,009*
Unlisted instruments	*20,609*	*20,609*

The change in other equity investments is as follows:

In thousands of PLN	2007	2006
As at 1 January	**54,618**	**66,419**
Increases (in respect of)		
Purchase	2,930	97,518
Revaluation	31,650	8,011
Conversion of debt into shares	-	3,689
Decreases (in respect of)		
Sales	(32,731)	(120,205)
Revaluation	(34,558)	(814)
As at 31 December	**21,909**	**54,618**

Financial information on subordinated entities as at 31 December 2007

Subordinated entities consolidated under the full method
In thousands of PLN

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY-LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	97.47	1,132,166	920,799	211,367	77,068	13,172
HANDLOWY-INVESTMENTS S.A.1)	Luxemburg	Investment activity	Subsidiary undertaking	100.00	28,735	86	28,649	39,813	33,592
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary undertaking	100.00	438,055	338,130	99,925	108,017	18,993
PPH SPOMASZ Sp. z o.o. under liquidation	Warsaw	-	Subsidiary undertaking	100.00	Entity under liquidation				

Other entities
In thousands of PLN

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
BANK ROZWOJU CUKROWNICTWA S.A.	Poznań	Banking	Subsidiary undertaking	100.00	39,609	40,084	450	39,634	1,563	466
HANDLOWY-INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	80.97	7,434	7,513	238	7,275	106	(249)
HANDLOWY INWESTYCJE Sp. z o.o.2)	Warsaw	Investment activity	Subsidiary undertaking	100.00	11,345	19,103	7,892	11,211	824	376

The financial data of subordinated entities is based on unaudited financial information available at the time of preparation of these statements.

The explanation of indirect relationships:

1) Indirect relationship via Handlowy Investments S.A.

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY - INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	19.03	1,428	7,513	238	7,275	106	(249)

2) Indirect relationship via Handlowy Inwestycje Sp. z o.o.

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	2.53	3,125	1,132,166	920,799	211,367	77,068	13,172

The financial data of subordinated entities is based on unaudited financial information available at the time of preparation of these statements.

Financial data concerning subordinated entities as at 31 December 2006

Subordinated entities consolidated under the full method
In thousands of PLN

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY-LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	97.47	785,080	586,883	198,197	60,557	24,279
HANDLOWY-INVESTMENTS S.A.[1]	Luxembourg	Investment activity	Subsidiary undertaking	100.00	44,878	47,553	(2,675)	96,169	49,443
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary undertaking	100.00	929,457	826,244	103,213	85,275	24,219
PPH SPOMASZ Sp. z o.o. under liquidation	Warsaw	-	Subsidiary undertaking	100.00	Entity under liquidation				

Other entities
In thousands of PLN

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
BANK ROZWOJU CUKROWNICTWA S.A.	Poznań	Banking	Subsidiary undertaking	100.00	39,992	40,590	489	40,101	2,239	1,037
HANDLOWY-INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	80.97	17,172	33,543	21,850	8,204	2,601	1,576
HANDLOWY INWESTYCJE Sp. z o.o.[2]	Warsaw	Investment activity	Subsidiary undertaking	100.00	10,746	18,971	4,897	14,074	8,558	8,431

The financial data of subordinated entities is based on audited financial information available at the time of preparation of these statements excluding Handlowy Inwestycje Sp. z o.o., Handlowy-Investment S.A., Handlowy-Investment II S.a.r.l. and PPH Spomasz Sp. z o.o. under liquidation.

The explanation of indirect relationships:

1) Indirect relationship via Handlowy Investments S.A.

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY-INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	19.03	1,428	33,543	21,850	8,204	2,601	1,576

2) Indirect relationship via Handlowy Inwestycje Sp. z o.o

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY-LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	2.53	3,125	785,080	586,883	198,197	60,557	24,279

The financial data of these entities is based on audited financial information available at the time of preparation of these statements except for Handlowy Inwestycje Sp. z o.o., Handlowy-Investment S.A., Handlowy-Investment II S.a.r.l. and PPH Spomasz Sp. z o.o. under liquidation.

22. Loans and advances

Loans and advances (by category)

In thousands of PLN	31.12.2007	31.12.2006
Loans and advances to the financial sector:		
Current accounts of banks	424,820	785,539
Loans, placements and advances, including:	8,252,222	8,200,535
placements in banks	*7,394,904*	*7,769,877*
Purchased receivables	24,311	45,918
Realized guarantees	205	245
Receivables subject to securities sale and repurchase agreements	57,097	302,405
Other receivables	36,665	75,860
	8,795,320	9,410,502
Impairment write-offs	(76,488)	(91,230)
	8,718,832	**9,319,272**
Loans and advances to the non-financial sector:		
Loans and advances	12,392,630	10,669,613
Purchased receivables	282,773	234,666
Realized guarantees	45,472	50,720
Other receivables	1,131,442	783,424
	13,852,317	11,738,423
Impairment write-offs	(1,365,776)	(1,541,477)
	12,486,541	**10,196,946**
Loans and advances	**21,205,373**	**19,516,218**

Loans and advances – gross (by time to maturity)

In thousands of PLN	31.12.2007	31.12.2006
Loans and advances to the financial sector:		
up to 1 month	3,588,163	7,211,396
1 month - 3 months	2,304,351	163,632
3 months - 1 year	2,035,947	1,125,366
1 year - 5 years	808,983	793,509
over 5 years	57,876	116,599
	8,795,320	**9,410,502**
Loans and advances to the non-financial sector:		
up to 1 month	7,620,951	6,682,312
1 month - 3 months	733,892	764,519
3 months - 1 year	1,447,324	1,247,079
1 year - 5 years	3,703,021	2,910,678
over 5 years	347,129	133,835
	13,852,317	**11,738,423**
Loans and advances - gross	**22,647,637**	**21,148,925**

Finance lease receivables

The Group operates on the leasing market through its subordinated entity Handlowy-Leasing sp. z o.o., which was set up on 10 January 2006 as a result of the merger of the subordinated entity Citileasing sp. z o.o. and the entity Handlowy-Leasing S.A. The Group provides finance leases of vehicles, machines and equipment.

Included in loans and advances to the non-financial sector are the following amounts relating to finance lease obligations:

In thousands of PLN	31.12.2007	31.12.2006
Gross finance lease receivables	1,242,754	852,864
Unearned finance income	(117,332)	(70,931)
Net finance lease receivables	**1,125,422**	**781,933**
Gross finance lease receivables by time to maturity:		
Less then 1 year	440,294	318,361
between 1 and 5 years	792,606	534,503
over 5 years	9,854	-
	1,242,754	**852,864**
Net finance lease receivables by time to maturity:		
Less then 1 year	387,747	284,341
between 1 and 5 years	728,076	497,592
over 5 years	9,599	-
	1,125,422	**781,933**

As at 31 December 2007 impairment for unrecoverable finance lease receivables amounted to PLN 38,687 thousand (as at 31 December 2006 amounted PLN 54,725 thousand).

Finance lease income is presented in interest income.

23. Impairment of loans and advances

The movement in impairment of loans and advances is as follows:

In thousands of PLN	2007	2006
Balance as at 1 January	**1,632,707**	**1,846,200**
Related to:		
Receivables from banks	9,572	11,332
Receivables from other customers of financial and non-financial sector	1,623,135	1,834,868
Change in impairment write-downs	(190,443)	(213,493)
Charges	357,977	575,285
Write-offs	(191,340)	(175,483)
Amounts released	(418,212)	(629,284)
Other	61,132	15,989
Balance as at 31 December	**1,442,264**	**1,632,707**
Related to:		
Receivables from banks	1,886	9,572
Receivables from other customers of financial and non-financial sector	1,440,378	1,623,135

The closing balance of impairment recognized on loans and advances to customers consisted of:

In thousands of PLN	31.12.2007	31.12.2006
Portfolio impairment loss	385,638	413,670
Individual impairment loss	1,006,747	1,163,040
Incurred but not reported losses	49,879	55,997

24. Property and equipment

Land, buildings and equipment

In thousands of PLN	Land and buildings	Machines and equipment	Vehicles	Other	Under construction	Total
Gross value:						
Balance as at 1 January 2006	**739,406**	**601**	**63,702**	**668,804**	**4,800**	**1,477,313**
Additions:						
Purchases	636	99	727	19,078	34,688	55,228
Transfer from investment property	-	-	-	-	18,000	18,000
Other increases	-	-	-	2,179	-	2,179
Disposals:						
Disposals	-	(6)	(11,044)	(6,489)	-	(17,539)
Classified as "Non-current assets held-for-sale" (see Note 29)	(4,932)	-	-	-	-	(4,932)
Reclassification	15,968	-	10,233	7,402	(36,002)	(2,399)
Other decreases	(4,986)	-	(271)	(24,993)	-	(30,250)
Balance as at 31 December 2006	**746,092**	**694**	**63,347**	**665,981**	**21,486**	**1,497,600**
Balance as at 1 January 2007	**746,092**	**694**	**63,347**	**665,981**	**21,486**	**1,497,600**
Additions:						
Purchases	1,556	237	456	27,399	46,431	76,079
Other increases	-	-	-	7,135	-	7,135
Disposals:						
Disposals	(179)	-	(14,212)	(3,859)	-	(18,250)
Classified as investment property	(12,404)	-	-	(60)	(18,144)	(30,608)
Other decreases	(5,995)	(4)	(151)	(107,019)	-	(113 169)
Reclassification	13,643	-	19,344	7,952	(43,374)	(2,435)
Balance as at 31 December 2007	**742,713**	**927**	**68,784**	**597,529**	**6,399**	**1,416,352**
Depreciation and amortization						
Balance as at 1 January 2006	**218,640**	**479**	**25,458**	**571,781**	**-**	**816,358**
Increases:						
Depreciation charge for the period	37,832	114	12,131	46,095	-	96,172
Other increases	-	-	-	1,346	-	1,346
Decreases:						
Disposals	-	(2)	(9,977)	(6,591)	-	(16,570)
Classified as "Non-current assets held-for-sale" (see Note 29)	(752)	-	-	-	-	(752)
Other decreases	(3,462)	-	(97)	(24,255)		(27,814)
Balance as at 31 December 2006	**252,258**	**591**	**27,515**	**588,376**	**-**	**868,740**
Balance as at 1 January 2007	**252,258**	**591**	**27,515**	**588,376**	**-**	**868,740**
Increases:						
Depreciation charge for the period	31,904	192	12,949	42,902	-	87,947
Other increases	-	-	-	3,553	-	3,553
Decreases:						
Disposals	(179)	-	(11,572)	(3,837)	-	(15,588)
Classified as investment property	(4,005)	-	-	(11)	-	(4,016)
Other decreases	(5,404)	(3)	(60)	(106,586)	-	(112,053)
Balance at 31 December 2007	**274,574**	**780**	**28,832**	**524,397**	**-**	**828,583**

In thousands of PLN	Land and buildings	Machines and equipment	Vehicles	Other	Under construction	Total
Impairment losses						
Balance at 1 January 2006	**1,453**	**-**	**-**	**238**	**-**	**1,691**
Increases						
Decreases	(1,453)	-	-	(238)	-	(1,691)
Balance at 31 December 2006	**-**	**-**	**-**	**-**	**-**	**-**
Carrying amounts						
As at 1 January 2006	519,313	122	38,244	96,785	4,800	659,264
As at 31 December 2006	493,834	103	35,832	77,605	21,486	628,860
As at 1 January 2007	493,834	103	35,832	77,605	21,486	628,860
As at 31 December 2007	468,139	147	39,952	73,132	6,399	587,769

Investment properties

In thousands of PLN	2007	2006
Balance as at 1 January	**9,386**	**40,948**
Increases:		
Reclassified from Bank's properties	26,592	-
Revaluation	-	711
Decreases:		
Disposals	(920)	(14,273)
Classified as Bank's properties	-	(18,000)
Classify as tangible assets held for sale	(8,466)	-
Revaluation	(1,564)	-
Balance as at 31 December	**25,028**	**9,386**

25. Intangible assets

In thousands of PLN	Goodwill	Patents and trademarks	Software	Other intangible assets	Prepay-ments	Total
Gross value:						
Balance as at 1 January 2006	**1,245,976**	**1,650**	**218,587**	**18,961**	**2,100**	**1,487 274**
Additions:						
Purchases	-	1	7,250	127	1,976	9,354
Decreases:						
Reclassification	-	-	770	-	(4,033)	(3,263)
Balance as at 31 December 2006	**1,245,976**	**1,651**	**226,607**	**19,088**	**43**	**1,493,365**
Balance as at 1 January 2007	**1,245,976**	**1,651**	**226,607**	**19,088**	**43**	**1,493 365**
Additions:						
Purchases	-	-	8,730	-	10,545	19,275
Decreases:						
Reclassification	-	-	5,468	-	(5,530)	(62)
Balance as at 31 December 2007	**1,245 976**	**1,651**	**240,805**	**19,088**	**5,058**	**1,512,578**
Depreciation and amortization:						
Balance as at 1 January 2006	**-**	**1,519**	**166,539**	**5,417**	**-**	**173,475**
Increases:						
Depreciation charge for the period	-	120	27,207	6,815	-	34,142
Decreases:						
Disposals	-	-	(5)	-	-	(5)
Balance as at 31 December 2006	**-**	**1,639**	**193,741**	**12,232**	**-**	**207,612**
Balance as at 1 January 2007	**-**	**1,639**	**193,741**	**12,232**	**-**	**207,612**
Increases:						
Depreciation charge for the period	-	-	18,126	2,762	-	20,888
Balance as at 31 December 2007	**-**	**1,639**	**211,867**	**14,994**	**-**	**228,500**
Carrying amounts						
As at 1 January 2006	1,245,976	131	52,048	13,544	2,100	1,313,799
As at 31 December 2006	1,245,976	12	32,866	6,856	43	1,285,753
As at 1 January 2007	1,245,976	12	32,866	6,856	43	1,285,753
As at 31 December 2007	1,245,976	12	28,938	4,094	5,058	1,284,078

As at 31 December 2007, goodwill includes the amount of PLN 1,243,645 thousand arising from the merger of Bank Handlowy w Warszawie SA and Citibank (Poland) S.A. on 28 February 2001 and the amount of PLN 2,331 thousand as a result of the purchase of an organized part of an enterprise from ABN AMRO Bank (Poland) S.A. on 1 March 2005.

26. Impairment test for goodwill

For the purpose of carrying out impairment tests, goodwill has been allocated to two cash generating units: Corporate Bank and Consumer Bank. For both units the allocated goodwill is significant in comparison to the total book value of goodwill.
The allocation of goodwill to cash generating units is presented in the table below.

Book value of goodwill allocated to unit:

In thousands of PLN	
Corporate Bank	851,944
Consumer Bank	394,032
	1,245,976

The basis of valuation of the recoverable amount is the value in use, assessed on the basis of a five-year financial plan approved by the Supervisory Board in 2004. The plan is based on assumptions about future facts that reflect the future economic conditions and expected results of the Bank. The plan is periodically updated.

The discount rate, which is equivalent to the required rate of return, has been used in the valuation. The required rate of return is assessed on the basis of the capital assets pricing model using a beta coefficient for the banking sector, return on WIG index and Treasury bond yield curves. In 2007 the discount rate amounted to 14.0% (in 2005: 11.6%)

Extrapolation of cash flows, which exceed the five-year period covered by the financial plan, has been based on growth rates reflecting the long-term NBP inflation target that amounted to 2.5 pp as at 31 December 2007.

The applied growth rates do not exceed the long-term average growth rates appropriate to the corporate and retail banking sector in Poland.

The Bank's Management Board believes that reasonable and possible changes in the key assumptions adopted in the valuation of the recoverable amounts of cash - generating units, would not cause their book value to exceed their recoverable amount.

27. Income tax assets and liabilities

In thousands of PLN	31.12.2007	31.12.2006
Income tax assets*		
Current tax	770	25,080
Deferred tax	373,698	249,044
	374,468	**274,124**
Income tax liabilities*		
Current tax	**101,889**	**5,687**

** Deferred income tax assets and liabilities are presented net in the balance sheet.*

Positive and negative taxable and deductible temporary differences are presented below:

Deferred tax assets are attributable to the following:

In thousands of PLN	31.12.2007	31.12.2006
Interest accrued and other expense	15,341	17,240
Loan loss provisions	92,755	107,515
Subordinated loans provisions	-	547
Unrealized premium	12,389	7,346
Unrealized financial instruments valuation expenses	533,044	637,714
Negative valuation of securities	4,215	683
Income collected in advance	17,707	27,055
Valuation of shares	5,986	68
Commissions	5,333	5,666
Debt securities available-for-sale	42,797	19,118
Unrealized cost related to asymmetric transaction	156,767	74,258
Staff expenses and other cost due to pay	61,838	53,707
Differences between balance sheet and tax value of leases	10,777	-
Other	19,988	21,924
Deferred tax assets	**978,937**	**972,841**

Deferred tax liabilities are attributable to the following:

In thousands of PLN	31.12.2007	31.12.2006
Accrued interest income	71,652	63,810
Unrealized premium from options	475	133
Unrealized financial instruments valuation income	482,766	618,827
Unrealized securities discount	319	910
Incomes to receive	8,406	6,124
Positive valuation of securities	3,719	428
Investment relief	21,706	22,377
Valuations of shares	1,215	667
Differences between balance sheet and tax value of leases	-	303
Other	14,981	10,218
Deferred tax provisions	**605,239**	**723,797**

Movement in temporary differences during the year

In thousands of PLN	Balance as at 1 January 2006	Adjustments recognized in income	Adjustments recognized in quity	Balance as at 31 December 2006
Interest accrued and other expense	14,087	3,153	-	17,240
Loan loss provisions	150,923	(43,408)	-	107,515
Subordinated loans provisions	17,267	(16,720)	-	547
Unrealized premium	5,007	2,339	-	7,346
Unrealized financial instruments valuation expense	652,534	(14,820)	-	637,714
Negative valuation of securities	351	332	-	683
Income collected in advance	21,467	5,588	-	27,055
Valuation of shares	815	(747)	-	68
Commission	8,172	(2,506)	-	5,666
Debt securities available-for-sale	15,142	-	3,976	19,118
Unrealized cost related to asymmetric transaction	114,418	(40,160)	-	74,258
Staff expenses and other cost due to pay	46,971	6,736	-	53,707
Differences between balance sheet and tax value of leases	2,610	(2,610)	-	-
Other	20,276	1,648	-	21,924
	1,070,040	**(101,175)**	**3,976**	**972,841**

In thousands of PLN	Balance as at 1 January 2006	Adjustments recognized in income	Balance as at 31 December 2006
Interest accrued (income)	68,244	(4,434)	63,810
Unrealized premium from options	381	(248)	133
Unrealized financial instruments valuation income	672,976	(54,149)	618,827
Unrealized securities discount	380	530	910
Incomes to receive	3,541	2,583	6,124
Positive valuation of securities	465	(37)	428
Investment relief	23,054	(677)	22,377
Valuation of shares	738	(71)	667
Differences between balance sheet and tax value of leases	2,148	(1,845)	303
Other	17,566	(7,348)	10,218
	789,493	**(65,696)**	**723,797**

In thousands of PLN	Balance as at 1 January 2007	Adjustments recognized in income	Adjustments recognized in equity	Balance as at 31 December 2007
Interest accrued and other expense	17,240	(1,899)	-	15,341
Loan loss provisions	107,515	(14,760)	-	92,755
Subordinated loans provisions	547	(547)	-	-
Unrealized premium	7,346	5,043	-	12,389
Unrealized financial instruments valuation expenses	637,714	(104,670)	-	533,044
Negative valuation of securities	683	3,532	-	4,215
Income collected in advance	27,055	(9,348)	-	17,707
Valuation of shares	68	5,918	-	5,986
Commissions	5,666	(333)	-	5,333
Debt securities available-for-sale	19,118	-	23,679	42,797
Unrealized cost related to asymmetric transaction	74,258	82,509	-	156,767
Staff expenses and other cost due to pay	53,707	8,131	-	61,838
Differences between balance sheet and tax value of leases	-	10,777	-	10,777
Other	21,924	(1,936)	-	19,988
	972,841	**(17,583)**	**23,679**	**978,937**

In thousands of PLN	Balance as at 1 January 2007	Adjustments recognized in income	Balance as at 31 December 2007
Interest accrued (income)	63,810	7,842	71,652
Unrealized premium from options	133	342	475
Unrealized financial instruments valuation income	618,827	(136,061)	482,766
Unrealized securities discount	910	(591)	319
Incomes to receive	6,124	2,282	8,406
Posittive valuation of securities	428	3,291	3,719
Investment relief	22,377	(671)	21,706
Valuation of shares	667	548	1,215
Differences between balance sheet and tax value of leases	303	(303)	-
Other	10,218	4,763	14,981
	723,797	**(118,558)**	**605,239**

28. Other assets

In thousands of PLN	31.12.2007	31.12.2006
Interbank settlements	23,321	20,259
Settlements related to brokerage activity	185,379	564,624
Accounts receivable	60,417	58,932
Staff loans out of the Social Fund	29,878	33,094
Sundry debtors	98,376	78,145
Prepayments	16,078	46,693
Other assets	28	173
	413,477	**801,920**

29. Non-current assets held-for-sale

In thousands of PLN	31.12.2007	31.12.2006
Holiday resorts	-	8,360
Own property	12,645	4,179
Non-current assets held-for-sale	**12,645**	**12,539**

Non-current assets held-for-sale is as follows:

In thousands of PLN	2007	2006
Balance as at 1 January	**12,539**	**30,385**
Decreases:		
Reclassify from non-current assets	-	4,179
Retrain from investment properties	8,466	-
Disposals:		
Cash receipts from the sale of associated entities shares	-	(8,056)
Cash receipts from the sale of subordinated entities shares	-	(4,103)
Cash receipts from the sale of organized part of an enterprise	-	(5,486)
Cash receipts from the sale of holiday resorts	(8,360)	(4,380)
Balance as at 31 December	**12,645**	**12,539**

As at 31 December 2007 non-current assets held-for-sale include two Group's own property, that fulfils the requirements of IFRS 5 and therefore was reclassified to this group from fixed tangible assets.

The explanation of changes in other assets (group of assets) in 2006 and in 2007, classified in above-mentioned periods to "Non-current assets held-for-sale", has been presented below:

- Shares in the associated entity Handlowy Heller S.A. which was sold on 2 February 2006;
- Assets and related liabilities of Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A. („TFI") and Handlowy Zarządzanie Aktywami S.A. („HANZA") which were sold on 1 February 2006;
- Organized part of the Bank's enterprise that consists of card's transactions settlements within the Consumer Banking Sector. The Bank rents POS terminals and provides service as a settlement agent in accordance with Electronic Payment Instruments Act of 12 September 2002. The sale was completed on 31 January 2006 in aid of Cardpoint SA, with its headquarters in Poznań;
- Holiday resorts located in Dźwirzyno, Rowy, Skubianka, Łeba and Wisła. In 2006 the resorts in Dźwirzyno, Skubianka and Łeba were sold. Resort in Rowy and Wisła were sold in the first half of 2007.

30. Financial liabilities valued at amortized cost

Financial liabilities valued at amortized cost (by category)

In thousands of PLN	31.12.2007	31.12.2006
Deposits from financial sector:		
Current accounts, including:	2,434,363	1,334,998
current accounts of banks	*2,190,764*	*1,197,581*
Deposits, including:	4,609,805	4,777,734
term deposits of banks	*1,705,572*	*2,462,685*
Accrued interest	40,874	43,873
	7,085,042	**6,156,605**
Deposits from non-financial sector:		
Current accounts, including:	8,050,347	5,770,674
corporate customers	*3,939,403*	*3,509,698*
individual customers	*3,498,981*	*1,737,527*
Deposits, including:	11,748,246	13,089,778
corporate customers	*9,213,611*	*9,624,446*
individual customers	*1,695,854*	*2,494,529*
Accrued interest	12,776	19,725
	19,811,369	**18,880,177**
Deposits	**26,896,411**	**25,036,782**
Other liabilities:		
Loans and advances received	795,544	421,015
Liabilities in respect of securities subject to sale and repurchase agreements	69,155	223,329
Other liabilities, including:	234,808	306,202
cash collateral	*140,592*	*238,030*
Accrued interest	4,085	3,808
	1,103,592	**954,354**
Total	**28,000,003**	**25,991,136**

Financial liabilities valued at amortized cost (by time to maturity):

In thousands of PLN	31.12.2007	31.12.2006
Financial sector:		
up to 1 month	6,160,360	3,780,818
1 month - 3 months	844,938	1,160,183
3 months - 1 year	234,150	1,202,016
1 year - 5 years	618,299	402,308
over 5 years	29	3,949
Accrued interest	42,938	46,097
	7,900,714	**6,595,371**
Non-financial sector:		
up to 1 month	19,120,245	17,920,811
1 month - 3 months	591,858	887,357
3 months - 1 year	294,842	505,005
1 year - 5 years	77,378	60,826
over 5 years	169	457
Accrued interest	14,797	21,309
	20,099,289	**19,395,765**
	28,000,003	**25,991,136**

31. Provisions

In thousands of PLN	31.12.2007	31.12.2006
For disputes	23,974	20,120
For off-balance sheet commitments	13,574	24,258
	37,548	**44,378**

The movement in provisions is as follows:

In thousands of PLN	2007	2006
Balance as at 1 January	**44,378**	**56,251**
Provisions for:		
Disputes	20,120	19,673
Off-balance sheet commitments	24,258	36,578
Decreases:		
Releases of provisions in the period, including:	74,306	87,764
Disputes	14,500	7,556
Off-balance sheet commitments	59,806	80,208
Disposals:		
Use of provisions	-	(630)
Release of provisions:	(81,136)	(99,007)
for disputies	(10,646)	(6,479)
for off-balance sheet liabilities	(70,490)	(92,528)
Balance as at 31 December	**37,548**	**44,378**

32. Other liabilities

In thousands of PLN	31.12.2007	31.12.2006
Staff benefits	65,409	63,496
Interbank settlements	60,531	86,522
Interbranch settlements	4,344	598
Settlements related to brokerage activity	187,603	293,608
Settlements with Tax Office and National Insurance (ZUS)	8,342	8,963
Sundry creditors	82,252	119,911
Accruals	340,063	287,129
Provision for employee payments	*134,926*	*155,521*
Provision for employees retirement and jubilee payments	*63,176*	*54,543*
Other	*141,961*	*77,065*
Deferred income	43,770	104,544
	792,314	**964,771**

33. Capital and reserves

Share capital

Issued share capital

Series/ issue	Type of shares	Type of preference	Type of limitation	Number of shares	Par value of series/issue	Method of issue payment	Date of registration	Eligibility for dividends (from date)
A	bearer	none	none	65,000,000	260,000	paid in	27.03.97	01.01.97
B	bearer	none	none	1,120,000	4,480	paid in	27.10.98	01.01.97
B	bearer	none	none	1,557,500	6,230	paid in	25.06.99	01.01.97
B	bearer	none	none	2,240,000	8,960	paid in	16.11.99	01.01.97
B	bearer	none	none	17,648,500	70,594	paid in	24.05.02	01.01.97
B	bearer	none	none	5,434,000	21,736	paid in	16.06.03	01.01.97
C	bearer	none	none	37,659,600	150,638	transfer	28.02.01	01.01.00
Total				**130,659,600**	**522,638**			

Par value of 1 share = PLN 4.00

As at 31 December 2007, the Bank's share capital amounted to PLN 522,638,400 divided into 130,659,600 common bearer shares nominal value of PLN 4 each, which has not changed since 31 December 2006.

The Bank has not issued preference shares.

Principal shareholders

As at 31 December 2007 the list of shareholders who held at least 5% of the total number of votes in the General Assembly or at least 5% of the Bank's share capital is as follows:

	Value of stocks	Number of stocks	% stocks	Number of votes at GA	% votes at GA
Citibank Overseas Investment Corporation, USA	391,979	97,994,700	75.0	97,994,700	75.0
Other shareholders	130,659	32,664,900	25.0	32,664,900	25.0
	522,638	**130,659,600**	**100.0**	**130,659,600**	**100.0**

In 2007 the structure of major shareholdings has not changed.

According to information held by the Bank, International Finance Associates (IFA), subordinated entity of Citibank Overseas Investment Corporation, does not already own any of the Bank's shares as at 31 December 2007. The process of exchange Citibank N.A. Senior Exchangeable Notes (Bonds), issued in 2004, for the Bank's shares held by IFA, which started in February 2006, was completed. At the end of 2006 IFA held 1,903 Bank's shares, what represented 0.001% of the Bank's issued capital and 0.001% of the total number of votes on the General Meeting of the Bank.

Supplementary capital

Supplementary capital is designated for offsetting the Bank's balance sheet losses or for other purposes, including payment of dividends to the shareholders. The General Shareholders' Meeting decides upon the utilization of supplementary capital, but a portion of its balance, amounting to one third of total share capital may be used exclusively for offsetting losses shown in the financial statements.

The supplementary capital amount comprises PLN 2,485,534 thousand constituting the excess of the fair value of the issued shares over their nominal value in connection with the business combination between the Bank and Citibank (Poland) S.A., which took place on 28 February 2001.

Revaluation reserve

In thousands of PLN	31.12.2007	31.12.2006
Revaluation of financial assets available-for-sale	**(182,450)**	**(81,501)**

The revaluation reserve is not distributed. Changes in the fair value related to the revaluation reserve are reversed as of the day of exclusion of all or part of financial assets available-for-sale and retained earnings that were previously presented in issued capital are now presented in the profit and loss account.

Other reserves

In thousands of PLN	31.12.2007	31.12.2006
Reserve capital	1,066,053	1,015,567
General risk reserve	390,000	390,000
Foreign currency translation adjustment	(1,698)	1,514
	1,454,355	**1,407,081**

Reserve capital

Reserve capital is created from the distribution of profits or from other sources, independently of the supplementary capital.

Reserve capital is designated for offsetting the Group's balance sheet losses or for other purposes, including payment of dividends to the shareholders. The General Shareholders' Meeting makes decisions on utilization of the reserve capital.

General risk fund

The general risk fund is recorded out of net profit, against unidentified risk arising from banking activities.

Dividends

Dividends paid in 2007

In accordance with Resolution No. 18 of the Ordinary General Meeting of the Bank of 21 June 2007 the profit for 2006 was allocated, a resolution for the payment of dividends was adopted, the dividend date and the date of dividend payment were determined. The Bank proposed to pay out PLN 535,704,360.00 as dividend (in 2006 dividend was paid out from 2005 profit: PLN 470,374,560.00). This means that the dividend per one ordinary share amounts to PLN 4.10 (in 2006 appropriately: PLN 3.60).

The date of determination of the right to the dividend was designated as 5 July 2007. The date of dividend payment was 31 August 2007.

As at 31 December 2007 Bank did not has any liabilities on dividend designated to pay.

Dividends declared

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

34. Repurchase and reverse repurchase agreements

The Group raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate.

Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates.

As at 31 December 2007 assets sold under repurchase agreements were as follows:

In thousands of PLN	Fair value of underlying assets	Carrying amount of corresponding liabilities*	Repurchase dates	Repurchase price
Trading instruments				
Debt securities	69,304	69,173	To 1 week	69,275

* *including interest*

As at 31 December 2006 assets sold under repurchase agreements were as follows:

In thousands of PLN	Fair value of underlying assets	Carrying amount of corresponding liabilities*	Repurchase dates	Repurchase price
Trading instruments				
Debt securities	223,574	223,420	To 1 month	223,472

* *including interest*

In repo transactions, all gains and losses on the assets held are on the Group's side.

As at 31 December 2007 and 31 December 2006, of all assets sold through repo, cannot be traded further.

In 2007 the total interest expenses on repurchase agreements was PLN 3,444 thousand (in 2006: PLN 2,621 thousand).

The Group also purchases financial instruments under agreements to resell them at future dates ("reverse repurchase agreements"). At the same time the seller commits to repurchase the same or similar instruments at an agreed future date. Reverse repurchase agreements are entered into as a facility to provide funds by customers.

As at 31 December 2007 assets purchased under resell agreements were as follows:

In thousands of PLN	Fair value of underlying assets	Carrying amount of corresponding liabilities*	Repurchase dates	Repurchase price
Loans and other receivables				
from financial sector:	57,097	57,067	To 1 week	57,141

* *including interest*

As at 31 December 2006 assets purchased under resell agreements were as follows:

In thousands of PLN	Fair value of underlying assets	Carrying amount of corresponding liabilities*	Repurchase dates	Repurchase price
Loans and other receivables				
from financial sector:	302,405	302,180	To 1 week	302,503

* *including interest*

As at 31 December 2007 and 31 December 2006, the Group held the option to pledge or sell the assets acquired through reverse repo.

In 2007 total interest incomes on repurchase agreement was PLN 48 thousand (in 2006: PLN 94 thousand).

35. Fair value information

Fair value of financial assets and liabilities

Fair value is an amount for which an asset could be exchanged or a liability could be discharged in a transaction between well-informed and willing parties other than a force sale or liquidation – the market price (if available) is its best equivalent.

The summary below provides balance sheet (by categories) and fair value information for each asset and financial liability group.

As at 31 December 2007

In thousands of PLN	Note	Held for trading	Credit, loans and other receivables	Available for sale	Other financial assets/liabilities	Total balance value	Fair value
Assets							
Cash and balances with central bank	17	-	-	-	3,321,503	3,321,503	3,321,503
Financial assets held for trading	18	5,135,708	-	-	-	5,135,708	5,135,708
Debt securities available for sale	19	-	-	6,467,638	-	6,467,638	6,467,638
Capital investment valued at equity method	20	-	-	58,388	-	58,388	58,388
Other capital investment	21	-	-	21,909	-	21,909	21,909
Credit, loans and other receivables	22	-	21,205,373	-	-	21,205,373	21,168,353
		5,135,708	**21,205,373**	**6,547,935**	**3,321,503**	**36,210,519**	**36,173,499**
Liabilities							
Financial liabilities held for trading	18	4,373,146	-	-	-	4,373,146	4,373,146
Financial liabilities valued at amortized cost	30	-	-	-	28,000,003	28,000,003	28,009,758
		4,373,146	**-**	**-**	**28,000,003**	**32,373,149**	**32,382,904**

As at 31 December 2006

In thousands of PLN	Note	Held for trading	Credit, loans and other receivables	Available for sale	Other financial liabilities	Total balance value	Fair value
Assets							
Cash and balances with central bank	17	-	-	-	535,623	535,623	535,623
Financial assets held for trading	18	4,556,471	-	-	-	4,556,471	4,556,471
Debt securities available for sale	19	-	-	8,247,313	-	8,247,313	8,247,313
Capital investment valued at equity method	20	-	-	67,910	-	67,910	67,910
Other capital investment	21	-	-	54,618	-	54,618	54,618
Credit, loans and other receivables	22	-	19,516,218	-	-	19,516,218	19,510,135
		4,556,471	**19,516,218**	**8,369,841**	**535,623**	**32,978,153**	**32,972,070**
Liabilities							
Due to central bank		-	-	-	250,113	250,113	250,113
Financial liabilities held for trading	18	3,316,847	-	-	-	3,316,847	3,316,847
Financial liabilities valued at amortized cost	30	-	-	-	25,991,136	25,991,136	26,000,128
		3,316,847	**-**	**-**	**26,241,249**	**29,558,096**	**29,567,088**

Fair Value Definition

In the case of short-term financial assets and liabilities, it is assumed that their balance sheet value is practically equal to their fair value. In the case of other instruments, the following methods and assumptions have been adopted:

Equity Investments

Equity investments accounted for under the equity method: In the case of shares in subsidiaries and associated entities that are fixed assets available-for-sale the fair value is based on the binding sale offer. The fair value of shares in subsidiaries that are not consolidated is presented as the percentage of net assets of an entity that is attributable to the Group's shares in a given entity. Management believes that this is the best available approximation of fair value of such instruments.

Other equity investments: For listed minority shares market value is applied. For unlisted minority shares the Group is not able to estimate a reasonable fair value, therefore the fair value amount includes purchase price adjusted by revaluation write-offs connected with diminution in value.

Strategically, the Group has planned a phased-out reduction of the capital exposures presented in this report, save for the strategic exposures to certain selected infrastructure entities providing services to the financial sector. The individual equity stakes will be sold at the time of the best market opportunity.

In 2007 from among equity investments that the fair value was not able to estimate, the Group has sold minority shares of Fabryka Maszyn i Urządzeń S.A. ("FAMAK"). The balance value of sold shares amounted PLN 0 and profit on sale amounted PLN 71 thousand. In 2006 from among equity investments that the fair value was not able to estimate, the Group has sold minority shares of Eastbridge B.V./S.a.r.l. ("EB"). The balance value of sold shares amounted PLN 35,812 thousand and profit on sale amounted PLN 57,938 thousand.

Loans and advances:

In the balance sheet loans are valued at amortized cost less impairment. The fair value of fixed interest rate loans is calculated as the discounted value of expected future principal payments and takes into account fluctuations in market interest rates on the balance sheet date. It is assumed that loans will be paid back on their contractual date. In the case of loans for which repayment dates are not fixed (e.g. overdrafts), fair value is the repayment that would be required if the amount were due on the balance sheet date. Expected future cash flows connected with homogenous loan categories, particularly credits for individuals, are assessed on the basis of the loan portfolio and discounted using the current interest rate.

For overnight placements, fair value is equal to their balance sheet value. For fixed interest rate placements, fair value is assessed on the basis of discounted cash flows using current money market interest rates for receivables with similar credit risk, time to maturity, and currency.

Financial liabilities valued at amortized cost:

In the case of demand deposits, as well as deposits without any pre determined maturity date, fair value is an amount that would be paid out if demanded on the balance sheet date. The fair value of fixed maturity deposits is estimated on the basis of cash flows discounted with current interest rates. The role of long-term relationships with depositing parties is not taken into account in the course of the fair value valuation process adopted for such instruments.

In 2007 and in 2006, the Group did not re-qualify its financial assets from or to the individual categories (whether carried at fair value, at cost or at depreciated cost).

36. Contingent liabilities

Information on pending proceedings

As at 31 December 2007, no proceedings relating to the liabilities or receivables of the Bank or its subsidiaries, the value of which would correspond to at least 10% of the Group's shareholders' equity, were pending before any court, administrative authority or an arbitration court.
The total value of all pending court proceedings involving the Bank or its subsidiaries and related to their receivables exceeded 10% of the Group's shareholders' equity and amounted to PLN 1,093,282 thousand.

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

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

The Group in accordance with law makes provisions for contingent liabilities. Impairment related to these provisions is also made.

As at 31 December 2007, no proceedings relating to the liabilities or receivables of the Bank or its subsidiaries, the value of which would correspond to at least 10% of the Bank's shareholders' equity, were pending before any court, administrative authority or an arbitration court.

In 2007 the total value of all court proceedings with the participation of the Bank has decreased significantly below 10% of the Bank's equity and equaled PLN 146,422 million. In this time a few court proceedings has finished, including one court proceeding on substantial amount, which legislation value amounted PLN 387,400 thousand. The plaintiff claims for the compensation. The petitioner claimed that the Bank had violated copyright law by applying a strategy in a marketing campaign, to which the claimant was entitled. The court disallowed the compliant.

The Group records provisions when there is a probability that there will be an outflow of cash.

Off-balance sheet commitments

The amount of off-balance sheet commitments granted, by individual off-balance sheet categories, is as follows:

In thousands of PLN	31.12.2007	31.12.2006
Off-balance sheet commitments granted		
Letters of credit	159,804	195,566
Guarantees granted	2,158,948	2,779,418
Credit lines granted	10,874,042	9,177,576
Deposits to be issued	-	24,860
Issue guarantees	172,000	217,000
	13,364,794	**12,394,420**

In thousands of PLN	31.12.2007	31.12.2006
Letters of credit by categories		
Import letters of credit issued	146,673	155,296
Export letters of credit confirmed	13,131	40,270
	159,804	**195,566**

As at 31 December 2007 and 31 December 2006 the Group did not have any contingent liabilities granted to subordinated entities.

The Group makes specific provisions for off-balance sheet commitments. As at 31 December 2007, the specific provisions created for off balance sheet commitments amounted to PLN 13,574 thousand, including off-balance sheet commitments for subordinates – PLN 0 (31 December 2006: PLN 27,684 thousand, including off-balance sheet commitments for subordinates – PLN 3,426).

Guarantees issued include credit principal repayment guarantees, other repayment guarantees, advance repayment guarantees, performance guarantees, tender guarantees, and bills of exchange.

In thousands of PLN	31.12.2007	31.12.2006
Contingent liabilities received		
Finance	50,000	-
Guarantees	2,573,703	2,019,070
	2,623,703	**2,019,070**

37. Assets pledged as collateral

Assets have been pledged as security in respect of the following liabilities:

In thousands of PLN	31.12.2007	31.12.2006
Liabilities		
Financial liabilities valued at amortized cost:		
Liabilities in respect of securities subject to sale and repurchase agreements	69,173	223,420

Details of the carrying amounts of assets pledged as collateral are as follows:

In thousands of PLN	31.12.2007	31.12.2006
Assets pledged:		
Debt securities held for trading	69,304	223,574
Debt securities available-for-sale	66,252	39,559
Loan and advantages		
From financial sector	30,743	53,392
Other assets		
Settlements related to operations on derivative instruments	-	21,847
	166,299	**338,372**

As at 31 December 2007 and 31 December 2006, the debt securities available for sale presented in the table constituted a reserve against the funds guaranteed to the Bank Guarantee Fund. The information on the assets securing repo liabilities of the Group has been discussed in Note 34. Other assets disclosed above secure settlement of their respective transactions, including derivatives transactions. The terms and rules of the transactions executed to date are standard and typical for such dealings.

38. Trust activities

Bank is the leader on the market of custodian banks in Poland. It offers both custody services connected with securities accounts for foreign institutional investors and depositary services for Polish financial institutions, including pension, investment and equity insurance funds. As at 31 December 2007 the Bank maintained 11,690 securities accounts (31 December 2006: 10,312 accounts).

39. Operating leases

Leases where the Group is the lessee

Non-cancelable operating lease rentals are payable as follows (by time to maturity)

In thousands of PLN	31.12.2007	31.12.2006
Less than 1 year	43,737	41,153
Between 1 and 5 years	102,747	85,071
More than 5 years	35,815	4,696
	182,299	**130,920**
Total operating leasing rentals for unprescribed time	**1,516**	**1,272**

The Group uses office space under operating lease contracts. The most significant lease contracts relate to office space situated in Warsaw at Wolska 171/175 and Chałubińskiego 8. Generally the contracts have been signed for 5 years and there is an ability to extend them over the next three years. Some contracts have been signed for an unspecified period of time. Lease payments are under one year indexation. In 2007 the total amount of lease payments was PLN 40,933 thousand (in 2006: PLN 37,378 thousand).

These payments are presented in the income statement in "General expenses".

Leases where the Group is the lessor

Non-cancelable operating lease rentals are payable as follows (by time to maturity)

In thousands of PLN	31.12.2007	31.12.2006
Less than 1 year	4,024	1,894
Between 1 and 5 years	7,348	4,973
More than 5 years	1,419	1,690
	12,791	**8,557**
Total operating leasing rentals for unprescribed time	**2,717**	**1,858**

Part of the Group's office space is leased. Most of the agreements are signed for an unspecified period of time. Other agreements are signed for a period of between 2 and 10 years. Lease payments are under one year indexation. In 2007 the income related to these contracts amounted to PLN 9,983 thousand (in 2006: PLN 2,832 thousand).
The Bank leases cars under contracts with subordinate entities. Agreements are signed for two years or for an unspecified period of time. Lease payments are determined at a fixed interest rate for the entire lease period. The total amount of lease payments in 2007 amounted to PLN 113 thousand (in 2006: PLN 76 thousand).

These payments are presented in the income statement in "Other operating income".

40. Cash flow statement

In thousands of PLN	31.12.2007	31.12.2006
Cash related items		
Cash at hand	395,549	366,211
Nostro current account in Central Bank	2,925,954	169,412
Current accounts in other banks	424,820	785,539
	3,746,323	**1,321,162**

41. Related parties

Transactions with related parties

Within its normal course of business activities the Group enters into transactions with related entities, in particular with entities of Citigroup Inc., subsidiaries and associates (see Note No. 20) and members of the Bank's supervisory board, management and employees.

The transactions with related entities mainly include loans, deposits, guarantees and derivatives transactions. All transactions are valued at market price.

Transactions with Citigroup Inc. entities

The balance sheet and off-balance sheet receivables and commitments towards Citigroup Inc. companies:

In thousands of PLN	31.12.2007	31.12.2006
Receivables, including:	3,391,324	1,192,309
Placements	3,367,120	1,155,110
Liabilities, including:	1,786,620	1,626,522
Deposits	1,786,506	1,602,682
Loans received	114	-
Balance valuation of derivative transactions		
Trading available-for-sale	2,418,523	2,118,399
Trading available-for-sale	3,052,520	2,457,095
Off-balance sheet guarantee liabilities granted	67,318	118,536
Off-balance sheet guarantee liabilities received	227,389	156,433
Interest and commission income in 2007/2006	98,371	85,355
Interest and commission expense in 2007/2006	68,982	19,838

Furthermore the Group incurs costs and receives income of an operational nature from agreements concluded between Citigroup Inc. entities and the Group for the provision of mutual services.
The costs arising and accrued in 2007 from concluded agreements amounted in total to PLN 139,212 thousand (in 2006: PLN 138,209 thousand) and related in particular to the costs arising from the provision of services related to the maintenance of the Group's information systems and advisory support for the Group; income of PLN 58,998 thousand (in 2006: 82,024 thousand) arose from the provision of data processing and other services by the Group.

In 2007 the Bank has concluded with Citigroup Inc. entities new agreements related to mutual services and agreements that constitute continuation of previously concluded agreements.

From among new concluded agreements, the most important is concluded on 19 April 2007 contract between the Bank and Citibank N.A., the only shareholder of Citibank Overseas Investment Corporation, the parent of the Bank and related to conditions of mutual services, which are as fallows:

- Citibank N.A. provides, in favour of Bank, services related to use by Bank or its customers an IT for service of Bank activity;
- Net payment for services for 2005, including provisions for licenses, amounted USD 607,387,69;
- Contract has been signed for an unspecified period of time, with the possibility to terminate it at any time in mutual consent or by any participant with a 6-month period of notice.

Transactions with subordinated entities

In thousands of PLN	31.12.2007	31.12.2006
Loans, advances and other receivables:		
Current accounts (in respect of):	228,214	288,122
consolidated subordinated undertakings	*228,214*	*288,122*
subordinated undertakings accounted under for the equity method	-	-
Loans granted (in respect of):	-	47,866
consolidated subordinated undertakings	-	47,866
subordinated undertakings accounted under for the equity method	-	-
Subordinated loans (in respect of):	-	16,168
consolidated subordinated undertakings	-	-
subordinated undertakings accounted under for the equity method	-	*16,168*
	228,214	**352,156**
Loans, advances and other receivables:		
Opening balance*	352,156	526,632
Closing balance	228,214	352,156
Deposits:		
Current accounts (in respect of):	240,030	342,916
consolidated subordinated undertakings	*237,604*	*323,891*
subordinated undertakings accounted under for the equity method	*2,426*	*19,025*
Term deposits (in respect of):	26,931	29,329
consolidated subordinated undertakings	*6,098*	*7,223*
subordinated undertakings accounted under for the equity method	*20,833*	*22,106*
	266,961	**372,245**
Deposits:		
Opening balance**	372,245	639,693
Closing balance	266,961	372,245
Contingent liabilities granted:		
Letters of credit (in respect of):	4,513	381
consolidated subordinated undertakings	*4,513*	*381*
subordinated undertakings accounted for under the equity method	-	-
Guarantees granted (in respect of):	1,340	2,367
consolidated subordinated undertakings	*1,340*	*2,367*
subordinated undertakings accounted for under the equity method	-	-
Credit lines granted (in respect of):	330,172	282,161
consolidated subordinated undertakings	*330,172*	*282,161*
subordinated undertakings accounted for under the equity method	-	-
	336,025	**284,909**
Interest and commission income in 2007/2006 (in respect of):	23,405	22,645
consolidated subordinated undertakings	*21,311*	*22,639*
subordinated undertakings accounted for under the equity method	*2,094*	*6*
Interest and commission expenses 2007/2006 (in respect of):	13,146	9,516
consolidated subordinated undertakings	*12,542*	*8,844*
subordinated undertakings accounted for under the equity method	*604*	*672*

** Amount of credit, loans and other receivables at the beginning of 2006 includes PLN 103,385 thousand, which is related to receivables of related entities*

*** Amount of deposits at the beginning of 2006 includes PLN 349 thousand, which is related to deposits received form related entities.*

As at 31 December 2007, the amount of impairment write-downs for receivables of subsidiaries have not subjected to write-offs.

As at 31 December 2006 the amount of impairment write-downs for receivables of subsidiaries amounted to PLN 7,209 thousand, write-downs for off balance sheet commitments granted amounted to PLN 3,426 thousand.

Transactions with employees, members of the Management Board and Supervisory Board

In thousands of PLN	31.12.2007			31.12.2006		
	Employees	Members of the Management Board	Members of the Supervisory Board	Employees	Members of the Management Board	Members of the Supervisory Board
Loans, advances and other receivables						
Loans granted	72,235	288	4	86,240	1,041	11
Staff benefits	29,878	-	-	33,094	-	-
Prepayments	52	-	-	52	3	-
	102,165	**288**	**4**	**119,386**	**1,044**	**11**
Deposits						
Current accounts	62,463	2,171	636	26,613	611	184
Term deposits	19,519	100	116	44,874	1,943	862
	81,982	**2,271**	**752**	**71,487**	**2,554**	**1,046**
Guarantees issued	49	-	-	84	-	-

42. Employee benefits

Employee benefits are divided into the following categories:

- short-term benefits, which include salaries, social insurance contributions, paid leave and benefits in kind (such as medical care, company apartments, company cars and other free or subsidized benefits). The costs of short-term benefits are expensed in the profit and loss account in the period to which they relate. At the end of a given reporting period, if there is a balance payable that equals the expected undiscounted value of short-term benefits for that period, the Group will record it as an accrued expense.
- benefits after termination of employment – including severance pay (see Note 2) and pension plans presented below offered by the Group to its staff.

A provision is created for future pension severance pay that is shown in the balance sheet in "Other liabilities". An independent actuary in accordance with IFRS rules verifies the provision.
The Group's pension plan is a pre-determined-premium program in accordance with IAS 19. The Group pays contributions for its staff to a separate organization and, after they are paid, has no other payment liabilities. Premiums are shown as employee benefit expenses in the period they concern.

Description of Employee Pension Plan

The objective of the Employee Pension Plan (the Plan) created by the Bank is to save and accumulate through investments funds from premiums paid within the Plan into an individual account of the participant in order to ensure benefit payments after the participant attains the age of 60 years or undergoes early retirement or if the participant obtains the rights to disability benefits due to incapacity for work.

The current Plan, which is a continuation of PPE Polskie Towarzystwo Emerytalne "Diament", was implemented on 19 March 2004 under an agreement with Legg Mason Senior Specjalistyczny Fundusz Inwestycyjny Otwarty ("LM Senior SFIO") and is registered in the District Court for Warsaw under number RFJ-8. LM Senior SFIO is managed by Legg Mason Towarzystwo Funduszy Inwstycyjnych SA and its transfer agent is Obsługa Funduszy Inwestycyjnych Sp. z o.o.

The basic premium for Plan participants is paid out of the Group's own funds. Each employee who participates in the Plan can also make additional premium contributions to the Plan. The total of premiums paid to Plan is invested in units of LM Senior SFIO.

- other long-term employee benefits – jubilee and other long service awards. Information about jubilee awards is described in Note 2. These are paid under a pre-determined benefit scheme and their valuation is carried out by actuarially method.
- employee equity benefits – in the form of stock options granted on Citigroup common stock and also under stock award programs based on shares of Citigroup common stock in the form of deferred stock. Valuation and presentation principles of these programs are described in Note 2. Detailed information concerning the employee equity benefits are presented in the further part of this note.

Provisions for the above employee benefits are as follows:

In thousands of PLN	31.12.2007	31.12.2006
Provision for remuneration	119,674	116,693
Provision for employees' retirement and jubilee payments	63,176	54,543
Provision for employees' equity compensation	15,252	38,828
	198,102	**210,064**

In 2007, the Group's expenses in respect of premiums for the employee pension plan amounted to PLN 14,959 thousand (in 2006: 13,760 thousand).

Employment in the Group:

	2007	2006
Mid employment during a year	5,722	5,539
At the end of the year	5,921	5,647

Description and principles of employee stock benefits

The Group's employees are entitled to participate in Citigroup equity compensation plans. In accordance with these plans the Group's employees may receive Citigroup stocks (capital accumulation program or CAP) or options for Citigroup stocks (stock option program or SOP) as awards.

Within the framework of the SOP, eligible employees receive options to buy stock at the NYSE average closing price as at the 5 days directly preceding the award grant date. Employees acquire the right to a portion of their options on each anniversary of their SOP award grant date. Options granted during 2005-2007 will be transferred partially in 25% every year for the next four years, starting from the first anniversary of option acquire. Options may be exercised by purchases of stock in the period from the acquisition date of the right to an option to the expiry date of the option.

Deferred shares within the framework of the CAP are granted at the NYSE average closing price as at the 5 days prior to the grant date. Deferred shares give the right to equivalents of dividends, but without voting rights, and must not be sold prior to their conversion into stocks. Deferred shares are converted into stocks after the end of a period that is determined in the Program Rules, which commences on the CAP award allocation date, provided, however, that an eligible employee is still with Citigroup. Options granted during 2005–2007 will be transferred partially in 25% every year for the next four years, starting from the first anniversary of option acquire.

Assumptions of valuation of the employee equity benefit programs

The fair value of particular awards and the assumptions used in their measurement, except the Citigroup Stock Purchase Program, the amount of which is immaterial for the financial statements, are shown below:

SOP Program	Grant date	Exercise price/stock price at grant date	Number of eligible employees	Number of options/shares
1	13.02.02	42.11 or 41.90	268	103,531
2	12.02.03	32.05	247	81,256
3	20.01.04	49.50	100	61,047
4	18.01.05	47.50	4	1,308
5	20.09.05	45.36	1	1,500
6	17.01.06	48.92	1	1,538
7	16.01.07	54.38	1	436

CAP Program	Grant date	Exercise price/stock price at grant date	Number of eligible employees	Number of options/shares
1	18.01.05	35.96 or 47.95	179	37,734
2	15.02.05	49.25	1	1,950
3	15.11.05	48.24	2	2,332
4	17.01.06	36.58 or 48.77	163	67,485
5	21.11.06	50.73	1	2,218
6	16.01.07	40.84 or 54.46	196	108,293
7	17.07.07	52.19	1	1,917
8	20.11.07	32.00	1	4,687

	Program SOP	Program CAP
Period to acquire the title (in years)	(1) 20% after the each of the following years (2)-(3) 33.33% after each of the following years (4)-(7) 25% after each of the following years	(1)-(6) and (8) 25% after each of the following years (7) 33.33% after each of the following years
Expected variances	42.19%	42.19%
Life cycle of the instrument	(1)-(7) - 1 year from the moment of rights acquisition	In the moment of rights acquisition
Risk free interest rate (for USD)	2.97%	2.97%
Expected dividends (in USD per one share)	2.16	2.16
Probability of premature termination of employment (annual staff turnover for awarded employees)	7 %	7 %
Fair value of one instrument* (in USD)	0.00 - 2.60	51.29

** Varies depending on the date of exercise*

Options – volumes and weighted-average strike prices:

	31.12.2007		31.12.2006	
	Number ('000)	Weighted average strike price	Number ('000)	Weighted average strike price
At the beginning of the period	328,107	39.94	351,282	40.86
Allocated in the period	436	54.38	2,426	48.92
Redeemed in the period	59,543	39.48	58,493	37.70
Expired in the period	18,383	-	32,892	-
At the end of the period	250,616	40.75	328,107	39.94
Exercisable at the end of the period	247,335	40.66	257,460	39.69

For options that exist at the end of a given period:

31.12.2007			31.12.2006		
Striking price range (in USD)	Number ('000)	Weighted average period to the end of life cycle	Striking price range (in USD)	Number ('000)	Weighted average period to the end of life cycle
41.90	0.81	0.53	32.05	102,624	0.53
42.11	102.72	0.53	49.50	79,076	1.01
32.05	81.26	0.00	41.90	855	1.03
49.5	61.05	0.55	42.11	132,053	1.03
47.5	1.31	1.06	47.19	129	1.05
45.36	1.5	1.06	49.00	150	1.05
48.92	1.54	1.56	49.49	3,000	1.05
54.38	0.44	2.56	50.07	307	1.05
-	-	-	50.82	77	1.05
-	-	-	51.32	72	1.05
-	-	-	45.36	2,000	1.56
-	-	-	47.50	5,339	1.56
-	-	-	48.92	2,426	2.56

Options – volumes and weighted-average strike prices (CAP program):

	31.12.2007		31.12.2006	
	Number ('000)	Weighted average strike price	Number ('000)	Weighted average strike price
At the beginning of the period	217,022	40.29	145,448	39.10
Allocated in the period	114,898	43.68	114,563	39.59
Redeemed/expired in the period	105,304	-	42,989	-
At the end of the period	226,616	42.23	217,022	40.29

43. Subsequent events

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

44. Risk management

Derivative instruments

The Group enters into various derivative transactions for speculation purposes and to manage its own risks arising from movements in currency and interest rates. The settlement date of open positions in derivative instruments depends mainly on the nature of the instrument. In these transactions the floating interest rate is based on interbank interest rates prevailing at the beginning of the interest period and the fixed interest rate depends on the nature of the instrument and the objective of the particular transaction.

Detailed financial data related to derivatives as of the balance sheet date is included in Note 18.

As at 31 December 2007, the Group has not placed deposits at other institutions as collateral against derivative transactions (31 December 2006: PLN 21,847 thousand), and for derivative transactions, the Group received collateral totaling PLN 30,104 thousand.

Forward and swap FX contracts

Forward foreign exchange contracts are agreements to exchange specific amounts of currency at a specified exchange rate, with settlement date falling two working days after the transaction date. Foreign currency swaps are combinations of spot (settlement on the second working day following transaction date) and forward foreign exchange contracts whereby a specific amount of currency is exchanged at the current rate for spot date, and then exchanged back at a forward rate and date. The nominal value of foreign exchange contracts expresses the amount of foreign currency purchased or sold under the contracts and does not represent the actual market or credit risk associated with these contracts.

Forward and swap FX contracts are used for closing daily open foreign currency positions and for speculative purposes. Foreign currency swaps are used for managing the Group's liquidity and position on nostro accounts.

Currency option contracts

The objective of FX option contracts is the sale or purchase by the Group of the right to exchange at a specified date one currency to another at a fixed exchange rate. Exercise of an option may be performed by physical exchange of currencies or by settlement of the difference between contract rate and market reference rate prevailing at the exercise date. There are two types of options: call options that give their owner the right to buy a contracted amount of foreign currency at the exercise price of domestic currency or another foreign currency, and put options that give their owner the right to sell a contracted amount of foreign currency at the exercise price of domestic currency or another foreign currency. The buyer of an option pays to its drawer a premium for the purchased right to buy or sell currency.

Interest rate contracts

The Group's interest rate transactions include interest rate swaps (IRS), currency interest rate swaps (CIRS), and forward rate agreements (FRA).
Interest rate swaps are agreements to exchange periodic interest payment obligations. On the interest payment date the Group and its counterparties are obliged to exchange periodic fixed and floating rate interest payments defined in a contract. The objective of cross-currency interest rate swaps, which are concluded in two different currencies, is the exchange of counterparty's obligation expressed in one currency into its obligation in other currency. As a result, on interest payment date the Group and its counterparties are obliged to exchange interest payments defined in a CIRS contract. Additionally, counterparties may also exchange notional amounts of contracts. The Bank concludes IRS and CIRS contracts on the interbank market and with its customers.

The objective of FRA contracts is to fix interest rate levels for counterparty receivables or liabilities, which arise or will arise on set dates in the future. The Group concludes FRA contracts on the interbank market and with its customers.

Interest rate option contracts

The objective of interest rate option contracts is the right to receive at specified dates in the future payments whose amount depends on future interest rates levels. There are two types of interest rate options: cap option – where the seller agrees to pay the buyer a difference between the reference rate (usually 3M or 6M LIBOR) and agreed the exercise rate – when the reference rate exceeds exercise rate, and floor option – where the seller agrees to pay the buyer a difference between the reference rate and the agreed exercise rate – when the exercise rate exceeds the reference rate. In both cases the seller receives a premium paid in advance.

Securities term contracts

The Group concludes purchase and sale contracts in debt securities at a fixed price where the settlement occurs later than two days following the spot date (outright contracts).

Share options

Share options give the buyer the right to receive the difference between a share price or share index value defined in the option contract and the value of these instruments at an exercise date depending whether it is a call or put option, for increase or decrease of the base instrument price respectively. The buyer of an option pays a premium for the purchased rights.

Futures contracts

A financial futures contract is a contract traded on an organized stock exchange, related to the purchase or sale of a standard amount of the specific financial instrument at a specified date in the future and at a pre-agreed price.

Financial futures contracts may be based on financial instruments of defined types, prices of which depend on interest rates. Financial futures contracts may also be based on changes in FX rates of certain basic foreign currencies. The Group does not carry out trading in futures-type FX contracts.

Commodities derivatives

The Group enters into commodity derivative transactions, especially related to metal prices. These transactions are based on the prices quoted on the London Metal Exchange (LME). The Group enters into the following transactions with its customers: forwards, swaps and, options. For example, the commodity swap transactions enable to offer a fixed base price and obtaining an average market price of the commodity in the month of the settlement. Some derivatives that are offered by the Group are zero-cost option structures, for example collar.

Market risk

The Bank manages market risk in line with principles and procedures approved by the Assets and Liabilities Committee and the Management Board of the Bank, which rules reflect the requirements of the Polish supervisory bodies and correspond to the best practices followed in Citibank N.A., the Bank's parent. In case of the Group's companies, pricing risk management is regulated by procedures, established by management of these companies. These procedures are subjected to consultation with Director of Marker Risk Department in the Bank.

Management of market risk comprises two core risk areas: liquidity risk and pricing risk.

Liquidity risk is defined as the risk of the Group failing to meet the financial obligations due to its customers and partners.

Pricing risk is defined as the risk of the negative impact on the Group's results and value of founds held by entity of changes in market interest rates, foreign exchange rates, share prices and any other volatility parameters in respect of these rates and prices.

Liquidity risk management

Liquidity management has the aim of ensuring the Bank and the Group's objects access to liquid assets for the purpose of fulfilling its obligations on time, also under extreme yet probable crisis conditions. The Bank is a participant of the general liquidity assurance and financing process, and of the liquidity monitoring structure within Citigroup. The Bank is compliant with all of the regulatory banking supervision requirements in Poland, and in particular with Resolution No. 9/2007 of the Commission for Banking Supervision of 13 March 2007 on Setting Liquidity Norms Binding to Banks (O.J. of NBP of 2007 No. 3, item 11), with due consideration of the liquidity policy of Citigroup.

Liquidity risk management in the Bank includes planning short-, medium- and long-term liquidity, preparation of reports on levels of short- and long-term supervisory liquidity, and of the Market Access Report (MAR), and monitoring of the use of limits, warning thresholds for balance sheet structure relations and preparation of stress tests.

Measurement and mitigation of the liquidity risk, rules and processes

The primary liquidity risk assessment reports include: the short-term liquidity gap report – demonstrating the relationship between liquid assets and unstable sources of funds – and reports on levels of the supervisory long-term liquidity measures, i.e. the ratio of coverage of non-liquid assets in own capital funds and the ratio of coverage of non-liquid assets and limited liquidity assets in own capital funds and stable external funds.

The Commission for Banking Supervision had set the minimum limits for all of the ratios at 1, meaning that on each business day liquid assets of the Bank ought to exceed unstable sources of funds and that own capital funds together with stable external funds ought to exceed non-liquid and limited liquidity assets. In its calculations the Bank prepares regular analyses of stability for the respective classes of liabilities, of accessibility and trading levels of markets used for liquidating assets and projects increases in assets of its depositors.

Additionally, for purposes of limiting its payment related liquidity risk, the Bank prepares the MAR report. The report demonstrates the gaps in the Bank's financial flows in individual time spans and reflects potential exposure to the necessity of finding additional funding sources on the monetary market. MAR comprises all the financial flows relating to balance sheet and off-balance sheet transactions. The liquidity gap reports are prepared on daily basis and encompass the Bank's balance sheet in aggregate and by individual currency balances.

The gap limits established by the Bank's ALCO are binding for the following terms: O/N, 2-7 days, 8-15 days, 1 month, 2 months, 3 months, 6 months and 1 year. The liquidity gap above one year is not covered by limits, but is subject to monitoring. In calculating the gap, statistical research is taken into account, for example, in the area of the deposit base stability and the assumptions relating to the share of the individual product groups in the Bank's balance sheet structure. In the monthly cycle, stress tests are performed, which take account of the potential threats resulting, for example, from a crisis in the banking system and related limitations to market liquidity. Additionally, in order to assess liquidity risk, the Market Risk Department monitors the basic relationships in the Bank's balance sheet structure and analyzes changes in these relationships over time.

The measure of the assessment of the Bank's liquidity risk is the level of the modified gap in financial flows in respect of the potential sources of financing. Therefore, the gap level is compared with the possibility of obtaining additional funding from the wholesale market (other banks, investment funds, pension funds, insurance companies) and with the balance of liquid assets (mainly liquid securities), which may be sold or pledged (as part of repo transactions or at use of a pawn loan from NBP) in the assumed time horizon.
The levels of the modified gap in financial flows and the level of liquid assets as at 31 December 2007 and 31 December 2006 are shown in the tables below.

The liquidity gap as at 31 December 2007 in real terms:

In thousands of PLN	Up to 1 month	1 to 3 months	3 months to 1 year	More than 1 year to 2 years	More than 2 years
Assets	4,686,511	2,284,393	2,127,856	431,051	29,390,544
Liabilities	4,803,476	860,220	69,814	455,274	32,731,571
Balance sheet gap in the period	(116,965)	1,424,173	2,058,042	(24,223)	(3,341,027)
Off-balance sheet transactions - inflows	16,145,664	6,012,349	12,864,609	873,564	4,227,464
Off-balance sheet transactions - outflows	16,073,820	6,109,831	12,783,930	902,277	4,277,569
Off-balance sheet gap in the period	71,844	(97,482)	80,679	(28,713)	(50,105)
Cumulative gap	(45,121)	1,281,570	3,420,291	3,367,355	(23,777)

The liquidity gap as at 31 December 2006 in real terms:

In thousands of PLN	Up to 1 month	1 to 3 months	3 months to 1 year	More than 1 year to 2 years	More than 2 years
Assets	5,458,934	363,842	970,564	94,533	29,382,023
Liabilities	4,241,140	944,312	1,370,351	31,317	29,682,776
Balance sheet gap in the period	1,217,794	(580,470)	(399,787)	63,216	(300,753)
Off-balance sheet transactions - inflows	20,006,340	4,970,988	5,669,392	1,490,991	3,928,360
Off-balance sheet transactions - outflows	19,665,812	4,940,719	5,644,507	1,494,484	4,237,106
Off-balance sheet gap in the period	340,528	30,269	24,885	(3,493)	(308,746)
Cumulative gap	1,558,322	1,008,121	633,219	692,942	83,443

The liquid assets and the cumulative liquidity gap up to 1 year:

In thousands of PLN	31.12.2007	31.12.2006	Change
Liquid assets, including:	10,424,552	10,077,752	346,801
obligatory reserve in NBP and cash surplus	3,059,474	489,459	2,570,015
debt securities held for trade	1,177,367	1,619,402	(442,035)
debt securities available for sale	6,187,712	7,968,891	(1,781,179)
Cumulative liquidity gap up to 1 year	3,420,291	633,219	2,787,072
Coverage of the gap with liquid assets (in %)	Positive gap	Positive gap	Not applicable

Above financial liquidity risk analysis include Bank, as parent entity, and leasing company. The rest of Group's companies were not involved in the analyse because liquidity risk in these entities are not material in terms of Group's activity.

Finance liabilities of the Group, by maturity date, are presented below:

As at 31 December 2007:

	Note	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Interests
Financial liabilities held for trading								
Short positions in financial assets	18	34,932	34,932	-	-	-	-	-
Financial liabilities valued at amortized cost								
Deposits from financial sector	30	7,085,166	6,144,625	842,659	55,000	1,855	29	40,998
Including banks	*30*	*3,790,469*	*2,864,837*	*835,859*	*50,000*	-	-	*39,773*
Deposits from non-financial sector	30	19,811,372	18,898,970	573,487	249,598	76,367	169	12,781
Other liabilities	30	1,103,687	237,009	20,650	224,394	617,456	-	4,178
		28,000,225	25,280,604	1,436,796	528,992	695,678	198	57,957
Financial liabilities held for trading								
Derivative financial instruments	18	3,097,536	157,773	218,318	675,047	1,335,325	711,073	-
Unused credit lines liabilities		10,874,042	9,742,453	1,492	274,002	778,667	77,428	-
		42,006,735	**35,215,762**	**1,656,606**	**1,478,041**	**2,809,670**	**788,699**	**57,957**
Gross derivatives								
Inflows		38,582,702	15,848,325	6,024,356	12,513,327	1,846,563	2,350,131	
Outflows		38,648,175	15,775,189	6,071,284	12,522,393	1,902,218	2,377,091	
		(65,473)	**73,136**	**(46,928)**	**(9,066)**	**(55,655)**	**(26,960)**	

As at 31 December 2006:

	Note	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Interests
Financial liabilities held for trading								
Short positions in financial assets	18	278,109	278,109	-	-	-	-	-
Financial liabilities valued at amortized cost								
Deposits from financial sector	30	6,156,952	3,765,404	1,145,260	1,202,028	13	27	44,220
Including banks	*30*	*3,703,487*	*1,399,110*	*1,069,472*	*1,191,820*	-	-	*43,085*
Deposits from non-financial sector	30	18,880,182	17,504,182	833,622	468,332	53,868	448	19,730
Other liabilities	30	954,357	432,043	68,658	36,661	409,253	3,931	3,811
		25,991 491	21,701,629	2 047,540	1,707,021	463,134	4,406	67,761
Financial liabilities held for trading								
Derivative financial instruments	18	2,635,045	66,065	185,596	374,065	1,401,639	607,680	-
Unused credit lines liabilities		9,177,576	8,196,094	7,085	163,034	651,339	160,024	-
		38,082,221	**30,241,897**	**2,240,221**	**2,244,120**	**2,516,112**	**772,110**	**67,761**
Gross derivatives								
Inflows		35,086,368	19,927,664	5,233,505	4,787,271	2,761,189	2,376,739	
Outflows		34,980,459	19,941,286	5,204,772	4,790,195	2,664,527	2,379,679	
		105,909	**(13,622)**	**28,733**	**(2,924)**	**96,662**	**(2,940)**	

Pricing risk management

Scope of risk

The pricing risk management applies to all portfolios generating income prone to the negative impact of the market factors, in that interest rates, exchange rates, commodity prices and the parameters of their fluctuations. Two types of portfolios have been defined for the purpose of the pricing risk management, i.e. the trading portfolios and the bank portfolios. The trading portfolios include transactions with financial instruments (namely the balance sheet and off-balance sheet instruments), expected to generate income owing to the change in market parameters over a short time period. The trading portfolios include balance sheet items, in that debt securities provided for trading, i.e. acquired to be further traded and meeting the preset liquidity criteria. The trading portfolios further include all derivative instrument positions, broken down into the portfolios acquired purely for trading and the transactions executed in order to provide the economic hedge of the bank portfolio positions. The trading portfolios are evaluated directly at market prices, using the market pricing-based valuation models. The trading portfolio operations are performed by the Bank's Treasury Division in respect of the interest rate risk portfolios and the FX risk portfolios. The bank portfolios include all other balance sheet and off-balance sheet positions not assigned to any of the trading portfolios. The transactions are executed to realise profit over the entire contracted transaction period. The Bank's Treasury Division takes over the interest rate risk positions held in the bank portfolios of all other organisational units of the Bank and leasing entity. The mechanism of transfer of the interest rate risk positions is based on the funds transfer price system. The result on the bank portfolios is calculated using the depreciated cost method, discussed in Note 2.

The balance sheet of the Group includes the following assets and liabilities:

Subject to the fair value risk (interest-rate linked):

- Fixed rate debt securities and discounting securities, and
- Fixed rate loans and deposits.

Subject to the cash flow risk (cash flows linked to the interest rate):

- Floating rate debt securities, and
- Floating rate loans and deposits.

Not subject to a direct interest rate risk:

- Fixed assets,
- Capital investments, and
- Intangible assets.

In addition, the Group is subjected to the interest rate risk of derivative agreements such as Interest Rate Swaps (IRS), Currency Interest Rate Swaps (CIRS), Forward Rate Agreement (FRA), future contracts, forward and swap FX contracts.

Measurement of the pricing risk of the bank portfolios

The Bank typically uses the following methods for measuring the pricing risk of the bank portfolios:

- Interest rate gap analysis,
- Value-at-Close and Total Return methods,
- Interest Rate Exposure (IRE), and
- Stress testing.

Interest rate gap analysis uses the maturity schedule or revaluations of balance sheet positions and of derivative instruments in hedge accounting or qualified as economic hedge for the purpose of establishing the differences between positions whose maturity or interest revaluation fall on a given time range. The general rule in the interest rate gap analysis is that of qualifying transactions to respective bank portfolio position revaluation bands by the contracted or assumed transaction interest rate change dates.

It is assumed that:

- Transactions with fixed interest (such as term deposits, interbank deposits, portfolio of debt securities available for sale, granted loans both repaid in full at maturity and repaid in instalments) are classified into appropriate revaluation bands in accordance with their maturity dates.
- Transactions with floating interest, updated with regular frequency (primarily loans granted with interest set based on a specific rate of interest, such as e.g. WIBOR 1M) are classified into appropriate revaluation bands in accordance with the nearest interest updating date.
- Transactions with administrated floating interest (i.e. any change in interest and its date are reserved to sole decision of the Bank), or undefined maturity or interest updating date are classified into appropriate revaluation bands in accordance with historically observed or expert adopted shifts in the moment and scale of change in the interest of given positions in relationship to change in the market interest rates (model of minimising product margin variability). This group of transactions / balance sheet positions includes, inter alia: current accounts, card loans, current account overdraft loans, cash, tangible fixed assets, equity capital, other assets/liabilities. Another element is that of taking into account early loan repayments based on analysis of actual repayments made by customers before the due date, on which basis product updating profiles are set. This pertains particularly to instalment loans.
- Transactions executed directly by the Bank's Treasury Division for purposes of management of interest rate risk and liquidity risk (Treasury Division's own portfolio) are always classified into appropriate revaluation bands in accordance with the contract dates.

The Value-at-Close method is an estimation of the economic or "fair" value of positions, equivalent to the market valuation the trading portfolio. Total return on a portfolio is the sum total of the changes in the value of closing the interest rate gap, accrued interest and gains/ losses on sale of assets or cancelling of obligations.

The IRE method is an estimation of the impact of potential pre-tax profits in a given period on bank portfolio positions from the standpoint of specific parallel shift in yield curves of respective currencies. This is a prospective indicator, equivalent to sensitivity factors in the case of trading portfolios. An assumption is made that under standard conditions interest rate shifts are identical for every currency and stand at 100 basis points upwards. IRE measures are calculated separately for positions in each currency in the time span of 10 years, however, for purposes of current monitoring and limiting interest rate risk positions in bank portfolios the Bank normally applies IRE measures with one- and five-year time span.

The IRE are calculated for the Group and the Treasury Division separately. The IRE for the Bank reflects the actual exposure to the interest rates risk, while maintaining the revaluation timescales set out in the contracts with customers (in keeping with the above-mentioned structuring and revaluation rules), or estimated by the Bank against its proprietary analyses (for the positions with no preset revaluation/due dates). The IRE for the Treasury Division reflects the risk positions transferred by the other entities of the Group to that Department, through the agency of the transfer price of funds mechanisms along with the Department's own positions.

Follow the IRE measures for the Group valid on 31 December 2006 and 31 December 2007. The list has been broken down into the main currencies, i.e. PLN, USD and EUR, which jointly account for over 90% of the Group's balance sheet.

In thousands of PLN	31.12.2007		31.12.2006	
	IRE 12M	IRE 5Y	IRE 12M	IRE 5Y
PLN	8,130	90,683	21,835	84,119
USD	(3,649)	(4,469)	(6,313)	(6,978)
EUR	(18,431)	(48,043)	(14,294)	(38,204)

Stress tests measure potential impact of material changes in the level or directionality of interest rate curves on the open interest positions in the bank portfolio.

Bank runs stress tests of predefined interest rate movement scenarios, which represent combinations of market factor movements defined as large moves and stress moves occurring both in Poland and abroad. Values of the assumed market factor movements are revised at least once a year and duly adjusted to the changes in the market conditions of the Bank's operation.

Supplementary to the stress tests of the Bank's entire bank book we run tests of the portfolio of securities available for sale (AFS), which assesses the potential impact of any change in valuation of the portfolio of these securities on the Bank's equity capital.

Calculations of the interest rates gap closing and IRE values, with employment of the interest rate gap analyses, are carried out on daily basis. Stress tests are conducted with monthly frequency.

IRE and AFS DV01 limits are set for all material exposures in all currencies. Currencies in respect of which only minor exposures exist can be aggregated in a separate portfolio.

The DV01, i.e. the dollar value of a basis point of the portfolio of securities available for sale supplements the IRE control measure applied to the interest rates risk on the Bank's books. This measure shows how the value of the financial instruments portfolio will change (in this case the instruments will be the AFS securities) with the change of the interest rate for a particular currency along a certain section of the interest rates curve. The IRE shows the potential change of the interest rate margin in the future, thus the consequence of changes of the interest rates for the Bank's financial result will surface in the future periods, as happens in the case of the positions valued through the depreciated cost method. Nonetheless the impact of any change in interest rates on the value of the portfolio of securities available for sale is immediate, though not in the financial result, but in the value of the Bank's capital funds, since the unrealised result from revaluation of these securities revises their value.

The operations relating to the securities available for sale within the Bank are run by the Asset and Liability Management Office, within the Treasury Division. Three basic goals of the operations with this portfolio have been defined. These are:

- Management of the Bank's liquidity
- Hedging against the risk transferred to the Treasury Division from the other organisational units of the Bank or Group's entities
- Opening of own interest rate risk positions on the Bank's books by the Treasury Division.

In order to avoid the excessive fluctuations of the value of the Bank's capital funds due to the revaluation of the assets available for sale, the Bank has been setting the maximum DV01 position limits for these portfolios. Also, the limits cover open positions in derivative instruments (e.g. interest rate swap transactions) executed for the purpose of securing the fair value of the portfolio.

Whenever border value of any of the above-mentioned risk measures is exceeded this information is escalated to higher management levels and triggers the requirement for definition of further action plan by the managers.

The table below depicts the risk measured with DV01 for the portfolio of securities available for sale, net of the economic hedges, broken down into currency portfolios:

In thousands of PLN	31.12.2007			31.12.2006			Overall between 01.01.2007 and 31.12.2007		
	Total	Securities	IRS	Total	Securities	IRS	Average	Minimum	Maximum
PLN	(1,338)	(1,338)	-	(1,621)	(1,784)	163	(1,162)	(1,622)	(778)
USD	(123)	(203)	80	(125)	(157)	33	(216)	(463)	(40)
EUR	(650)	(827)	177	(672)	(846)	174	(897)	(1,099)	(574)

The Group's operations involving investment into debt securities available for sale constituted one of the main factors influencing changes in the level of risk of mismatch in revaluations as expressed through the IRE measure.

Systems of reporting and measurement of the interest rate risk of the bank book

CALM (Citi Asset Liability Model) is the primary system the Bank uses for purposes of reporting on the interest rate risk of the bank book. The application operates with a standardised dataset of individual transactions sourced with the Bank's accounting system. CALM has been developed for and deployed by majority of the entities for which Citibank N.A. is a parent. Supplementary to the CALM system reports, the Bank generates additional information and risk measures on the basis of the data held by the internal systems of the Finance Division.

Pricing risk of the trading portfolios

The following methods are applicable in measurement of risk of trading portfolios:

- Factor Sensitivity,
- Value at Risk (VaR), and
- Stress testing.

Factor Sensitivity measures the change in the value of positions in an underlying instrument in the case of a defined change in a market risk factor (e.g. change of 1 basis point in the interest at a given point on the interest rate curve, change of 1% in the currency exchange rate or equity price).

In the case of interest rates, the applicable sensitivity measure is DV01 (Dollar Value of 1 basis point), which determines the potential change in value of the risk positions on a given interest rate curve at a specific nodal point (which brings together all the cash flows in a given timeframe), which is caused by a shift in the market rate of interest by 1 basis point up. Total DV01 value for a given currency is the difference between the valuation of all the instruments forming part of the trading portfolio in a given currency by structure of the yield curve at the time of valuation and the valuation of the same instruments based on the same curves assuming a parallel shift of 1 basis point up. DV01 is calculated for each defined risk factor (curve nodal point) separately, and subsequently aggregated for the respective currencies.

In the case of the exchange rate (FX) risk, the factor sensitivity value is equal to the value of FX position in a given currency.

In the case of positions held in equities, the factor sensitivity value is equal to the net value of the positions held in the respective instruments (shares, indices, unit of participation).

The foregoing measures are used to determine the risk position limits, broken down into currencies and the Bank's organisational units. As for the interest rates risk, the Bank we also uses certain warning thresholds for the risk position at different sections of the interest rates curves. The position risk limits are set at the end of the day and monitored on daily basis.

Value at Risk (VaR) is the integrated measure of the pricing risk of trading portfolios, which links the impact of the positions in the respective risk factors and accounts for the effect of the correlation between the fluctuations of the different factors. VaR is applied for the purpose of measuring the potential decline in the value of a position or the portfolio under normal market conditions, at a specified level of confidence and at a specified time. In the case of the positions opened in the Bank's trading portfolio, VaR is calculated with application of 99% confidence level and a one-day holding period.

The Bank measures VaR and monitors this measure as part of its operational risk management. VaR is however not used at present for purposes of calculating the regulatory capital requirement, and Bank has thus not applied to the Commission for Banking Supervision for issuance of a permit for the use of the Value at Risk method.

DV01 as well as VaR for the trading portfolio are calculated net of the fair value hedge on the portfolio of securities available for sale, i.e. net of derivative instruments intended to protect the fair value of the portfolio. The exposures to the risk of such transactions are mitigated through application of relevant risk measurement methods and curbed by the bank portfolio risk limits.

Each day we run stress tests, with the assumption that the risk factors change by more than expected in the Value at Risk scenario and neglecting the historic correlations of these factors.

The Bank runs the stress tests for the three basic scenarios, as follows:

- The most likely scenario, based on the historic fluctuations of the risk factors,
- Local financial crisis, and
- Global financial crisis.

On top of the foregoing tools for the limiting and monitoring the pricing risk of the trading portfolios, the Bank uses the following:

- Warning threshold of the monthly cumulated loss on the trading portfolios,
- Aggregate Contracts Triggers, being the warning thresholds in respect of the total volume of unsettled transactions in a specific financial instrument,
- Maximum Tenor Trigger, being the warning thresholds in respect of the maximum time to maturity of a specific financial instrument, and
- The limits, or warning thresholds of concentration for the types of security, issuer, and issue of debt securities and equities.

The Bank run records of exposures of the bank portfolios to the pricing risk in twenty one currencies for currency positions, and in eighteen currencies for the exposure to the interest rates risk. These exposures are significant only for a handful of currencies. For a large group of currencies the exposures are the consequence of the mismatch of the transactions executed upon the customer's request and the closing transactions with other volume transaction counterparties. Significant exposures to the pricing risk are opened for PLN, developed market currencies (predominantly USD and EUR; with a lesser focus on GBP, CHF and JPY) and the Central Europe currencies.

The values of significant exposures of the bank portfolios to the interest rates risk in terms of DV01, net of the exposures derived from the economic hedging of the portfolios of the securities available for sale in the year 2007 have been listed in the table below:

in thousands of PLN	31.12.2007	31.12.2006	Overall between 01.01.2007 and 31.12.2007		
			Average	Maximum	Minimum
PLN	(43)	10	(45)	551	(690)
EUR	(73)	(17)	(104)	87	(379)
USD	(14)	25	(32)	122	(228)
HUF	(31)	(20)	(25)	37	(108)
CZK	(2)	(1)	6	87	(4)

The marked increase of exposure to the interest rates risk, at the end of the year 2007, compared with end of the year 2006, derives primarily from the low exposure level at the end of 2006 and from adoption of a relatively high exposure to EUR. Over the period, the Treasury Division, which trades financial instruments within the Bank, was very active in managing exposures to the pricing risk, i.e. by adjusting the volume and direction of these exposures depending on the fluctuating market, which is depicted by the range of these exposures (the minimum and the maximum column of the table above).

The table below shows the levels of risk measured using the VaR (net of the economic hedges of the portfolio of securities available for sale) broken down into the FX risk and the interest rate risk positions in the year 2007:

in thousands of PLN	31.12.2007	31.12.2006	Overall between 01.01.2007 and 31.12.2007		
			Average	Maximum	Minimum
FX risk	151	347	1,819	8,465	48
Interest rate risk	4,254	2,799	3,532	8,657	1,539
Overall risk	4,225	2,742	4,205	8,948	1,521

In the year 2007, the overall, average level of the pricing risk of the trading portfolios was nearly equivalent to that of the year 2006, with a significantly higher maximum risk levels, i.e. PLN 8.9 million, compared with PLN 7.3 million.

Systems of reporting and measurement of the interest rate risk of the trading book

The proprietary Finance and Risk reporting base (TPRC) is the primary system the Bank uses for purposes of reporting and monitoring the pricing risk of the trading portfolio. It draws source data on daily basis from the following systems:

- Kondor+ transaction support system, for information on the value of factors of sensitivity to change in interest rates, broken down into individual instruments, tenor ranges and sizes of currency positions. These data are sent to the TPRC database in the daily "day end" cycle, and
- Global Market Risk (GMR) calculation and reporting system, proprietary to Citibank N.A., the Bank's parent, for information on VaR for all of the risk factors combined, and broken down by the individual factors (exchange rates and interest rates).

Capital instruments risk

The Dom Maklerski Banku Handlowego S.A. (DMBH) is the Group's key partner transacting the capital instruments. In order to run its core business, DMBH has been authorised to take up the pricing risk of the trading portfolio of shares, or share rights, traded, or likely to be traded on Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange or WSE), or Centralna Tabela Ofert (Central Bids Table or CTO), WIG20 futures and the Indexed Participation Units, as well as shares on the international stock exchanges of the companies listed on the WSE. The pricing risk of DMBH's instruments portfolios is curbed by the volume limits applicable to specific types of financial instruments and the warning thresholds applicable to the volume of instruments introduced to the market by specific issuers. Moreover, warning thresholds are used for DMBH, alerting on the potential loss for the stress scenarios and the cumulated, realised loss on the trading portfolio. The total volume for capital instruments portfolio increased in 2007 from PLN 12.7 million to PLN 19.7 million.

Currency structure

The currency structure of the Group's assets and liabilities in core currencies was as follows:

In thousands of PLN	31.12.2007	31.12.2006
Assets:		
PLN	29,698,499	23,795,070
EUR	4,908,141	4,534,823
USD	4,074,052	7,042,912
GBP	11,818	82,287
CHF	199,114	202,470
Other currencies	16,360	333,173
	38,907,984	**35,990,735**
Liabilities:		
PLN	32,110,716	29,281,940
EUR	3,892,161	3,751,299
USD	2,508,183	2,568,478
GBP	153,499	160,302
CHF	179,192	81,969
Other currencies	64,233	146,747
	38,907,984	**35,990,735**

Credit risk

Credit risk management

The main aim of the Group's credit risk management is to provide a high quality of credit portfolio and security of credit activity by minimizing the risk of incurred losses.

The credit risk is minimized through the Group's regulations, particularly relating to:

- organizational structure, methods of calculation and control of credit risk,
- risk policy and credit risk assessment systems,
- authorization of credit risk decisions,
- setting up collateral,
- vindication and restructuring activities,
- procedures and credit programs determining credit policy.

Corporate & Investment Banking risk management include the following elements:

- Independent position of risk managers, while business managers are also responsible for the quality of loan portfolio;
- Each credit decision has to be taken by at least two authorized persons. Larger loans, carrying higher risk, require approval from more senior persons of authority;
- Independent Audit Department regularly inspects all activities related to risk management;
- Each borrower is assigned a rating, based both on financial and quality criteria. Risk ratings help the Group to ensure that the credit portfolio as a whole is at an acceptable risk level;
- Each customer of the Group is assigned to a control unit that manages the relationship with the customer. Where customers are part of a capital group, the risk is managed on a group basis to avoid exceeding concentration limits;
- The Group manages risk concentration within its portfolio with approved limits as well as capital requirements for the portfolio. Credit risk limits are set for individual obligors;
- The Group defined principles for periodic monitoring of customers' results from their activities and identification of negative changes in their standing which require immediate communication to upper level management. This also includes opinions of specialized restructuring units.

The Group defines credit risk guidelines related to products offered to Consumer Banking customers for each of the products, offered separately. Key risk management concepts are presented below:

- Credit Risk evaluation is based on:
  - Minimum acceptance criteria;
  - Scoring models;
  - Judgmental criteria;
  - Use of the Credit Bureau information;
- Advanced Management Information System is used to monitor portfolio performance.

The entire Group follows a uniform, intrinsic system for classification of accounts receivable against preset criteria, crucial when defining the level of charge offs due to the permanent loss of value. To that end, the Group uses its internal ratings based both on the financial and quality criteria alike, referred to the prevailing financial situation and the development perspectives of the industry. Higher value of rating means higher level of receivables risk.

The portfolio net of the loss of value has been presented using the internal risk ratings, whereas the accounts payable to customers, with established value loss, have been grouped for presentation purposes into risk categories using internal ratings.

The tables below present exposition of the Group on credit risk.

In thousands PLN	31.12.2007		31.12.2006	
	Receivables from customers	Receivables from banks	Receivables from customers	Receivables from banks
Receivables valued individually				
Risk category II	43,759	-	28,479	-
Risk category III	670,272	-	560,568	9,491
Risk category IV	495,785	1,852	796,208	-
Gross value	**1,209,816**	**1,852**	**1,385,255**	**9,491**
Impairment	1,004,895	1,852	1,153,549	9,491
Net value	**204,921**	**-**	**231,706**	**-**
Portfolio receivables				
Risk category II	11,421	-	15,991	-
Risk category III	29,718	-	29,537	-
Risk category IV	446,416	-	463,503	-
Gross value	**487,555**	**-**	**509,031**	**-**
Impairment	385,638	-	413,670	-
Net value	**101,917**	**-**	**95,361**	**-**
Receivables without impairment				
Risk rating 1-4	9,760,222	8,269,748	7,536,371	8,847,883
Risk rating 5-6	2,762,258	1,403	2,686,799	50,612
Risk rating 7-8	154,783	-	123,483	-
Gross value	**12,677,263**	**8,271,151**	**10,346,653**	**8,898,495**
Impairment	49,845	34	55,916	81
Net value	**12,627,418**	**8,271,117**	**10,290,737**	**8,898,414**
Total net value	**12,934,256**	**8,271,117**	**10,617,804**	**8,898,414**

In order to define the maximum exposure of the Group to the credit risk, it is necessary to account also for the off-balance sheet exposure (discussed in Note 36), the debt securities available for sale (discussed in Note 19), the financial assets provided for trading (discussed in Note 18) and other assets (discussed in Note 28).

In thousands PLN	31.12.2007	31.12.2006
Incurred but not reported write-off receivables		
Unexpired receivables		
0-30 days	20,882,043	19,226,570
Out of date receivables		
31-90 days	66,323	21,887
91-180 days	48	79
Gross value	**20,948,414**	**19,248,536**

In thousands PLN	31.12.2007		31.12.2006	
	Receivables from customers	Receivables from banks	Receivables from customers	Receivables from banks
Loss impairment valued individually				
Risk category II	3,113	-	8,350	-
Risk category III	541,207	-	433,736	9,491
Risk category IV	460,575	1,852	711,463	-
	1,004,895	**1,852**	**1,153,549**	**9,491**
Portfolio loss impairment				
Risk category II	2,771	-	4,147	-
Risk category III	12,352	-	13,276	-
Risk category IV	370,515	-	396,247	-
	385,638	**-**	**413,670**	**-**
Incurred but not reported write-off loss impairment				
Risk rating 1-4	32,923	25	31,083	77
Risk rating 5-6	12,911	9	18,206	4
Risk rating 7-8	4,011	-	6,627	-
	49,845	**34**	**55,916**	**81**
Total net value	**1,440,378**	**1,886**	**1,623,135**	**9,572**

In line with its lending policy and in order to limit the risk, the Group adopted the following types of hedges for corporate client exposures:

- Security deposit, assignment of rights or blocking the term deposit account;
- Mortgage;
- Transfer of ownership, or registered pledge of tangible assets, treasury securities and other securities admitted, and not-admitted to trading in the regulated market;
- Assignment of accounts receivable; and
- Guaranties and sureties.

The Group accept the following types of security from our retail customers:

- Security deposit;
- Mortgage; and
- Insurance.

The type of security and its value is set in having regard to the borrower's risk rating. The Group monitor the condition of the legal security given by the borrower, assessing the value and quality of the security.

Concentration of exposure

Exposure limits

The Banking Act of 29 August 1997 (Journal of Laws of 2002 No. 72, item 665, as later amended) and its executive regulations issued by the Commission for Banking Supervision define maximum exposure limits for a Group. Under article 71 paragraph 1 of the Act, which came into force as of 1 January 2002, total balance sheet and off-balance sheet exposure from one or more capital and organizationally related entities cannot exceed 20% of the Group's equity when one of the entities is a parent entity or subsidiary undertaking of the Group or is a subsidiary undertaking to a parent entity of the Bank or cannot exceed 25% of the Bank's equity when there is no such relationship between the Bank and the borrower. Pursuant to provisions of the Resolution No. 1/2007 of the Commission for Banking Supervision dated 13 March 2007 regarding specific rules for calculating capital requirements for banking risk categories (...) (NBP Official Journal No. 2, item 3) the Group is allowed to maintain exposure exceeding concentration limits, as defined in article 71 paragraph 1 of the Banking Act, on condition that the excess exposure relates only to transactions classified to trading portfolio. Equity for the purpose of setting concentration limits specified in the Banking Act, has been established in accordance with resolution No. 2/2007 of the Commission for Banking Supervision dated 13 March 2007 regarding specific rules for other reductions for calculating Bank's primary funds (...) (NBP Official Journal No. 3, item 4).

As at 31 December 2007, the Group had an exposure to a related party from the banking sector exceeding the statutory debt concentration limits. The excess exposure arose by virtue of derivative transactions. As a consequence, an additional capital requirement for excess exposure was factored into the calculation of the Group's capital adequacy ratio as at 31 December 2007.

The Group sets out to limit its exposure to a group of customers. As at 31 Deember 2007, the Group's exposure in banking portfolio transactions with customers, which all-in exceeded 10 % of the Group's equity, amounted to 2,805,204 thousand i.e. 81,7% of these funds (31 December 2006: PLN 2,596,676 thousand i.e. 76.6 %).

Concentration of exposure of 10 biggest customers of the Group (non-banking)

In M PLN	31.12.2007			31.12.2006		
	Balance Outstanding*	Off-Balance Outstanding	Total Outstanding	Balance Outstanding*	Off-Balance Outstanding	Total Outstanding
Group 1	132,638	473,595	606,233	124,929	474,429	599,358
Group 2	443,585	159,694	603,279	327,613	144,832	472,445
Group 3	186,218	298,882	485,100	180,299	360,088	540,387
Group 4	49	400,000	400,049	57,607	-	57,607
Group 5	21	360,522	360,543	255,437	130,836	386,273
Group 6	199,913	150,087	350,000	127,231	302,773	430,004
Group 7	167,690	141,592	309,282	1,982	105,839	107,821
Group 8	36,406	255,205	291,611	5	309,856	309,861
Group 9	16,273	270,564	286,837	36,440	50,468	86,908
Group 10	250,000	-	250,000	-	-	-
Total	**1,432,793**	**2,510,141**	**3,942,934**	**1,111,543**	**1,879,121**	**2,990,664**

** Excluding outstanding on commercial papers and subsidiaries.*

Concentration of exposure in individual industries

To avoid excessive concentration of credit risk, the Group monitors its exposure in individual industry sectors, defining the areas where the Group's exposure should grow and the areas where opportunities for development are poor, and where the exposure should be reduced. In the case of large corporate customers and financial institutions, the divisions of the Bank responsible for its policy concerning exposures to particular sectors are those of the Corporate Bank while the Commercial Bank exercises a similar function with respect to small and medium-sized enterprises and Consumer Bank with respect to micro-companies in CitiBusiness.

The Group's policy regarding exposures to large corporate customers active in particular sectors is developed through an identification of target markets. A key component in this identification of markets is an assessment of industry risk. To this end, specialists in particular industries carry out industry analyses. Within the framework of the target markets specified, lending programmes are drawn up with documented requirements for approving the risk involved in specific kinds of business. The higher the industry risk, the tighter the criteria for risk approval. The assessment made of the financial condition of a given industry and its development prospects is a major element in the internal rating assigned to a customer.

In terms of small and medium enterprises and micro-companies, the Bank's policy on exposures consists of identifying a target market by negative selection of particular industries. This involves eliminating from the target market those industries where the risk of doing business is considered unacceptable.

The Bank's policy distinguishes the following criteria as the basis for negative selection:

- Industries excluded in view of their incompatibility with the characteristics of small and medium enterprises,
- Industries excluded in view of their sensitivity to market factors and earnings volatility,
- Industries excluded in view of their declining trends in performance.

The target market is then defined as all other industries that have not received an adverse assessment. A selective approach is admissible in relation to specific industries excluded due to sensitivity and volatility factors or to downward performance trends, whereby those customers with the highest internal ratings in those industries are retained.

Given there is a large diversity of customers representing the individual industries, the table below shows aggregated data for the Bank's exposure to the 20 largest industries in particular reporting periods.

Sector of the economy according to Polish Classification of Economic Activity (PKD)	31.12.2007	31.12.2006
	%	%
Wholesale and sale on commission basis, except for trade with vehicles and motorcycles	17.5	16.1
Financial intermediation, except for insurance and retirement fund business	9.1	9.9
Provision of power, gas, steam and hot water	8.2	9.6
Production of food and beverages	7.4	5.8
Production of chemicals	5.4	5.4
Retail trade, except for trade with vehicles and motorcycles; servicing and repair of personal commodities	4.3	3.7
Postal services and telecommunications	3.7	5.1
Other business services	3.0	2.4
Sale, servicing and repair of vehicles and motorcycles, retail sale of car fuel	3.0	2.1
Production of rubber and plastic goods	2.6	3.2
Top 10 business sectors	**64.2**	**63.3**
Construction	2.5	3.7
Production of coke, oil refinery and atomic fuel	2.3	4.0
Production of equipment, otherwise unclassified	2.2	2.7
Land and pipeline transport	2.2	0.9
Production of machines and equipments	1.9	1.2
Production of metallic goods, except for machines and equipment	1.9	1.6
Production of goods out of other non-metallic resources	1.8	1.3
Production of other transportation equipment	1.6	1.7
Production of vehicles, trailers and semi-trailers	1.6	1.9
Production of tobacco goods	1.6	1.2
Top 20 business sectors	**83.8**	**83.5**
Other sectors	**16.2**	**16.5**
	100.0	**100.0**

The Group operates exclusively in the territory of Poland. No significant connection between the location of the Group's business outlets and credit risk was identified. Therefore, it was decided that the Group would not present credit risk information by geographical segment.

Gross receivables from customers and banks (by type of activity)

In thousands PLN	31.12.2007	31.12.2006
Gross receivables from economic entity and banks		
Financial	9,010,899	9,106,664
Production	3,586,522	2,781,197
Services	1,591,744	2,414,947
Other	3,689,717	3,194,352
	17,878,882	**17,497,160**
Gross receivables from individuals	**4,768,755**	**3,651,765**
	22,647,637	**21,148,925**

Operational risk

The Group defines the operating risk as the risk inherent to the flawed, or ill-performing internal processes, people, or systems, or the external developments. The operating risk also includes the risk relating to business practices as well as the legal risk, or the risk of failure to comply with the effective legal regulations and the Group's internal regulations.

All of the principles of the operating risk management, including the roles and responsibilities at different levels of the Group's hierarchy have been defined in the Policy for the Operating Risk Management. The responsibility for monitoring the operating risk in the Group is vested with the relevant Risk and the Control and Compliance System Committees. All detected oversights, remedial actions, operational events and operating risk indicators are the subject of regular reports submitted with the relevant Committees. At the same time, the operating risk management process quality (including the self-assessment process) in the respective organisational units of the Group are the subject of inspections and assessment carried out by the internal audit.

For a number of years the Group has managed the operating risk using a variety of tools and techniques (including chiefly the self-assessment process, check lists, limits and contingency planning). The operating risk management process is supported through qualitative and quantitative measurement of the operating risk. The monitoring processes the Bank uses serve to minimise the causes of development of any negative consequences of operational events (including operational losses), to reduce the probability of their occurrence and to minimise the severity of the potential consequences.

The operating risk management relies on the following key elements:

- Identification of risk,
- Limiting risk,
- Self-assessment of risk and audit,
- Risk monitoring,
- Measurement of risk,
- Reporting on any areas vulnerable to the operating risk.

The self-assessment process implemented in the Group enables ongoing identification, audit, assessment, monitoring, measurement and reporting of the assessment of the quality of the control processes and the potential risk hazards. For a number of years the Group has regularly collected data on the impact of operating risk related events (losses).

The operating risk management process centralisation and automation introduced in the recent years has contributed to the substantial reduction of the incidence and the value of the operating losses.

The following categories of risk related losses are the subject of loss assessment:

- Losses caused by human error on the part of the staff,
- Losses resulting from external fraud and theft,
- Losses resulting from failure of systems and/or technologies, and
- Losses resulting from failure of processes or products.

In the Management's opinion, the general level of the Group's operating risk can be assessed as moderate, typical to the scope and scale of the Bank's operations. The Bank will concentrate its future actions in this area on the processes included in the Bank's risk profile.

The Group follows the standard method of calculation of the operating risk related capital requirement.

The equity management

According to the Banking Law banks in Poland are obliged to maintain their equity at the level adequate for their specific business risks.

The Bank's equity amounted to PLN 5.6 bn as at 31 December 2007. Regulatory capital, which included increases and decreases set by Commission for Banking Supervision (KNB), amounted to PLN 3.4 bn. Such capital level is regarded as sufficient for conducting business activity and therefore the Bank plans to preserve current capital structure. The capital level is regularly monitored using capital adequacy ratio.

The Bank's Management Board decided to apply the standardized approach (implemented by KNB resolution) for calculating capital requirements due to credit and operational risk. The long-term Bank's goal is the implementation of the advanced approach for estimation of the above-mentioned risks.

Beginning from 2008 the Bank has launched the process of estimating internal capital. The Bank identifies significant risks and assesses the capital required for coverage of these risks.
The Bank determines policy of future dividend's payment in the process of capital management.

The dividend policy depends on the number of factors like the Bank's profits, the Bank's expectations concerning future financial results, the level of capital requirements, as well as tax, regulatory and legal issues.

45. Capital adequacy

The capital adequacy ratio of the Group was calculated according to the rules regulating activities of banks in Poland in the relevant reporting period.

Financial data for calculating capital adequacy ratio on the basis of the consolidated financial report of the Group are presented in the table below.

The capital adequacy ratio as at 31 december 2007 was calculated according to the rules stated in the Resolution No. 1/2007 of the Commission for Banking Supervision of 13 March 2007 on the scope and detailed rules of stating capital requirements with respect to particular types of risk (...) (NBP Official Gazette No. 2, item 3 as amended) which was not effective until 1 April 2007. According to the rules stated in the above-mentioned resolution the Group took advantage of transitional period ending 31 December 2007 for calculating credit risk capital requirements for expositions, which are not regulated by the internal ratings-based approach. In this period applying currently existing rules for calculation is allowed. The capital adequacy ratio as at 31 December 2006 was calculated according to the rules stated in the Resolution No. 4/2004 of the Commission for Banking Supervision of 8 September 2004 on the scope and detailed rules of stating capital requirements with respect to particular types of risk (...) (NBP Official Gazette No. 15, item 25 as amended).

	31.12.2007	31.12.2006
Total capital requirement	2,137,404	1,923,574
Funds held by the entity, including:	3,434,911	3,390,917
Primary funds (including deductions)	3,489,031	3,556,495
Counterpart funds	4,267	(81,501)
Reductions of the total primary and counterpart funds	58,387	84,077
Capital adequacy ratio (%)	**12.86**	**14.10**

46. Statement of the Bank's Management Board

Accuracy and fairness of the statements presented

To the best knowledge of the Bank's Management Board, the financial data for the 2007 and the comparative data presented in the "Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the period from 1 January 2007 to 31 December 2007" were prepared consistently with the accounting standards in force and reflect the accurate, true and fair view of assets and financial position as well as the financial profit or loss of the Group. The Annual Report on Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in the first half 2007 contained in this document is a true representation of the development, achievements and situation (together with a description of the main types of risks) of the Group in the 2007.

Selection of the entity authorized to examine financial statements

The entity authorized to examine financial statements, reviewing the "Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the period from 1 January to 31 December 2007" was selected consistently with the legal regulations. This entity along with the registered auditor met the conditions necessary for issuing an impartial and independent opinion on the review, consistently with the respective regulations of the Polish law.

Signatures of all Management Board Members

Date	Name	Position/function	Signature
13.03.2008	Sławomir S. Sikora	President of the Management Board	
13.03.2008	Michał H. Mrożek	Vice-President of the Management Board	
13.03.2008	Edward Wess	Vice-President of the Management Board	
13.03.2008	Sonia Wędrychowicz--Horbatowska	Vice-President of the Management Board	
13.03.2008	Witold Zieliński	Vice-President of the Management Board	
13.03.2008	Lidia Jabłonowska-Luba	Member of the Management Board	

Report on Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in 2007

Poland's Economy in 2007

Main macroeconomic trends

The combination of the improving labour market conditions and the favourable weather conditions contributed to the clear acceleration in domestic demand in the year 2007, with GDP growing by 6.5% in YOY terms. Investments and consumption were the engines of that robust growth, whereas balance of foreign trade restricted GDP growth.

The labour market clearly revived in the year 2007, with employment in the enterprise sector growing on average by 4.7% in YOY terms. At the same time growth of demand for labour combined with emigration of a part of the labour force also contributed to salaries in the enterprise sector increasing by 9.2%.

In spite of the deteriorating relationship between pay and labour productivity, and the strong domestic demand, in the first three quarters the year 2007 inflation remained relatively low, hovering below the target set by the Monetary Policy Council at 2.5%. CPI clearly rose in the fourth quarter, with December inflation reaching 4%. The inflation was fuelled primarily by substantial raise in food prices, which was related with the growing demand for foodstuffs coming from the emerging market and the development of the biofuels market. At the same time base inflation (CPI, net of food and fuel prices) remained at a low level – reaching average of 1.7% in December.

Responding to the mounting pay raise demand signals and the strong domestic demand, the Monetary Policy Council decided in April 2007 to commence a cycle of monetary tightening. By the end of the year 2007 interest rates increased overall by 100 basis points and the reference rate reached 5.00%. At the same time, in their commentaries the Monetary Policy Council members indicated that the increases on the year 2007 most probably do not complete the current monetary tightening cycle.

Money markets and FX markets

The central event of the year 2007 that impacted both the market interest rates and the FX markets was the sub-prime credit market crisis in the United States, which also hit the Eurozone. One of the effects of widening crisis with the raise of investor uncertainty as to the scale of the losses actually suffered by the individual market participants, which led to escalation of liquidity problems in various banking systems. A visible sign of the market stress was the raise in short-term interest rates in the United States and the Eurozone; materially above the levels of consistency with the central bank rates. The uncertainty in respect of further developments in the financial markets had increased risk aversity, and thereby reduced investor interest in the emerging market assets, including Polish assets.

The past year brought evident strengthening of the Polish currency, both against the US dollar (by 16.3%) and the euro (6.5%). Appreciation of the złoty gained pace in the second half of the year in spite of the continuing volatility of the credit markets. Under conditions of the widening gap between the domestic and the international interest rates, and Poland's dynamic economic growth, the Polish currency gained in attractiveness. The factor that additionally supported the złoty was the revival of the investor expectations for Poland's early adoption of the euro, roused by the changes on the domestic political scene.

The cycle of interest rate increases, which the Monetary Policy Council initiated in the year 2007, had an impact on the bond market, with bond performance improving, particularly on the short end of the yield curve. The dampening debt market sentiment was sustained through the respective publications of macroeconomic data indicating rapid pay increases and the country's surprisingly strong GDP growth. Additionally the increased performance of the Polish government securities was driven by the evident escalation of price pressures at the end of the year, which led to CPI exceeded the upper end of the inflation target adopted by the Monetary Policy Council (1.5-3.5%).

Capital market

The year 2007 proved to be another growth year for the equities market, though not of the scale of the year earlier. WIG, the Polish capital market's main index, reached at the end of 2007 55,649 points (increase of 10.4%), with WIG20, the market's index of the largest companies, increasing by 5.2%.

The equities market in the year 2007 demonstrated two opposing trends. In the first half of the year the stock market performed very well. After a 10% adjustment in February, the following months brought substantial increases of its indices (WIG reached its historic maximum at 67,773 points). The trend reversed in the latter part of the year. The mortgage finance market crisis and the concerns over recession in the United States economy triggered strong revaluations in the capital markets (including of the Warsaw Stock Exchange). As a result of this global scale volatility the Warsaw WIG lost 18% from the July peak.

2007 abounded in stock market débuts. 81 new companies (including 12 foreign companies) entered the Warsaw Stock Exchange. Overall value of the public offerings on it grew to over PLN 18 billion, from PLN 4.16 billion in 2006, of which 85% were new share issues. However, we should note that the quoted value is overstated by the size of the public offering of Immoeast, an Austrian developer (though IPO value was PLN 10.7 billion, the Polish investors took up shares of PLN 463 million).

By the end of the year 2007 total of 351 companies (328 domestic and 23 foreign) traded on the Warsaw bourse's main market. The market capitalisation of the domestic companies exceeded PLN 509 billion (increase of 16% compared to the status at the end of 2006). Overall capitalisation (including foreign companies) rose from PLN 635.9 billion in 2006 to PLN 1,080 billion in the year 2007. The transaction which had a material impact on this substantial increase in market capitalisation was the listing on the Warsaw Stock Exchange of UniCredit, a company with capitalisation exceeding PLN 270 billion.

On the Warsaw Stock Exchange year 2007 also saw a launch of New Connect, an alternative share trading market for relatively small companies representing innovative sectors with major growth potential, but also higher risk profiles. At the end of the year 2007 the new market traded 24 equities with overall capitalisation of PLN 1.2 billion. Total value of trades executed on that new market since its launch reached PLN 303 million.

The Warsaw Stock Exchange (WSE) equity indices, as at 28 December 2007

Index	28.12.2007	2007/2006 % change	29.12.2006	2006/2005 % change	30.12.2005
WIG	55,648.54	10.4%	50,411.82	41.6%	35,600.79
WIG-PL	55,011.93	9.2%	50,361.39	42.8%	35,277.67
WIG20	3,456.05	5.2%	3,285.49	23.7%	2,654.95
mWIG40	4,028.37	7.9%	3,733.26	69.1%	2,207.74
sWIG80	15,917.92	25.2%	12,716.59	132.4%	5,471.33
TECHWIG	1,052.13	(12.4%)	1,201.50	42.3%	844.41
Sector sub-indices					
WIG-Banks	7,949.94	12.2%	7,085.84	51.4%	4,678.78
WIG-Construction	8,673.57	12.6%	7,703.50	148.4%	3,100.73
WIG-Developers*	4,788.89	-	-	-	-
WIG-IT	1,764.67	0.5%	1,756.58	34.8%	1,303.29
WIG-Media	4,911.01	22.4%	4,012.97	7.2%	3,743.23
WIG-Fuel industry	3,548.44	12.7%	3,149.10	(11.5%)	3,560.08
WIG-Food industry	3,317.96	(13.4%)	3,832.40	50.6%	2,544.41
WIG-Telecommunications	1,270.21	(5.2%)	1,340.01	8.2%	1,238.20

** index calculated since 18 June 2007*
Source: WSE, Dom Maklerski Banku Handlowego S.A.

Volumes of trade in shares, bonds and derivative instruments on WSE, as at 28 December 2007

	2007	2007/2006 % change	2006	2006/2005 % change	2005
Shares (PLN m)	461,917	42.6%	323,920	84.7%	175,403
Bonds (PLN m)	3,264	(40.5%)	5,488	8.5%	5,059
Futures and options contracts ('000 units)	9,478	48.4%	6,386	18.7%	5,378

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

Value of trading in shares in the year 2007 reached nearly PLN 462 billion, which represented an increase of over 42% compared to the year 2006. At the trading session of 21 December 2007 trading volume exceeded PLN 4.14 billion: the highest level in the history of the Warsaw bourse.
Volume of trading in futures and options contracts also reached a new record high, increasing by 48% compared to 2006.
The debt securities market in the year 2007 was characterised by sluggish investor activity as bonds trading declined by over 40% compared to a year earlier, and reached over PLN 3 billion.

Banking sector

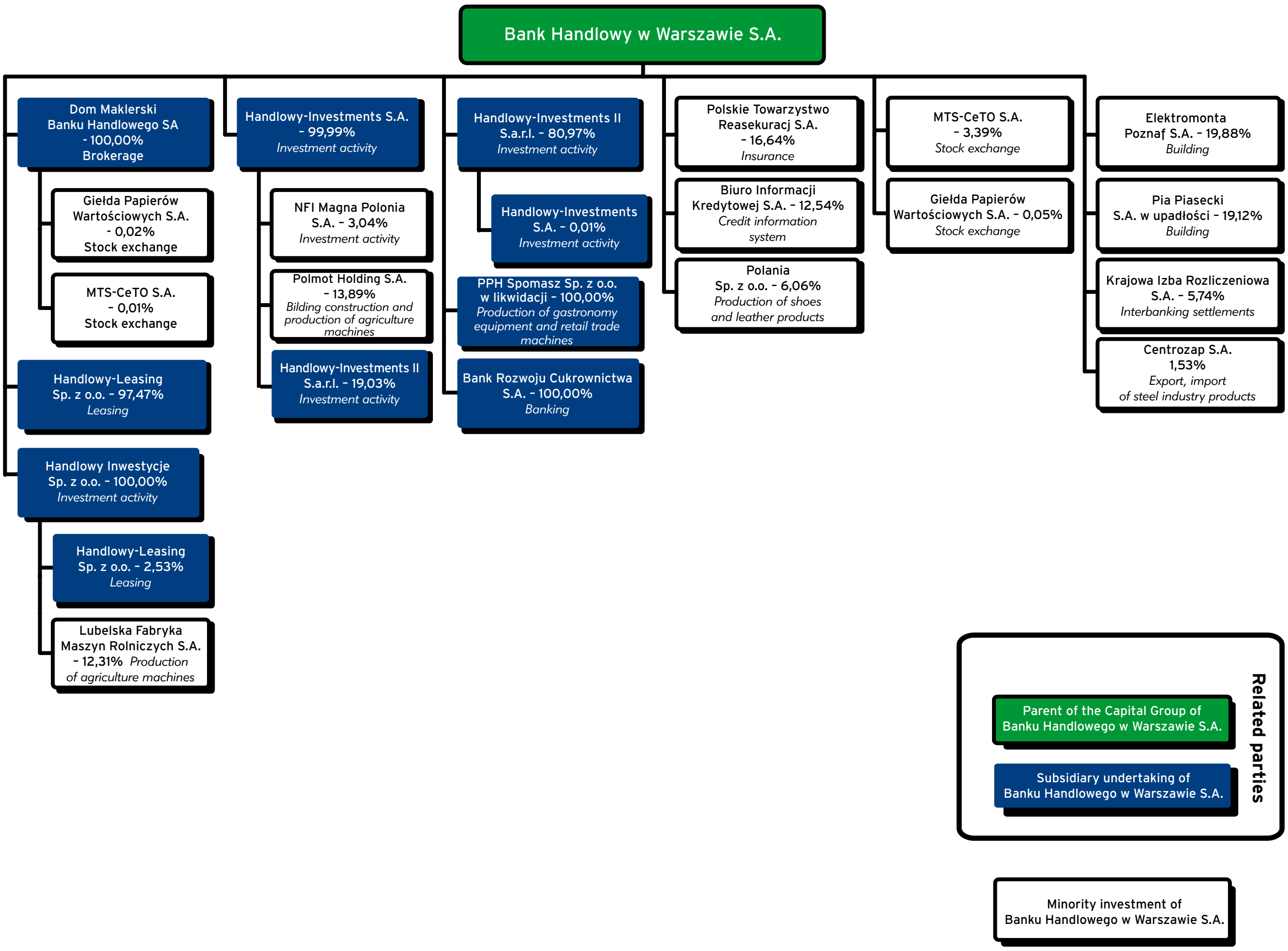
The year 2007 proved to be another in a series of good years for the Polish banking sector, a situation that was unequivocally influenced by the country's robust economic standing. The banking sector achieved a record high net financial result of over PLN 13 billion, as much as 23% higher than that generated in 2006. The higher than a year earlier sector profitability is a combined effect of the substantial increase in the net income on banking activity, which reached PLN 38 billion (mainly through an increase in net interest income and net commission income), of the slower increase in costs of banking activity (at 4%) and of the moderate increase in loan loss provisions (at 6%).

The factors driving the revenue growth here were evidently the growing loan and deposit volumes. The growth in lending to the corporate section in 2007 reached 24% in YOY terms, a result that is substantially better than that achieved a year earlier. The substantial increase in corporate deposits – of the order of 15% – achieved in the year 2007 is nonetheless lower than that achieved a year earlier. This testifies of the continuing good financial condition of the enterprise sector as well as of the their need to raising capital for further development.

The overall protfolio of loans to individual customers, at the end of the year 2007, increased by 42%, including mortgage loans growing by 51%, in YOY terms. The overall value of deposits placed by those customers in the banking sector increased by only 9%, which resulted from changes in the structure of savings. Nonetheless, material deposit volume growth was registered in the second half 2007, as an effect of the growing uncertainty in the capital markets and the raising interest rates, which in turn was reflected in the higher atractiveness of bank deposits and savings accounts. Driven by the changes occurring in the retail market, the net balance of the non-financial sector (labilities less receivables) declined by PLN 61 billion and at the end of 2007 stood at only PLN 6 billion.

Organizational structure of the Capital Group of Bank Handlowy w Warszawie S.A.

The organizational structure of the equity portfolio held by the Bank Handlowy w Warszawie S.A. ("Bank"), according to the percentage of share capital owned as at 31 December 2007, is presented below.



Changes in the organizational structure of the Capital Group of Bank Handlowy w Warszawie S.A.

The Capital Group of Bank Handlowy w Warszawie S.A. ("Group") consists of the parent company and subsidiaries:

Group entities fully consolidated

Entity	Business	Capital relationship	% of authorized capital owned	Accounting method	Own equity (in thousands of PLN)
Bank Handlowy w Warszawie S.A.	banking	parent company	-	-	5,476,078*
Dom Maklerski Banku Handlowego S.A. (DMBH)	brokerage	subsidiary	100.00%	full consolidation	99,925
Handlowy-Leasing Sp. z o.o.	leasing	subsidiary	100.00%**	full consolidation	211,367
Handlowy Investments S.A.	investment activity	subsidiary	100.00%	full consolidation	28,649
PPH Spomasz Sp. z o.o. under liquidation	-	subsidiary	100.00%	full consolidation	Company under liquidation

* *The equity of Bank Handlowy w Warszawie S.A. according to its individual financial statements for 2007.*
** *Taking into account indirect shareholdings.*

Group entities not fully consolidated

Entity	Business	Capital relationship	% of authorized capital owned	Accounting method	Own equity (in thousands of PLN)
Handlowy Inwestycje Sp. z o.o.	investments	subsidiary	100.00%	equity valuation	11,211
Handlowy Investments II S.a.r.l.	investments	subsidiary	100.00%**	equity valuation	7,275
Bank Rozwoju Cukrownictwa S.A.	banking	subsidiary	100.00%	equity valuation	39,634

** *Taking into account indirect shareholdings*

Selected financial data of the Capital Group of Bank Handlowy w Warszawie S.A.

Highlights of the year 2007

2007 was a year of outstanding achievement in the Group's history. Major attainments included:

- **Profit before taxation exceeded PLN 1 billion** – the Group's gross profit reached PLN 1,034.2 million and was 24.3%. higher than in the year 2006;
- **Net profit is significantly higher** than a year earlier – it increased by 25.4% reaching PLN 824.2 million;
- **Effectiveness improved substantially**, both at Group level (growth of ROE by 3 p.p. and of ROA by 0.2 p.p., decline of Cost/Income ratio by 8.1 p.p.) as well as segmental level – decline of Cost/Income ratios of the Consumer Bank and the Corporate Bank by 6.8 p.p. ad 9.5 p.p. respectively;
- Lending grew by 22.5% (receivables and liabilities from/to the non-financial and budgetary sector);
- Strong market position in the corporate segment was retained;
- **Successful operation of the OnLineTrading (OLT) platform** for execution of FX transactions – volume of transactions cleared through this tool crew by 390% YOY;
- **Competitiveness in the consumer banking segment increased** – the number of current accounts increased by 36% YOY reaching 307,000 at the end of the year 2007;
- **Best ever year in terms of the number of issued credit cards** – the Group acquired 237,000 new cards (55% more than in 2006), with the credit card portfolio at year-end amounting to over 820,000 (24% YOY growth);
- **Successful savings account** offered to retail customers (at year-end funds collected on the savings accounts reached PLN 1.7 billion), which contributed to deposit base growth;
- Over twofold YOY growth in net asset value of the leasing assets contracted by Handlowy-Leasing S.A.;
- **Shares of Bank Handlowy w Warszawie S.A. in trading for 10 years** on the Warsaw Stock Exchange;
- Optimised branch network – most of the outlets implement servicing of retail consumers and corporate clients, as a result corporate clients have gained additional 70 branches while retail customers additional 9 outlets serving them.

Selected Financial Data of the Group

PLN million	As at		Change	
	31.12.2007	31.12.2006	PLN '000	%
Total assets	38,908.0	35,990.7	2,917	8.1%
Equity	5,603.1	5,417.8	185	3.4%
Loans*	12,486.5	10,196.9	2,290	22.5%
Deposits*	19,811.4	18,880.2	931	4.9%
Net profit	824.2	657.1	167	25.4%
Capital adequacy ratio	12.9%	14.1%	-	-

** Due from and to the non-financial sector and the public sector*

Financial result of the Group for the year ended 31 December 2007

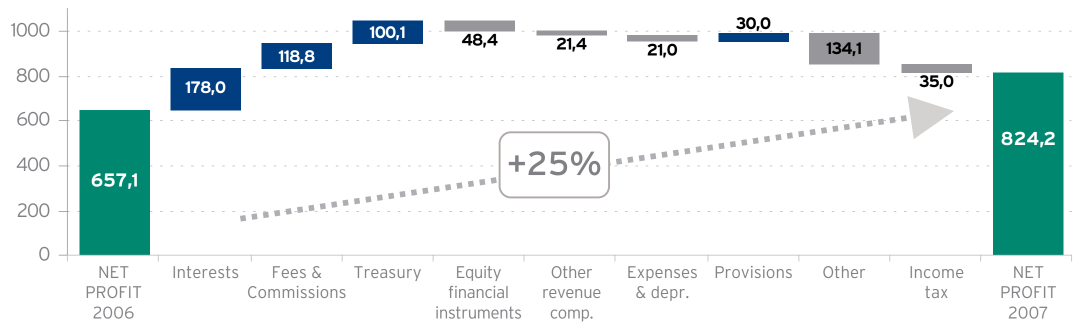
Income Statement

The Group's net profit for the year 2007 reached PLN 824.2 million and was PLN 167.2 million or 25.4% up from a year earlier. Its profit before taxation for the year 2007 exceeded the one billion zlotys threshold and reached PLN 1,034.2 million, an increase of PLN 202.1 million or 24.3% compared to profit before taxation of a year earlier.

Selected income statement items

PLN '000	2007	2006	Change	
			PLN '000	%
Net interest income	1,204,420	1,026,401	178,019	17.3%
Net commission income	736,683	617,902	118,781	19.2%
Dividend income	5,940	3,659	2,281	62.3%
Net gains on financial instruments held for trading and on revaluation	422,520	315,906	106,614	33.7%
Net gains on investment debt securities	30,086	36,571	(6,485)	(17.7%)
Net gains on investment equity securities	47,489	95,846	(48,357)	(50.5%)
Net other operating income	65,065	88,756	(23,691)	(26.7%)
Total income	**2,512,203**	**2,185,041**	**327,162**	**15.0%**
Overheads and general administrative expenses and depreciation	(1,522,544)	(1,501,558)	(20,986)	(1.4%)
Overheads and general administrative expenses	(1,413,707)	(1,371,372)	(42,335)	(3.1%)
Depreciation/amortisation of tangible and intangible fixed assets	(108,837)	(130,186)	21,349	16.4%
Net gains on sale of fixed assets	596	118,316	(117,720)	(99.5%)
Net change in impairment losses	52,556	22,535	30,021	133.2%
Share in profits (losses) of undertaking accounted for under the equity method	(8,586)	7,780	(16,366)	(210.4%)
Profit before taxation	**1,034,225**	**832,114**	**202,111**	**24.3%**
Income tax expense	**(210,010)**	**(175,058)**	**(34,952)**	**(20.0%)**
Net profit for the year	**824,215**	**657,056**	**167,159**	**25.4%**

The graph below depicts impact the respective income statement positions had on the Group's net profit:



The positive results the Group achieved on the revenue side had the greatest impact on the posted income growth. In 2007 total revenue reached PLN 2,512.2 million and was PLN 327.2 million or 15% higher than revenue posted for 2006. In the same period the Group's overheads, general administrative expenses and depreciation remained at a stable level of PLN 1,522.5 million, which represents a slight increase over a year earlier, i.e. by PLN 21 million or 1.4%. Change in net impairment losses of financial assets, which in the year 2007 reached PLN 52.6 million, had a positive impact on net profit, however, the year earlier change in net impairment losses of financial assets had positive impact on the Group's net profit; it was PLN 30.0 million or 133.2% higher that a year earlier. Effective tax rate had a material positive impact on net profit growth: in 2007 it was 20.3%, with income tax of PLN 210.0 million, whereas in 2006 it was 21.0 %, which translated into income tax of PLN 175.1 million.

In 2007, as in 2006, there occurred a number of material one-off events, which had an effect on the Group's earnings.

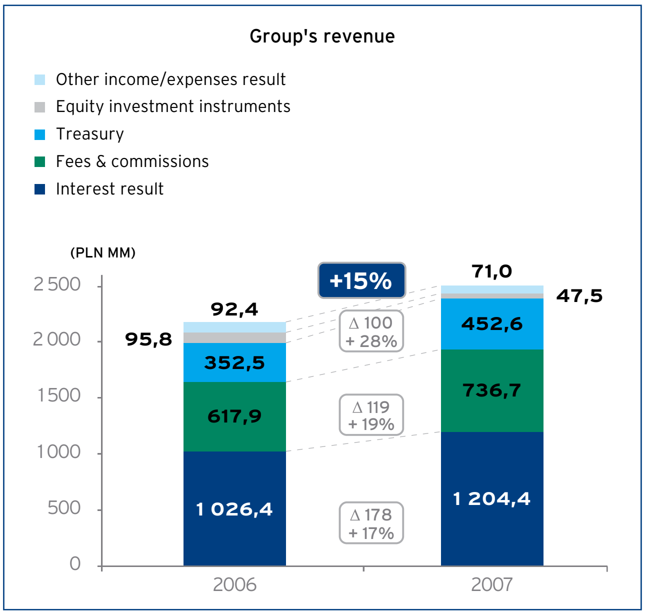
In the first quarter of 2006 total income on sale of shares of Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A., Handlowy Zarządzanie Aktywami S.A., shares in an associated entity Handlowy Heller S.A. and of an organised part of the Bank's business involved in activity of settlement of card transactions for the Consumer Bank reached PLN 114 million. In the second quarter of 2006 the Bank posted income on sale of shares previously granted by MasterCard in an amount of PLN 6 million while in the third quarter of 2006 it posted net income on sale of NFI Empik Media & Fashion by Handlowy Investments S.A., the Bank's subsidiary (1st tranche). In the fourth quarter of 2006 the Bank achieved PLN 85 million net income on equity investment instruments as a result of the sale of shares of NFI Empik Media & Fashion (2nd tranche) and participation shares in Eastbridge B.V. by Handlowy Investments S.A.

In the first quarter of 2007 the Group posted profit on net income on sale of shares in Stalexport S.A. in an amount of PLN 7 million. Net result of the second quarter of 2007 includes PLN 37 million net income on sale of a minority holding in shares of NFI Empik Media & Fashion by Handlowy Investments S.A., a subsidiary of the Bank, and of shares in MasterCard. Additionally, in the second quarter of 2007 the Group posted a provision in an amount of PLN 10 million, on account of a fine imposed by the Office of Competition and Consumer Protection in connection with proceedings relating to "interchange" charges in the banking sector. In the fourth quarter of 2007 the Bank achieved a PLN 3 million net income on equity investment instruments as a result of the sale of shares of NFI Magna Polonia S.A. by Handlowy Investments S.A., the Bank's subsidiary.

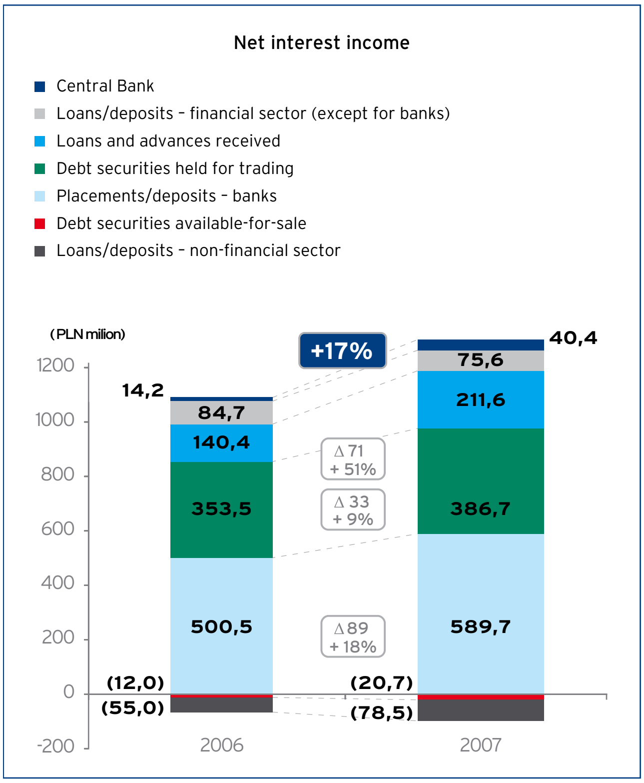
At exclusion of the effect of those transactions profit before taxation of 2007 increased in YOY terms by PLN 381 million or 62% whereas net profit rose by PLN 308 million or 63%.

Revenue

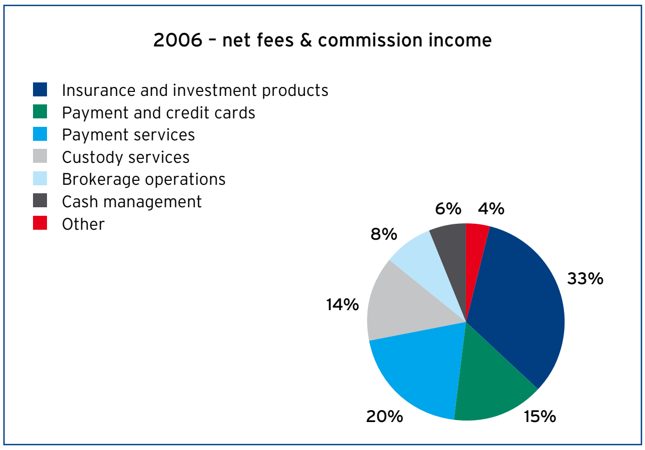
Operating income in 2007 reached PLN 2,512.2 million and was 15% higher than operating income of 2006 (PLN 2,185.0 million), mainly as a result of growth in interest income, commission income and income on treasury operations.

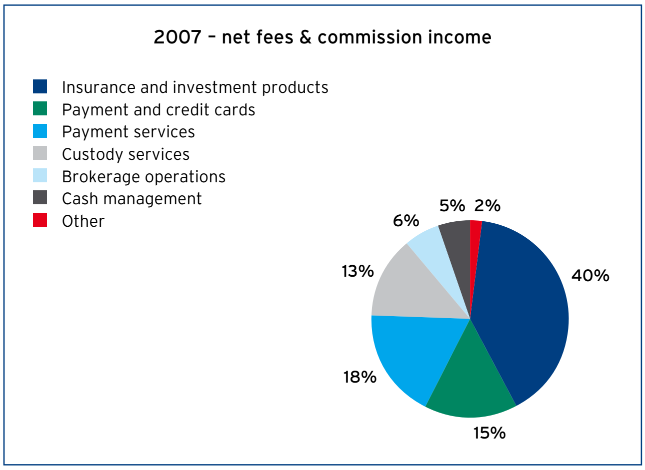


• The substantial **increase in interest income** of PLN 178.0 million of 17.3% is primarily an effect of an increase in income on retail and corporate loans, credit card borrowing and income on interbank deposits, this in spite of a decline in the portfolio of debt securities available for sale and the higher costs of financing the non-financial sector deposits,



• increase of **net commission income**, which YOY increased by PLN 118.8 million or 19.2%, primarily coming from commissions on investment and insurance products in the Consumer Bank,





• **income on treasury operations**, which YOY increased by PLN 100.1 million or 28.4%, including:

- net gains on financial instruments held for trading and on revaluation; YOY growth of PLN 106.6 million or 33.7% achieved through active sale of products to clients and effective management of the Group's own position, with volumes of FX transactions with non-banking clients, option transactions and sales of market linked deposit products increasing substantially; and
- net gains on debt investment securities, which declined slightly YOY- by PLN 6.5 million or 17.7%.

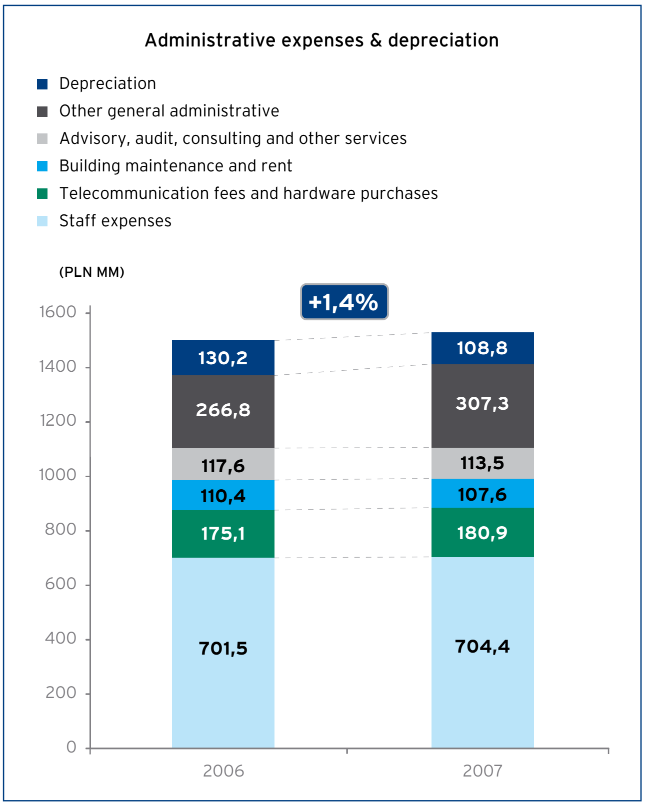
The abovementioned factors, which had a positive impact on the Group's revenue, were partially tempered by:

• **decline in gains on equity investment** securities by PLN 48.4 million or 50.5% YOY, primarily due to the greater value of one-off transactions that occurred in 2006. In the year 2006 the Group sold shares in NFI Empik Media&Fashion (in two tranches) and participation shares in East Bridge B.V./S.a.r.l., with overall effect of both the transactions on net income of PLN 95.8 million. The transactions executed in 2007 with net effect of PLN 47.5 million included the sale of a minority share stake in NFI Empik Media&Fashion, of shares in Stalexport S.A., shares in Mastercard and shares in NFI Magna Polonia S.A.;

• decline in **net other operating income** by PLN 23.7 million or 26.7% in connection with posting in 2007 to other operating expenses of a provision of PLN 10 million, on account of a fine imposed by the Office of Competition and Consumer Protection in connection with proceedings relating to "interchange" charges in the banking sector. Moreover, in 2006, the Group posted to other operating income of the Consumer Bank the value of shares granted by Mastercard and in the case of the Corporate Bank the release of the excess provision for refurbishment of one building.

Expenses

Throughout the year 2007 the Group continued to pursue its cost discipline policy. Compared to 2006, expense increased by only 1.4% or PLN 21 million. Depreciation and personnel costs in the Corporate Bank fell, primarily due to lower cost of valuation of the employee stock option benefit schemes, within which the employees are offered Citigroup shares or share options. At the same time costs in the Consumer Bank escalated, driven primarily through intensification of marketing activities (particularly in the media of television and press) and increases in personnel costs, both variable (consequence of good sales results) and fixed (increased employment in distribution informed by business development and expansion of the distribution channels).



Group employment

In FTJEs	2007	2006	Change	
			FTJEs	%
Average employment in the year	5,722	5,539	183	3%
Employment at year-end	5,921	5,647	274	5%

Net profit on divestment of tangible fixed assets

Decline in net profit on divestment of tangible fixed assets by PLN 117.7 million compared to 2006 is primarily a result of a number of transactions involving sale of assets held for disposal which took place on the previous year: in 2006 total income on sale of shares in Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A. and in Handlowy Zarządzanie Aktywami S.A., shares in the Handlowy Heller S.A. associated entity and in the organised part of the Bank's business involved in activity of settlement of card transactions for the Consumer Bank reached PLN 114 million.

Net impairment losses of financial assets and difference in the value of provisions for off-balance sheet liabilities

Net Impairment Losses

PLN '000	2007	2006	Change	
			PLN '000	%
Net impairment losses incurred but not reported (IBNR)	8,829	21,994	(13,165)	(59.9%)
Net impairment losses on loans and off-balance sheet liabilities	43,727	541	43,186	7982.6%
accounted for individually	75,046	(1,708)	76,754	4493.8%
accounted for collectively (on a portfolio basis)	(31,319)	2,249	(33,568)	(1492.6%)
Total change in impairment losses	**52,556**	**22,535**	**30,021**	**133.2%**

Total change in impairment losses of PLN 52.6 million (PLN 30 million or 133.2% more than in 2006) at the end of the year 2007 was mainly influenced by improvement in the loan portfolio quality, the general improvement in financial standing of borrowers and actual higher repayment of the impaired corporate loans. The achieved net change in impairment losses testifies of stable loan portfolio quality, effectiveness of the restructuring and collection activities and of favourable macroeconomic conditions.

Ratio analysis

Group profitability and cost efficiency ratios

	2007	2006
Return on equity (ROE)*	16.6%	13.6%
Return on assets (ROA)**	2.1%	1.9%
Net interest margin (NIM)***	3.1%	2.9%
Cost/Income****	60.6%	68.7%
Non-financial sector loans to non-financial sector deposits	63%	54%
Non-financial sector loans to total asset	32%	28%
Net interest income to total revenue	48%	47%
Net commission income to total revenue	29%	28%

* *Net profit to average equity (excluding 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 amortisation to operating income*

All of the financial indicators presented above confirm substantial improvements in effectiveness of the Group in the year 2007. Worth underscoring are the following YOY improvements: ROE by 3 p.p. and ROA by 0.2 p.p. Both of these ratio increases were driven by the relatively high net profit growth: by PLN 167.2 million or 25.4%.

The Group also improved its cost effectiveness, with cost/income ratio declining by 8.1 p.p.

As at 31 December 2007, total assets of the Group reached PLN 38,908 million and were 8.1% higher than at the end of 2006, share of non financial sector loans in total assets increased by 4 p.p. whereas non financial sector loans to non financial sector deposits increased by 9 p.p.

Balance Sheet

As at 31 December 2007, total assets of the Group reached PLN 38,908 million and were 8.1% higher than at the end of 2006.

Balance Sheet

PLN '000	As at		Change	
	31.12.2007	31.12.2006	PLN '000	%
ASSETS				
Cash and balances with central bank	3,321,503	535,623	2,785,880	520.1%
Financial assets held-for-trading	5,135,708	4,556,471	579,237	12.7%
Debt securities available-for-sale	6,467,638	8,247,313	(1,779,675)	(21.6%)
Equity investments accounted for under the equity method	58,388	67,910	(9,522)	(14.0%)
Other equity investments	21,909	54,618	(32,709)	(59.9%)
Loans and advances	21,205,373	19,516,218	1,689,155	8.7%
To financial sector	8,718,832	9,319,272	(600,440)	(6.4%)
To non-financial sector	12,486,541	10,196,946	2,289,595	22.5%
Property and equipment	612,797	638,246	(25,449)	(4.0%)
land, buildings and equipment	587,769	628,860	(41,091)	(6.5%)
investment property	25,028	9,386	15,642	166.7%
Intangible assets	1,284,078	1,285,753	(1,675)	(0.1%)
Deferred income tax assets	374,468	274,124	100,344	36.6%
Other assets	413,477	801,920	(388,443)	(48.4%)
Non-current assets available-for-sale	12,645	12,539	106	0.8%
Total assets	**38,907,984**	**35,990,735**	**2,917,249**	**8.1%**
LIABILITIES				
Liabilities towards the central bank	-	250,113	(250,113)	-
Financial liabilities held-for-trading	4,373,146	3,316,847	1,056,299	31.8%
Financial liabilities valued at amortised cost	28,000,003	25,991,136	2,008,867	7.7%
Deposits from	26,896,411	25,036,782	1,859,629	7.4%
inancial sector	7,085,042	6,156,605	928,437	15.1%
non-financial sector	19,811,369	18,880,177	931,192	4.9%
other liabilities	1,103,592	954,354	149,238	15.6%
Provisions	37,548	44,378	(6,830)	(15.4%)
Income tax liabilities	101,889	5,687	96,202	1691.6%
Other liabilities	792,314	964,771	(172,457)	(17.9%)
Total liabilities	**33,304,900**	**30,572,932**	**2,731,968**	**8.9%**
EQUITY				
Issued capital	522,638	522,638	-	0.0%
Share premium	3,028,809	3,027,470	1,339	0.0%
Revaluation reserve	(182,450)	(81,501)	(100,949)	(123.9%)
Other reserves	1,454,355	1,407,081	47,274	3.4%
Retained earnings	779,732	542,115	237,617	43.8%
Total equity	**5,603,084**	**5,417,803**	**185,281**	**3.4%**
Total liabilities and equity	**38,907,984**	**35,990,735**	**2,917,249**	**8.1%**

Assets

Gross loan receivables*

PLN '000	As at		Change	
	31.12.2007	31.12.2006	PLN '000	%
Banks and other monetary financial institutions	8,273,004	8,907,986	(634,982)	(7.1%)
Non-banking financial institutions	522,317	502,516	19,801	3.9%
Non-financial sector entities	9,016,472	7,817,887	1,198,585	15.3%
Individuals	4,767,344	3,630,594	1,136,750	31.3%
Government units	60,652	286,361	(225,709)	(78.8%)
Other receivables	7,848	3,581	4,267	119.2%
Total	**22,647,637**	**21,148,925**	**1,498,712**	**7.1%**

** receivables with payable interest*

In 2007 gross loan receivables increased by 7,1% in comparison to the previous year and reached PLN 22 647,6 million. For the second time the Group recorded increase of loan portfolio of non financial sector loans, both corporate and consumer. At the end of the year 2007 the balance of loans granted to business entities reached PLN 9,016.5 million and was 15.3% higher than at the end of 2006 whereas the balance of loans granted to private individuals reached PLN 4,767.3 million, which represented an increase of 31.3%.

In spite of a 22.7% decline in the debt securities portfolio in the year 2007, it remains the second largest component of the Group's assets.

Debt securities portfolio

PLN '000	As at		Change	
	31.12.2007	31.12.2006	PLN '000	%
Treasury bonds	6,849,596	9,149,124	(2,299,528)	(25.1%)
NBP bonds	377,428	378,413	(985)	(0.3%)
Treasury bills	69,035	73,153	(4,118)	(5.6%)
Certificates of deposit and banks' bonds	85,883	125,679	(39,796)	(31.7%)
Issued by non-financial entities	50,771	54,476	(3,705)	(6.8%)
Issued by financial entities	158,981	43,834	115,147	262.7%
Total	**7,591,694**	**9,824,679**	**(2,232,985)**	**(22.7%)**

Liabilities

Financial liabilities valued at amortised cost

PLN '000	As at		Change	
	31.12.2007	31.12.2006	PLN '000	%
Due to financial sector	**7,044,168**	**6,112,732**	**931,436**	**15.2%**
- banks and other monetary financial institutions	3,896,336	3,660,266	236,070	6.4%
- due to non-banking financial sector	3,147,832	2,452,466	695,366	28.4%
Due to non-financial sector including:	**19,798,593**	**18,860,452**	**938,141**	**5.0%**
- corporate clients	13,153,014	13,134,144	18,870	0.1%
- individuals	5,194,835	4,232,056	962,779	22.7%
Other liabilities including accrued interest	**1,157,242**	**1,017,952**	**139,290**	**13.7%**
Total	**28,000,003**	**25,991,136**	**2,008,867**	**7.7%**

The key position funding the Group's assets representing 70.7% of total liabilities were liabilities due to non-financial sector. Additionally, in 2007 these increased by 5% or PLN 938.1 million. Within that group of liabilities the position which continues to dominate – representing two-thirds by value – are liabilities due to corporate clients (a year earlier that share stood at 70%), which, however, remained stable in YOY terms (growth of 0.1% or PLN 18.9 million). In contrast to the Group's liabilities due to corporate clients, liabilities due to private individuals exhibited substantial higher growth rate of 22.7% or by PLN 962.8 million.

In 2007 the Group also registered substantial growth in liabilities due to financial sector, primarily in liabilities due to non-banking financial sector. Total liabilities due to financial sector increased by 15.2% or PLN 931.4 million whereas deposits of non-banking financial sector institutions increased by 28.4% or PLN 695.4 million, which was, to a great extent driven by growth in term deposits placed by investment funds; arising from the conditions prevailing on the market at the end of the year 2007. At the same time funds on accounts of banks and other monetary financial institutions increased by PLN 236.1 million or 6.4%.

One significant phenomenon occurring on both sides of the Group's balance sheet is the significant share of unrealised gains/losses on derivative instrument operations, which reflects the scale of the sale/purchase operations conducted by the Bank. Balance sheet valuation of these instruments is presented in the positions of financial assets/liabilities held-for-trading.

Sources and uses of funds

	31.12.2007	31.12.2006
Source of funds		
Funds of banks and other monetary financial institutions	4,601,505	4,118,794
Funds of customers and government units	23,398,498	21,872,342
Own funds with net income	5,603,084	5,417,803
Other external funds	5,304,897	4,581,796
Total source of funds	**38,907,984**	**35,990,735**
Use of funds		
Receivables from banks and other monetary financial institutions	8,271,118	8,898,414
Receivables from customers and government units	12,934,256	10,617,804
Securities, shares and other financial assets	11,683,643	12,926,312
Other uses of funds	6,018,967	3,548,205
Total use of funds	**38,907,984**	**35,990,735**

Equity and Capital Adequacy Ratio

Compared to 2006 equity in the year 2007 increased slightly (by PLN 18.1 million or 0.4%). This was primarily due to:

- increase in the supplementary capital fund by PLN 50.5 million originating from allocation of the year 2006 earnings;
- increase in retained earnings by PLN 67.2 million;
- reduction of the revaluation reserve fund by PLN 101.0 million related to deterioration in valuations of some financial assets available for sale.

Equity

PLN '000	As at		Change	
	31.12.2007	31.12.2006	PLN '000	%
Issued capital	522,638	522,638	-	-
Share premium	3,028,809	3,027,470	1,339	0.0%
Supplementary capital	1,066,053	1,015,567	50,486	5.0%
Revaluation reserve	(182,450)	(81,501)	(100,949)	(123.9%)
General risk reserve	390,000	390,000	-	-
Retained earnings	(46,181)	(113,427)	67,246	59.3%
Total equity	**4,778,869**	**4,760,747**	**18,122**	**0.4%**
Tier 1 capital	5,007,500	4,955,675	51,825	1.0%
Tier 2 capital	(182,450)	(81,501)	(100,949)	(123.9%)
Other equity	(46,181)	(113,427)	67,246	59.3%

The Group's capital equity funds are fully sufficient to ensure financial security to the institution and the deposits it accepts, and to ensure its financial growth.

As at 31 December 2007, capital adequacy ratio of the Group stood at 12.86%, down by 1.24 percentage points compared with the end of 2006. Capital adequacy ratio remained at a satisfactory level in spite of an increase in capital requirement by PLN 213.8 million, which resulted mainly from an increase in credit risk related capital requirement by PLN 164.0 million, an increase in risk-weighted off-balance sheet assets and contingent liabilities by 2,046.1 million and a slight increase in regulatory capital of the Group by PLN 44.0 million.

Capital adequacy ratio

PLN '000	31.12.2007	31.12.2006
Own funds, as stated on the balance sheet	**4,777,376**	**4,760,747**
Less:	1,342,465	1,369,830
- goodwill	1,245,976	1,245,976
- other intangible assets	38,102	39,777
- interests in subordinated financial entities	58,387	84,077
Own funds for the calculation of capital adequacy ratio	**3,434,911**	**3,390,917**
Risk-weighted assets and off-balance sheet liabilities (bank portfolio)	**17,444,865**	**15,398,733**
Total capital requirement, including:	**2,137,404**	**1,923,574**
- capital requirement to cover credit risk	1,395,589	1,231,899
- capital requirement to cover excess exposure concentration and large	356,051	327,073
- total capital requirements to cover market risk	253,531	248,418
- other capital requirements	132,233	116,184
Capital adequacy ratio	**12.86%**	**14.10%**

Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in the year 2007

Lending and other risk exposures

Lending

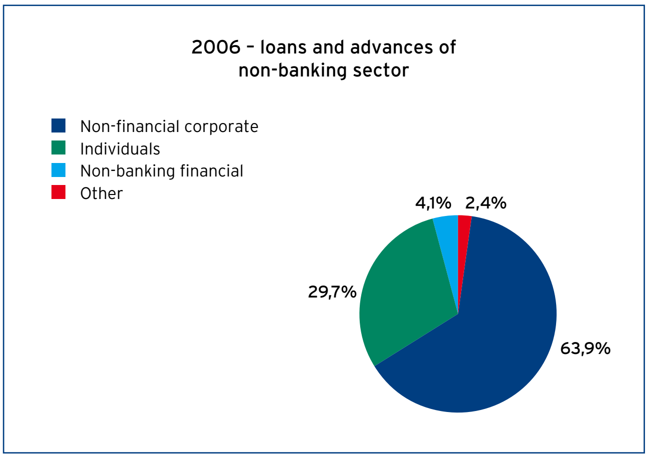
The Group's lending policy is based on active portfolio management and precisely specified target markets, designed to facilitate exposure and credit risk analysis within the framework of a given industry of the client. In addition, individual borrowers are continuously monitored so that any signs of deterioration in creditworthiness can be detected promptly and appropriate corrective measures untaken as needed. In the year 2007 the Bank had continued developing its credit policy rules and credit offer for small and medium-sized enterprises (SMEs).

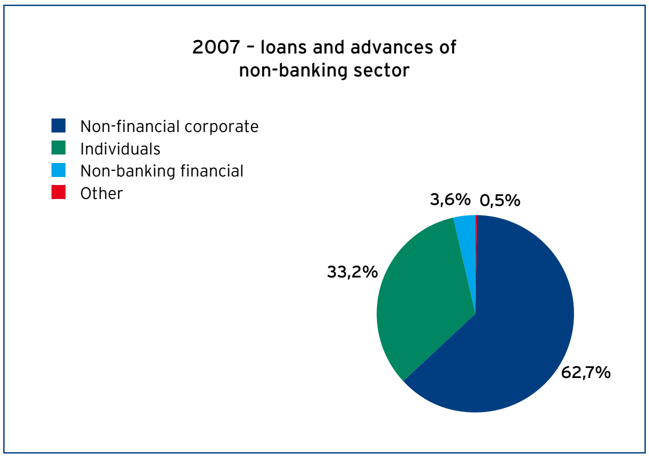
The portfolio of receivables from individuals is managed on the basis of scoring models that calculate risk and return on respective segments of the loan portfolio. In its credit risk assessment process and its scorecard assessments, the Group draws on the information available from a Credit Information Bureau. In the years 2006–2007 the Bank implemented scorecard assessment models for its cash loans portfolios and unsecured credit lines.

Lending to non-bank customers (gross)

PLN '000	As at		Change	
	31.12.2007	31.12.2006	PLN '000	%
Loans in PLN	12,759,315	10,662,605	2,096,710	19.7%
Loans in foreign currency	1,615,319	1,578,334	36,985	2.3%
Total	**14,374,634**	**12,240,939**	**2,133,695**	**17.4%**
Loans to non-financial sector	13,791,665	11,452,062	2,339,603	20.4%
Loans to financial sector	522,317	502,516	19,801	3.9%
Loans to public sector	60,652	286,361	(225,709)	(78.8%)
Total	**14,374,634**	**12,240,939**	**2,133,695**	**17.4%**
Non-financial corporates	9,016,473	7,817,887	1,198,586	15.3%
Individuals	4,767,344	3,630,594	1,136,750	31.3%
Non-bank financial entities	522,317	502,516	19,801	3.9%
Public entities	60,652	286,361	(225,709)	(78.8%)
Other non-financial receivables	7,848	3,581	4,267	119.2%
Total	**14,374,634**	**12,240,939**	**2,133,695**	**17.4%**

As at December 2007, gross credit exposure to the non-financial sector amounted to PLN 14,374.6 million, representing an increase of 17.4% as compared with 31 December 2006. The largest part of the non-financial sector credit portfolio were loans to non-financial corporates (62.7%), which increased 15.3% YOY, a result of expansion in the Group's landing, an increase in working capital funding and an increase in investment activity of corporate clients responding to the country's favourable macroeconomic climate. Receivables from individuals grew in YOY terms by 31.3% to PLN 4,767.3 million, with their share in gross credit exposure to the non-financial sector increasing by 3.5%. Growth in loans to individuals came from development of the offer addressed to retail customers and the intensification of the promotional and sales activity.





As at 31 December 2007, the currency structure of loans outstanding changed slightly as compared with the end of 2006. The share of foreign currency loans, which as at 31 December 2006 stood at 12.9%, decreased to 11.2% by 31 December 2007. Worth noting is the fact that the Group grants foreign currency loans to clients and customers who have foreign currency cash flows or those who, in the Group's opinion, are able to predict or absorb the currency risk without significant deterioration of their financial position. To individual borrowers only cash secured overdrafts were offered in foreign currency, this on selective basis.

The Group monitors the concentration of its loan exposures on a regular basis, seeking to avoid a situation where the portfolio is exposed to a limited group of clients. As at 31 December 2007, the Group's portfolio exposure to non-bank entities did not exceed the exposure concentration limits required by the law.

Concentration of exposures to non-financial borrowers

PLN '000	31.12.2007			31.12.2006		
	Balance Outstanding*	Off-Balance Outstanding	Total Outstanding	Balance Outstanding*	Off-Balance Outstanding	Total Outstanding
GROUP 1	132,638	473,595	606,233	124,929	474,429	599,358
GROUP 2	443,585	159,694	603,279	327,613	144,832	472,445
GROUP 3	186,218	298,882	485,100	180,299	360,088	540,387
CLIENT 4	49	400,000	400,049	57,607	-	57,607
GROUP 5	21	360,522	360,543	255,437	130,836	386,273
CLIENT 6	199,913	150,087	350,000	127,231	302,773	430,004
GROUP 7	167,690	141,592	309,282	1,982	105,839	107,821
GROUP 8	36,406	255,205	291,611	5	309,856	309,861
GRUPA 9	16,273	270,564	286,837	36,440	50,468	86,908
CLIENT 10	250,000	-	250,000	-	-	-
Total 10	**1,432,793**	**2,510,141**	**3,942,934**	**1,111,543**	**1,879,121**	**2,990,664**

** Excluding equity and other securities exposures*

Loan portfolio quality

All receivables of the Group 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 31 December 2007, the share of loans at risk of impairment constituted 11.8% of the total portfolio while as at 31 December 2006 it constituted 15.5% of the total portfolio. The decrease came mainly from the classifiable portfolio accounted for individually and was related to both the repayment of outstanding amounts in that customer group and general growth of the Bank's portfolio.

Loans to non-financial sector by risk of impairment, gross

w PLN '000	As at			
	31.12.2007		31.12.2006	
Loans to non-banking sector (gross)				
	Thousands of PLN	Share in %	Thousands of PLN	Share in %
Not at risk of impairment	12,677,263	88.2%	10,346,653	84.5%
At risk of impairment	1,697,371	11.8%	1,894,286	15.5%
accounted for individually	1,209,816	8.4%	1,385,255	11.3%
accounted for collectively, on a portfolio basis	487,555	3.4%	509,031	4.2%
Total loans to non-banking sector (gross)	**14,374,634**	**100.0%**	**12,240,939**	**100.0%**

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

As at 31 December 2007, the impairment of the portfolio was PLN 1,440.4 million, down from PLN 1,623.1 million in December 2006, mainly due to repayment of outstanding amounts and write-down of a certain part of non-recoverable loans.

Impairment of the non-bank loan portfolio

PLN '000	As at		Change	
	31.12.2007	31.12.2006	PLN '000	%
Impairment due to incurred but not reported (IBNR) losses	49,845	55,916	(6,071)	(10.9%)
Impairment of receivables	1,390,532	1,567,219	(176,687)	(11.3%)
accounted for individually	1,004,895	1,153,549	(148,654)	(12.9%)
accounted for collectively, on a portfolio basis	385,638	413,670	(28,032)	(6.8%)
Total impairment	**1,440,378**	**1,623,135**	**(182,757)**	**(11.3%)**
Total provision coverage index	10.0%	13.3%		
Provision coverage index for receivables at risk*	84.7%	85.7%		

** Including IBNR provision*

Off-Balance Sheet exposures

As at 31 December 2007, off-balance sheet exposures of the Group amounted to PLN 13,364.8 million, representing an increase by 7.8% as compared with 31 December 2006. The largest change related to undisbursed committed loans, which represented 81.4% of off-balance sheet contingent liabilities and which increased by PLN 1,696.5 million or 18.5%. The committed loans line represents the committed but undisbursed current account overdrafts or credit lines.

Off-balance sheet exposures

PLN '000	As at		Change	
	31.12.2007	31.12.2006	PLN '000	%
Guarantee	2,158,948	2,779,418	(620,470)	(22.3%)
Letters of credit issued	146,673	155,296	(8,623)	(5.6%)
Third-party confirmed letters of credit	13,131	40,270	(27,139)	(67.4%)
Committed loans	10,874,042	9,177,576	1,696,466	18.5%
Underwriting	172,000	217,000	(45,000)	(20.7%)
Forward placements	-	24,860	(24,860)	(100.0%)
Total	**13,364,794**	**12,394,420**	**970,374**	**7.8%**
Provisions for off-balance sheet liabilities	13,574	24,258	(10,684)	(44.0%)
Provision coverage index	0.10%	0.20%		

As at 31 December 2007, the total amount of collateral or assets held on accounts of borrowers amounted to PLN 3,980 million whereas as at 31 December 2006 it stood at PLN 5,032 million.

In the year 2007 the Group issued 4,869 enforcement titles amounting to PLN 60.7 million while in 2006 the enforcement titles numbered 4,246 and stood as PLN 118.7 million.

External funding

As at 31 December 2007, overall external funds held by the Group reached PLN 28,000.0 million, which was PLN 2,008.9 million or 7.7% higher than at the end of the year 2006. The main impact on this change in the sources of external funding for the Bank's operations came from liabilities to non-financial sector, which grew by PLN 931.2 million or 4.9%, primarily a result of an increase in the balance of current account deposits of individual customers.

External funding

PLN '000	As at		Change	
	31.12.2007	31.12.2006	PLN '000	%
Due to financial sector	**7,085,042**	**6,156,605**	**928,437**	**15.1%**
Funds on current accounts, including:	2,434,363	1,334,998	1,099,365	82.3%
- funds on current accounts of banks and other monetary financial institutions	*2,190,764*	*1,197,581*	*993,183*	*82.9%*
Deposits, including:	4,609,805	4,777,734	(167,929)	(3.5%)
- deposits of banks and other monetary financial institutions	*1,705,572*	*2,462,685*	*(757,113)*	*(30.7%)*
Accrued interest	40,874	43,873	(2,999)	(6.8%)
Due to non-financial sector	**19,811,369**	**18,880,177**	**931,192**	**4.9%**
Funds on current accounts, including:	8,050,347	5,770,674	2,279,673	39.5%
- corporate clients	*3,939,403*	*3,509,698*	*429,705*	*12.2%*
- individual	*3,498,981*	*1,737,527*	*1,761,454*	*101.4%*
Deposits, including:	11,748,246	13,089,778	(1,341,532)	(10.2%)
- corporate clients	*9,213,611*	*9,624,446*	*(410,835)*	*(4.3%)*
- individual	*1,695,854*	*2,494,529*	*(798,675)*	*(32.0%)*
Accrued interest	12,776	19,725	(6,949)	(35.2%)
Other liabilities, including:	**1,103,592**	**954,354**	**149,238**	**15.6%**
Sell-Buy-Backs	69,155	223,329	(154,174)	(69.0%)
Accrued interest	4,085	3,808	277	7.3%
Total external funding	**28,000,003**	**25,991,136**	**2,008,867**	**7.7%**

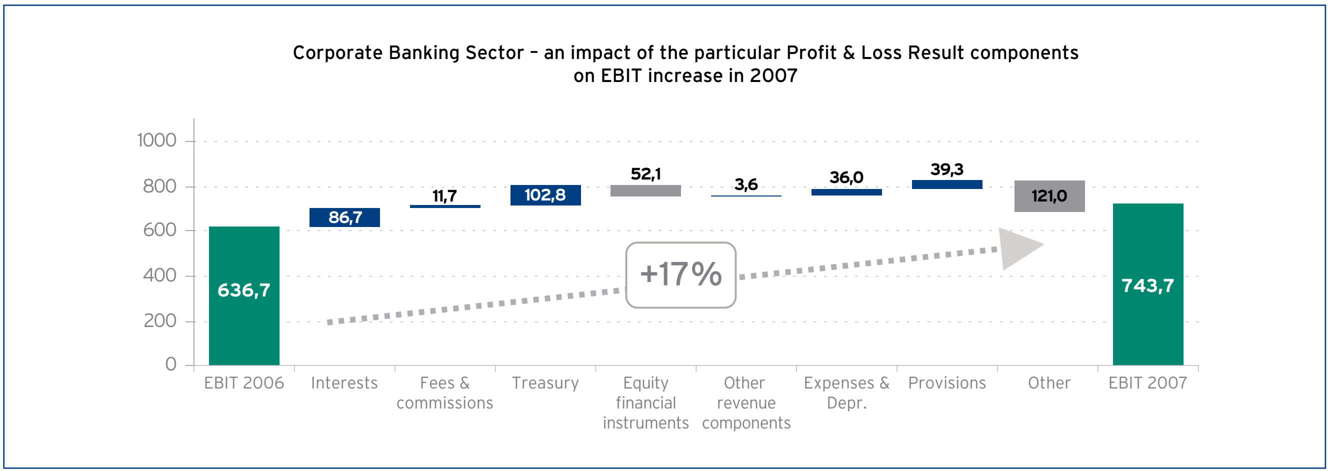
In the year 2007 the Group recorded substantial increase in liabilities to financial sector (by 15.1% or PLN 928.4 million), with most growth occurring in funds on current accounts (by 82.3% or PLN 1,099.4 million), including funds on current accounts of banks growing by PLN 993.2 million or 82.9%. In liabilities to non-financial sector the highest growth (of 101.4%) occurred in funds on current accounts of individuals (increase of PLN 1,761.5 million). The Group ascribes this substantial increase in funds on current accounts of individuals primarily to the positive response of customers to the Citibank Savings Account product launched in the year 2007. In the corporate segment of the non-financial sector clients the funds deposited on current account also increased: by PLN 429.7 million or 12.2%. Notable is the decline in term deposits of individual customers in the year 2007, which was compensated by sales of investment products and increases in the savings account balances (e.g. Citibank Savings Account).

Liabilities to non-bank customers and clients

PLN '000	As at		Change	
	31.12.2007	31.12.2006	PLN '000	%
Liabilities towards:				
Individuals	5,227,134	4,303,314	923,820	21.5%
Non-financial economic entities	13,776,836	13,789,474	(12,638)	(0.1%)
Non-profit institutions	374,503	442,064	(67,561)	(15.3%)
Non-bank financial institutions	3,279,105	2,453,680	825,425	33.6%
Public sector	558,472	561,544	(3,072)	(0.5%)
Other liabilities	94,215	68,173	26,042	38.2%
Total	**23,310,265**	**21,618,249**	**1,692,016**	**7.8%**
PLN	18,814,665	16,569,474	2,245,191	13.6%
Foreign currency	4,495,600	5,048,775	(553,175)	(11.0%)
Total	**23,310,265**	**21,618,249**	**1,692,016**	**7.8%**

Corporate Banking

Summary segmental results



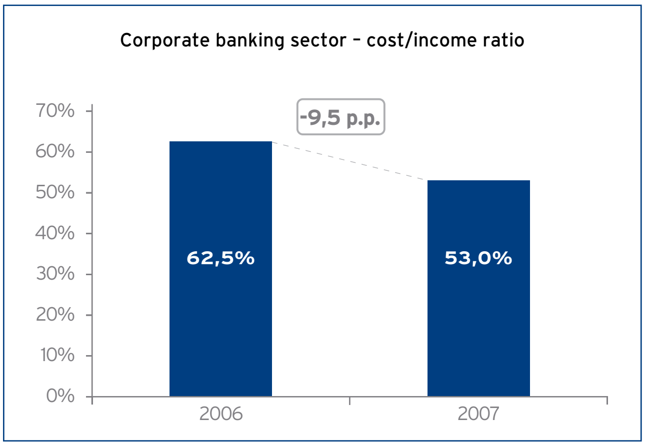
Year 2007 was another year of growth in gross profit of the Corporate Bank in YOY terms. The key contributors to the positive result included:

- 19.4% growth in net interest income; primarily an effect of growth in loan interest income – resulting from loan portfolio growth – and higher income on interbank placements;
- 3.9% growth in net commission income; resulting from higher income realised on payment servicing and on custody and depositary services, in spite of lower income realised on corporate finance transactions and on securities brokerage services;
- 32.5% growth in net income on treasury operations, which includes growth in net income on financial instruments held for trading and on revaluation by PLN 109.3 million or 39%, achieved primarily through active selling of products to clients and effective management of the Group's proprietary position, despite decline in net income on debt investment securities by PLN 6.5 million or 17.7%;
- Decline in the Group overheads and general administrative expenses and depreciation by PLN 36 million or 4.7%, primarily an effect of lower depreciation and personnel costs;
- Higher by PLN 39.3 million (64.4%) net release of impairment losses of financial assets as an effect of improved portfolio quality, improvement in financial standing of the borrowers and the higher effective repayment of the impaired corporate loans in 2007.

The key factors which had a negative impact on gross profit in YOY terms included:

- Decline in capital investments equity instruments, primarily a high reference base effect, as two one-off sale transactions were posted in 2006, including the sale of shares in NFI Empik Media&Fashion (in two tranches) and in East Bridge B.V./S.a.r.l., with total effect on net income of PLN 95.8 million, whereas in the year 2007 the major transactions were of lower value, overall PLN 43.7 million, and included the sale of a minority holding in shares of NFI Empik Media&Fashion, and the sale of shares in Stalexport S.A. and in NFI Magna Polonia S.A.; and
- Decline in other elements of income statement by PLN 121 million, which resulted mainly from net income on divestment of tangible fixed assets being lower by PLN 104.6 million YOY, being an effect of high income achieved in this position in 2006 including the sale of shares in Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A., Handlowy Zarządzanie Aktywami S.A., and of participation shares in Handlowy Heller S.A., an associate entity.

Moreover, worth noting is the substantial improvement in cost to income effectiveness within the segment. In the course of the year cost/income ratio came down by nearly 10 percentage points.



Transaction Services

The Bank offers comprehensive, differentiated and modern products in the area of trade and transaction services to corporate customers. In parallel with the traditional banking services, such as current accounts, domestic and international money transfers, accepting deposits, granting overdrafts, the Bank offers state-of-the-art solutions in liquidity management (Consolidated Account, Cash Pool), mass payments and receivables management (Speedcollect, Direct Debit, Unikasa). The Bank has also broadened extensively its product offer and carried out acquisition of customers in the scope of more sophisticated transaction services, including electronic and web-based banking solutions.

The Bank complents its fund management offer with trade finance products, the key elements of which include factoring and the more sophisticated products which support the Bank's clients in efficient working capital management. The Bank is also a major player in the foreign trade market, with such transaction security instruments as e.g. export and import letters of credit and guarantees.

Another important component of the transactional banking offer are the custody and depositary services. The Bank provides its custody services to foreign institutional investors and the depositary bank services to domestic financial entities, particularly the pension funds, investment funds and investing insurance funds. The Bank has maintained a position of leadership in this market segment for years.

Transaction servicing

a) Cash management products

In the year 2007 the Bank undertook actions aimed at adjusting its offer structure further to expectations of the public sector and the small and medium-sized enterprises (SME) segment clients.

Among the solutions addressed to the public sector we need to mention:

- Mikrowpłaty (or MicroPayments) – a product providing processing capability support to the courts and the prosecution administration in the area of calculation of bail and other deposits of private individuals and legal persons in the course of court proceedings;
- Virtual consolidation – a solution that supports corporate liquidity management by providing presentations of current account balances in a consolidated form, without the need for actual transfers between accounts;
- Prepaid cards – application of the electronic payment facility to the process of dispensing social transfers to private individuals;
- WorldLink – comprehensive servicing of foreign retirement and disability pension benefits.

The above solutions were instrumental to the substantial revenue growth achieved in the public sector client segment.

Among the solutions addressed to the SME segment special mention is due to the new account documentation approach, as it streamlines the formalities of account opening to the necessary minimum. This simplification of procedures translates primarily into improved customer satisfaction as it contributes to improved efficiency of the acquisition and implementation processes in the Bank.

It was with the aim of responding to the changing requirements of the SME sector entities that the Bank modified its transaction servicing offer, particularly in the area of foreign currency payments. The Bank continued to work on a uniform Euro payments processing project, which covers all of the European Union (SEPA project). SMEs were also provided with a uniquely attractive offer for utilisation of their cash surpluses. Clients of that segment can now negotiate terms and conditions of depositing funds with the Bank on case by case basis.

More generally, the Bank has modified its product implementation process, which in the long-term will translate into improved quality of operation and satisfaction of customers from collaboration with the Bank.

The market has responded favourable to the transaction servicing offer. A number of the Bank's products in this area gained sector-wide recognition. To cite some examples:

- the Europroduct title for the Unikasa Payments Servicing Network,
- the Europroduct title for the MicroPayments product,
- a special mention of the European Payment Consulting Association and the European Card Review for the MicroPayments product, and
- the Euro Leader title for the Reserved Account.

Current Account

Compared to a year earlier, in 2007 the Bank registered an increase in average balances on current accounts and term deposits. This was an effect of a launch of a number of innovative product solutions.

In the year 2007 the Bank came out with a new bank account proposition with the commercial name of Deposit Account. The product was developed for public sector entities and private enterprises that hold substantial cash surpluses and had not as yet benefited for the Bank's Current Account services. The Deposit Account is a facility for placement of cash surpluses on individually negotiated terms, which offers an added benefit of unconstrained access to the deposited funds without the loss of the accruing interest.

Account Plus is an offer which the Bank directed to a select target audience. Account Plus is a solution that permits servicing of a client's business account, with simultaneous preservation of competitive interest on the funds deposited on that account. Interest is set on individual basis and depends on the value of the funds maintained on the account.

Since the year 2007 the Bank's clients have used new account opening documentation. In response to the expectations and suggestions of the clients, the account documents have now been made transparent, easy to understand and fill out. For its corporate clients the Bank developed the Consolidated Bank Account Agreement, which allows the client to activate theree additional products in process of account opening: Electronic Banking, Debit Cards and access to Online Trading, an internet-based FX trading platform; all three on the basis of a single Agreement. It includes the elements which enable fast and efficient account opening. Since April 2007 this new documentation was used to open over 800 accounts.

Reserved Account

Reserved Account which the Bank offers won the Market Leader Award in the year 2007 in the Best Service in Poland category and received a special mention and the Euro Leader 2007 title. The competition identifies, singles out and promotes firms, services and products that are innovative in technical, technological, organisational and quality terms. The award constitutes a guarantee of the highest quality of service and a proof of the provider's high market standing.

In the year 2007, Reserved Accounts were used to secure a series of transactions, including some of the largest in the market; involving corporate takeovers and property acquisitions.

With the aim of promoting Reserved Account and of further strengthening its market position, the Bank ran an advertising campaign of the product in December 2007, focused on trade press. The campaign aimed at reaching legal counsel entities, small enterprises and large corporates, and bringing out the security gains at implementation of Reserved Account, including in the context of the largest transactions.

The product's characteristic feature is its structure, under which the funds deposited on a Reserved Account are released to one of the transaction parties only at fulfilment of specific contractual conditions. The Bank prevents any unauthorised withdrawal of funds from the account.

b) Liquidity management products

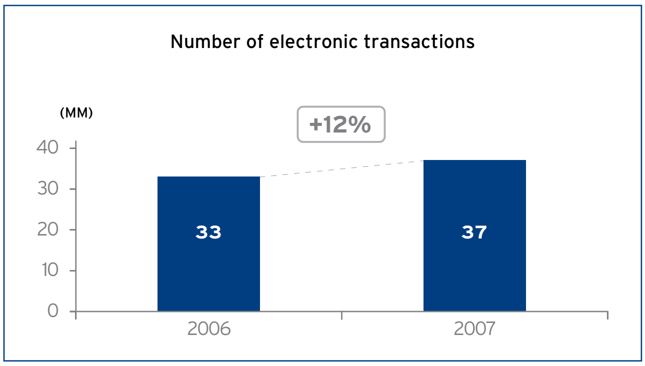
In the second half the year 2007 the Bank added to its offer Actual Cash Pooling, a new liquidity management structure based on a subrogation mechanism. Subrogation involves entry into the rights of a satisfied creditor through repayment of another party's debt. The benefit accruing from implementation of the new solution is the actual netting of balances on accounts of individual participants of a group. This means that at the end of each business day all negative balances of the structure participants are replenished up to nought level, with surpluses from accounts of the remaining participants transferred to a single designated account. This solution minimises interest costs and creates offers the advantages accruing from physical consolidation of funds. Thereby the Bank expanded the offer addressed to capital groups seeking effective management of liquidity.

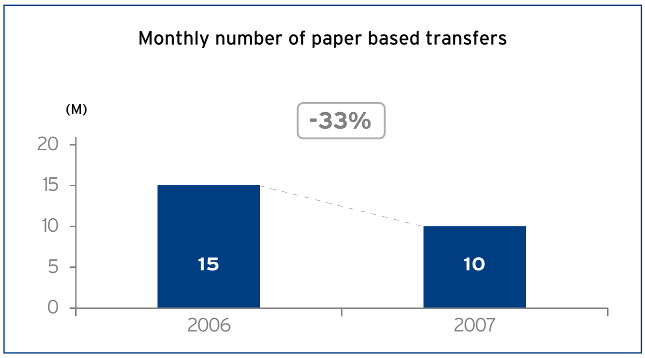
c) Electronic Banking

The Bank collaborates with the largest suppliers of Enterprise Resource Planning (ERP) systems in Poland. As a result it has improved compatibility between the financial and accounting systems its clients use and its CitiDirect electronic banking platform. This has facilitated distribution of the platform among potential clients and automation of the order submission process.

In 2007 the Bank activated 1,250 clients in the CitiDirect electronic banking system. By the end of the year 2007 75% of these activations in the system were performed within 48 hours of the client signing a relevant agreement. The high quality of service and customer satisfaction are the Bank's priorities. Rapid activation of the electronic banking system systems is an important element of achieving those objectives.

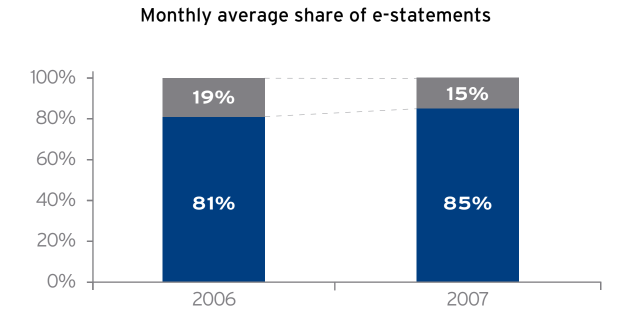
Overall 4,250 clients use the CitiDirect system. In the entire year 2007 the CitiDirect system processed 21 million transactions in an amount of over PLN 830 billions of Polish złotys. The total number of transactions processed by the electronic banking systems in Poland exceeded 37 million, which was 4 million more than in 2006.

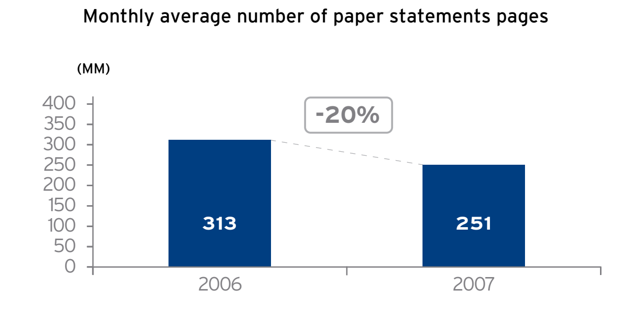




The number of paper-based transfers was reduced to 10,000 transactions per month, which represents a decline of 5,000 transfers per month compared to December 2006.

The average monthly share of electronically delivered bank statements in 2007 reached 85%, compared to 81% in 2006. As a result of the conversion from the paper-based to the electronic statements, the monthly savings in 2007 reached on average 60,000 fewer statement pages per month: a decline from 313,000 per month in 2006 to 251,000 in the year 2007.





d) Payments and receivables

Unikasa

In the process of developing of its Unikasa Payment Processing Network in the year 2007, the Bank offered its customers a new "Unikasa over the Internet" service. Individual customers can pay for the purchases they make on the Internet at the network service points. The new solution has expanded the target market, by including in it young people who are active Internet users.

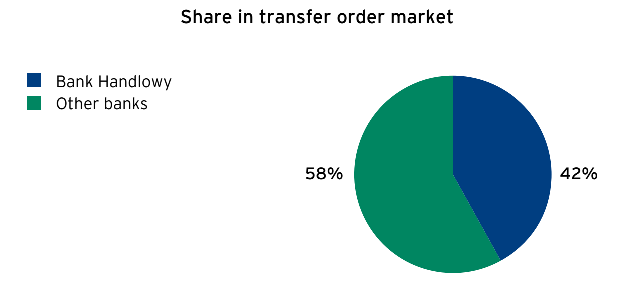
In order to promote "Unikasa over the Internet" the Bank carried out a marketing campaign, aimed at promotion of the new service and further strengthening of the brand on the market. The information campaign on the new functionality the Unikasa network gained 2.5 million web surfers, which translated into a material increase in the number of internet purchase transactions executed in the Unikasa network.

In the year 2007 the Bank continued actions aimed at expansion of the customer base of the network. Unikasa added 100 new internet shops and invoice issuers representing such segments as media, insurance, publishing, energy and the public sector.

The Minister of Economy recognised Unikasa Payment Processing Network with Euro-product of the Year 2007, a prestigious prize awarded to products deemed the best in terms of quality, modern technology and security.

Direct Debit

Compared to a year earlier, in 2007 the Bank processed 18% more direct debit transactions. In November it executed 780,000 transactions, which represents the top monthly result in the product's history. As a result the Bank gained market leadership in this field for the first time. At present approximately 42% of all direct debit orders in Poland are processed by the Bank. The substantial increase in processing of direct debit orders in 2007 is a result of the Bank's efforts at active popularisation of Direct Debit. The Bank collaborated with its clients with the aim of acquiring an additional number of payers. Also, the Bank's clients were offered seminars and conferences that promoted the product.



SpeedCollect

In 2007 the Bank developed Integrated Receivables Processing, which brings into a single package three receivables related products: Direct Debit, Unikasa and SpeedCollect. The new package was structured to offer corporate clients a single, consistent receivables management product offer, which includes comprehensive servicing of mass payments at substantially streamlined formal and implementation processes.

The SpeedCollect product, which currently services only domestic mass payments, is being upgraded with the view of launching currency payments servicing, both for incoming foreign transfers and local currency settlements.

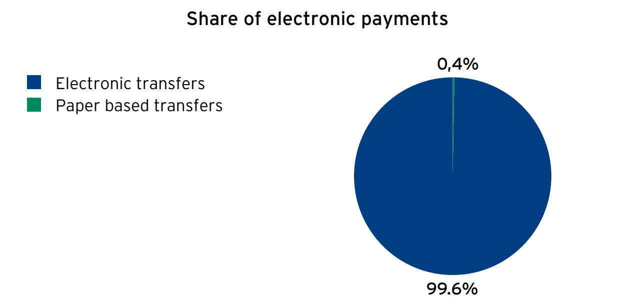
Electronic Postal Money Transfers

Electronic Postal Money Transfers are a product addressed to corporate clients transferring funds in cash form to private individuals. In the year 2007 the Bank achieved an 85% increase in the executed money transfers compared to a year earlier.

Moreover, the Bank expanded its product offer to include a facility addressed to expatriate Poles wishing to send cash funds to Poland. The product, referred to as Workers Remittances, enables transfer of cash in a safe, fast and inexpensive way.

Domestic transfers

In the year 2007 the Bank processed 3 million domestic currency payments more compared to a year earlier. In keeping with the strategy of promoting electronic payment channels, the Bank reduced by 50% the number of transaction executed in the paper form and achieved 99.63% effectiveness of the electronically processed domestic payments in 2007.



Foreign transfers

In the year 2007 the Bank achieved a 15% increase in the number of payments in foreign currencies compared to a year earlier.

In keeping with the European Union recommendations for introduction of a uniform euro currency payments system in the European Union, the Bank has worked on the Single European Payment Area (SEPA) project. Following the best practices, the Bank adjusted its process of foreign payments to the requirements formulated by the Financial Action Task Force (FATF), an international organisation with the mission of combating money laundering and financing of terrorism.

In 2007 the Bank substantially expanded its offer of currencies accessible to clients executing foreign transfers as it increased the number of currencies from 10 plus to 70. It now provides settlements in non-standard "exotic" currencies. The offer was addressed to clients whose business involves trade relations with partners in countries of Eastern Europe (Bulgaria, Croatia, Ukraine), Asia (Singapore, South Korea, India), America (Mexico) or Africa (Egypt, Morocco). The solution is unique in market terms, as it facilitates previously inaccessible cross-border settlement functionalities.

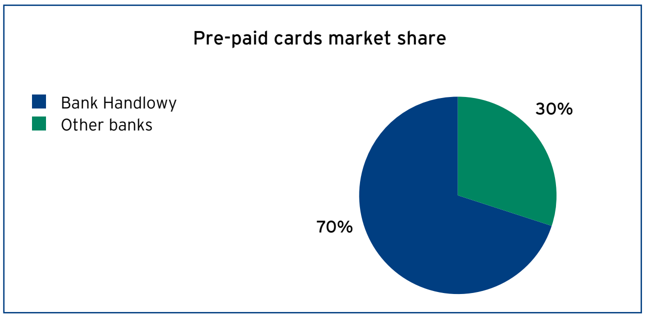
Substantial changes were introduced in the field of servicing nostro accounts, which substantially reduced settlement costs. As it continued developing and promoting new channels of initiating payment instructions, the Bank provided its clients with access to payments within the SWIFT system, which has been traditionally perceived as an international payment tool mainly.

e) Card products

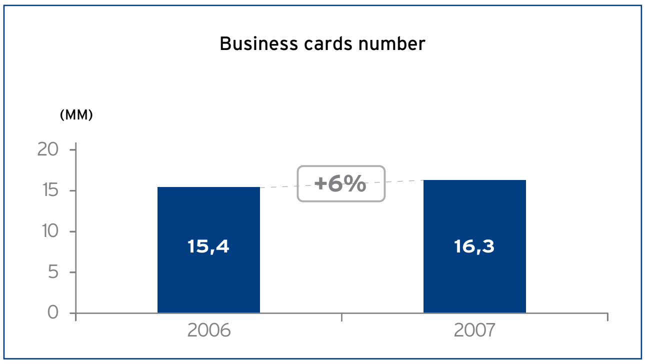
From the beginning of the year 2007 the Bank actively promoted its prepaid cards at many conferences and seminars. The Bank became a strategic partner of the Marketing Directors Forum and the Golden Arrow Competition. It took part in conferences for Social Assistance Centres and organised a series of regional conferences for potential clients. In 2007 the number of Social Assistance Centres cooperating with the Bank doubled in the area of dispensing social transfers with the use of prepaid cards.

The Bank issued the first prepaid insurance card, the first prepaid medical card and the first prepaid gift card in its history. The Bank's prepaid cards were also used in promotional campaigns of many companies. The Bank also entered into cooperation with one of the leading bonus incentive system and gift supply operators on the Polish market, which entity issued over 70,000 electronic vouchers. All of the above actions enabled the Bank to double the number of issued prepaid cards, as at the end of 2007, compared to the number of these cards issued at the end of 2006.

To date the Bank issued total of over 340,000 prepaid cards while the number active prepaid cards, as at the end of 2007, reached over 230,000. The Bank's market share in the prepaid cards market reached 70%.



As at the end of 2007 the number of issued business cards reached 16,300, which was a 6% increase compared to the number cards issued at the end of the year 2006. In the year 2007 the Bank was the second in Poland to launch the Visa Cash Back service linked with its Citibank Business Debit Cards.



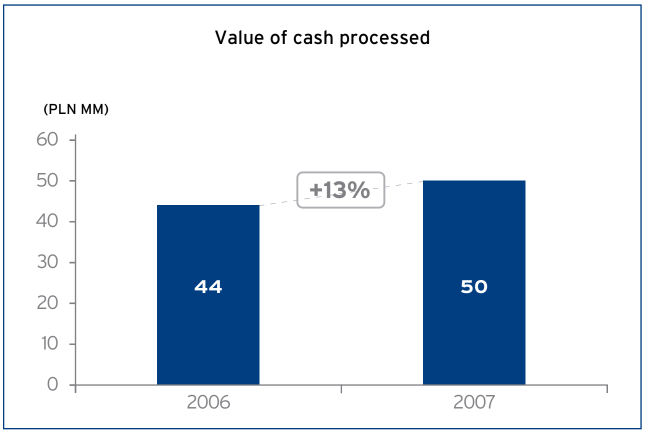
In 2007 the Bank developed cooperation with IT companies – suppliers of software solutions to courts and prosecution administrations. This led to integration of the IT platforms used by courts and prosecution administrations with the MicroPayments platform. This solution enabled the Bank to enter into MicroPayments service agreements with respective courts and prosecution administrations.

The MicroPayments product received in 2007 the prestigious Europroduct award and a special mention of the European Payment Consulting Association and of the European Card Review as the most innovative product in the Payment Processing Solution category.

f) Cash products

In the year 2007 the Bank developed cooperation with another transport of valuables and cash handling firm. The new agreement ensures diversification of the risk related to commitment of cash counting functions to external entities. This also reduces costs of that service. The network of locations accepting cash payments of the Bank's clients was also expanded. The new points on the cash handling map translated into increased quality of the services and customer satisfaction.

2007 was a record year in terms of the volumes of counted cash: the 50 billion złoty threshold was exceeded, representing a 13% YOY increase.



In order to strengthen further its competitive position in the market and to expand the scope of its financial services, the Bank added a new product to its offer: a service involving procurement and sale of bank notes and coins to/from other banks. It is addressed to domestic and foreign banks who do not hold an agreement with the National Bank of Poland (NBP) for purchase and sale of legal tender. Essentials of operation of financial institutions include sourcing of cash (in PLN and foreign currencies) for the purpose of replenishing reserves in branch and ATM networks, and for customer disbursements as well as the capability of picking up cash surpluses from branch networks. Banks have limited options for entering into direct agreements with NBP for buying and selling legal tender, which is why they seek alternative solutions. In response to expectations of such banks, the Bank is able to act as buyer or seller and supplier of cash respectively.

From the year 2007 the Bank enabled budgetary units to take advantage of substitute cash servicing. The Bank accepts and executes payments (open from cheques) from accounts of budgetary units maintained by NBP on the basis of an agreement signed by the Bank and the relevant NBP branch.

The substitute cash servicing can be provided for budgetary units. A certain part of settlements between these entities and the State Treasury needs to be performed via NBP. Accounts with NBP are the primary accounts of these entities, which are maintained in accordance with relevant regulations. For a unit under contract for substitute cash servicing it is convenient to use the Bank's outlet located in the location in which the unit has its seat.

g) EU Office

In early 2007 the EU Office began to implement a growth strategy based on utilisation of funds of the previous budgeting period of 2004-2006 and the budget allocated for Poland for the years 2007–2013. In January the process of accepting applications for projects within the New investments in enterprises Measure were commenced, in effect of which the Bank intensified issuance of financing commitments for such projects.

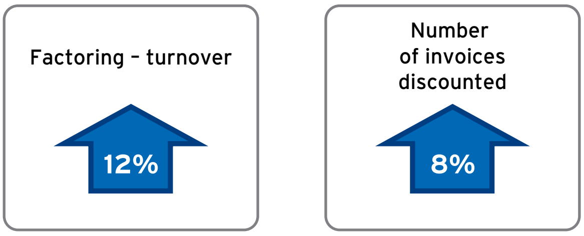
In the third quarter of 2007 the Bank began an information campaign on the possibilities of financing investments with European Union funds. In the course of the campaign the Bank participated in a series of four conferences organised for Municipal Social Assistance Centres in Łódź, Szczecin, Poznań and Białystok. These meetings focused on the role that the structural funds can play in improving the work of public administration and role of the Bank in that process.

In September 2007 the European Commission conducted a mission monitoring implementation of the local government financing programme. The Bank is authorised to provide funds of that programme for financing investments in development of municipal infrastructure. The key benefit from the use of that financing source for local governments is the low cost of loan servicing (low interest).

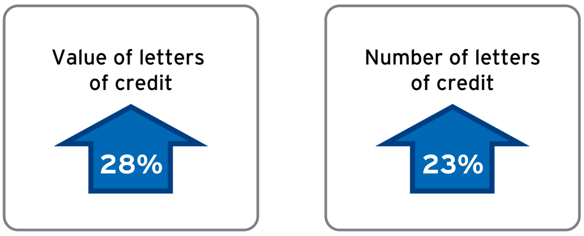
In the fourth quarter of 2007 the EU Office conducted a number of promotion and information campaigns addressed to the Bank's current and potential clients, which focused on the new EU funding programming period for the years 2007–2013 and included the following:

- Promotion and information campaign on submission of applications within the framework of the Rural Development Program for the years 2007-2013 addressed to food processing sector enterprises, with outreach to over 600 firms of the sector;
- Nationwide press information campaign on the availability of EU funding for the enterprise sector in the years 2007-2013, which took the form of a series of articles discussing the possibilities of obtaining grant funding from EU funds and presenting the Bank's role in the process;
- Commencement of a series of 16 regional conferences devoted to corporate social responsibility and the role of EU funding in advancing voluntary employee activity. The seminar participants included representatives of regional self-government administrations and enterprise sectors of respective voivodeships;
- EU Advisory Open Days organised in the Bank's Gdańsk, Białystok, Rzeszów and Wrocław branches, a campaign aimed to provide information on financing investment projects with the use of EU funding and addressed to 2,500 small and medium enterprise sector firms.

Trade financing products



The Bank's turnover in factoring finance in the year 2007 increased by 12% compared to 2006, with the number of discounted invoices increasing by 8%.



In 2007 the Bank continued the growth trend in issuance of letters of credit. In its course the Bank opened 23% more import letters of credit than a year earlier, which translated into a 28% increase in the value of these instruments. The trend has further strengthened the Bank's position in the field of trade finance transactions.

The key tasks, achievements, transactions and programs in trade finance implemented in the year 2007 include:

- The Bank becomes the leading provider of finance for the Polish construction sector suppliers, the expression of which is the growing number of programs the Bank underwrites and the value of financing provided within them. In 1H 2007, the Bank implemented a supplier financing program for one of the leading cement manufacturers in Poland and acquired as its client one more leading construction company;
- Launch of a supplier finance program for one of the largest global trade companies, involving discounting of trade receivables documented with invoices without recourse to the ceding party; based on a tailored e-commerce platform solution;
- Introduction to the offer of the innovative solution of discounting debt with limited recourse to the ceding party. The benefit of this new form of faktoring financing is not only that it provides suppliers with early access to funds for the goods they sell, but primarily because it effectively transfers the counterparty solvency risk on to the Bank;
- Implementation of early finance programs involving discounting of limited recourse domestic and foreign receivables for one of the Polish market's leading manufacturers of household goods and appliances and tow representatives of the chemical sector;
- Launch of a program of discounting invoice documented trade receivables, with transfer of payment risk, for a global leader in manufacture of construction materials;
- Launch of a program of discounting invoice documented no recourse trade receivables for one of the largest car equipment manufacturers;
- Active presentation of own trade finance solutions at a banking seminar organised for global clients with operations in the eastern markets.

Custody and depositary services

The Bank provides custody services in compliance with Polish legislative regulations and the international custody services standards – able to meet the requirements of the largest and the most demanding institutional clients.

The Bank is a market leader among depositary banks in Poland. It offers custody services to foreign institutional investors and depositary services to Polish financial institutions, particularly pension funds, investment funds and investing insurance funds.

Within this regulated activity, pursued on the basis of a permit issued by the Polish Securities and Exchange Commission (now the Financial Supervision Authority), the Bank operates securities accounts, settles securities trades, handles dividend and interest payments, performs asset portfolio valuations, prepares individual reports and arranges for customer representation at general shareholder meetings of public listed companies. It also maintains registers of foreign securities, which also involves intermediation in the settlement of transactions for domestic clients on foreign markets.

The Bank also processes transactions closed by its corporate clients on the electronic debt securities trading platform operating under the name of MTS-Poland organised by MTS-CeTO S.A., and processes transaction in securities for the remote members of the Warsaw Stock Exchange (WSE) and MTS-CeTO S.A. We continue to note substantial increase in activity of foreign brokers acting as remote members of WSE, which is likely to translate into growing transaction volumes settled by the Bank in the near term.

In the past period the Bank continued its activities aimed at honing the effective legislation regulating the securities market and through its delegated representatives participated in the work of the Council of Depositary Banks at the Association of Polish Banks and of the advisory committee at National Depository for Securities (NDS). The Bank's experts have worked on the possibility of introduction to the Polish legal system of the joint account concept, which could function at the level of the NDS participants (so called omnibus account), as well as on new legal solutions for securities lending and short selling. Completion of the project types cited here is going to bring the local market practices and rules into line with international standards. Drawing on its experience and expertise the Bank has cooperated with the Polish Financial Supervision Authority, NDS and WSE at introduction of new systemic solutions.

As at 31 December 2007, the Bank maintained 11,690 securities accounts.

In the year 2007 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 for two employee pension funds:

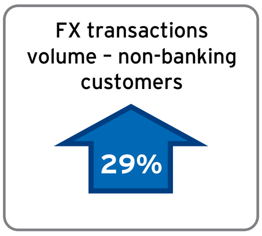
- Employee Pension Fund "Sunny Autumn",
- Employee Pension Fund of Telekomunikacja Polska S.A.

The Bank also acted as the depositary of 38 investment funds and sub-funds managed by the following investment companies:

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

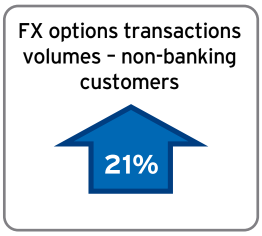
Treasury

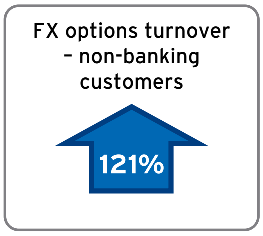
In the year 2007 the Bank retained its position of leadership in the market of foreign exchange transactions with non-banking customers. The FX transaction volumes in this segment increased by over 29% compared to a year earlier and as much as by 55% compared to 2005.

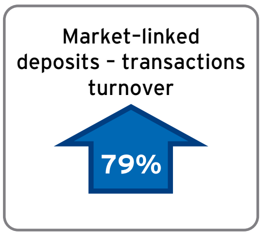


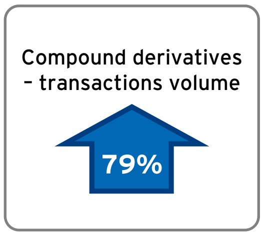
The Bank's clients interested in FX transactions were very active in using the internet trading platform delivered by the Bank. Volume of transactions executed with intermediation of the platform kept on a strong grow trend, which in YOY terms was near 390%. Moreover, the platform proves a perfect tool for acquisition of new clients, as it offers attractive FX transaction prices combined with the opportunity for hedging FX risk exposures.

The year 2007 was a period of further reinforcement of the Bank's position in the foreign exchange market of derivative instruments. Clients reach for these instruments with growing regularity for the purpose of hedging their FX risk exposure. The near 21% YOY transaction volume growth confirms that clearly. This has been paralleled by strong growth in turnover volumes.









In 2007 the level of turnover on FX options rose by 121% compared to the equivalent period a year earlier. The Bank's income on this product grew in the same measure.

The year 2007 was also a good period for market-linked deposits. Turnover volumes in that product grew substantially: by over 79% YOY.

The Bank also recorded strong volume increase in the compound derivative products market. In YOY terms the volumes rose by near 79%. Corporate clients were ever more interested in using the Bank's solutions for hedging commodity transaction risk and interest rate risk clients, as confirmed by a 45% increase in the number derivative transaction YOY. With its diversified offer of structured products and novel corporate finance solutions involving derivatives, which structure elements of FX and interest rate risk, Bank was able to retain its strong position in the market.

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

Commercial Banking

The Bank is the leader of the commercial banking market in Poland. Its share in total corporate loans reached 4.2% at the end of the year 2007, as compared with 4.6% at the end of 2006, while its share in total corporate deposits was 8.5% as compared with 9.5% at the end of 2006.

The Bank believes that any company that operates in Poland, except the sectors excluded permanently under the general policy of the Bank and companies on 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. It holds a leading market position 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 clients, the Bank has the significant advantage of being a member of Citigroup. It can offer to these clients some unique services that blend its own knowledge of the local business environment with the international experience and global reach of Citigroup.

Corporate and Investment Bank

In the corporate and investment banking business, the Bank delivers comprehensive financial services to Poland's largest corporates and selected medium-sized enterprises with strong capacity for growth as well as the largest financial institutions and public sector companies.
One common characteristic of the Corporate Bank clients is their need for advanced financial products and financial engineering advisory. The Bank provides in that area coordination of treasury and cash management products, and prepares loan offers involving diverse forms of financing. The innovativeness and competitiveness of the novel financing structures on offer comes from a combination of local expertise and experience of the Bank and its cooperation within the global Citigroup structure. In consideration of the special needs of the corporate clients, the organisational model provides for serving these clients via a dedicated team located at the Bank's headquarters in Warsaw, the Corporate Banking Division.
In the year 2007 the Bank continued to provide active support to its clients in their development as it organised financings on independent and syndicated basis and took part in major transactions of the Polish financial market.

The most notable corporate banking transactions in 2007 included the following:

- Closing of a loan agreement financing the construction of a power generation unit and the comprehensive modernisation programme of the Elektrownia Bełchatów S.A. (BOT) power plant. This transaction of EUR 604 million is currently the largest syndicated loan in the electrical energy sector in Poland. It gained the Bank the prestigious European Project Finance 2006 Power Deal of the Year award;
- Organisation of a 10-year bond issue for the purpose of financing the construction of a new power generation unit in a Polish power plant. The total issue program amounts to PLN 650 million. The bond will be issued in 6 series over the three-year investment project implementation period. This constitutes the first structured corporate bond programme on the Polish market. The Bank acted in the transaction as the structuring bank and the lead co-arranger;
- Completion of a structured transaction with PKP S.A., the Polish state railways. The transaction involves granting of a syndicated loan in an amount of EUR 130 million linked with an interest rate risk hedge. The lending syndicate, which the Bank was the lead arranger of, included a total of 9 banks. The two transactions are an outcome of a longstanding and fruitful collaboration of the Bank with the Polish state railways, while their preparation was particularly complex due to the EU regulations on state aid to enterprises;
- Closing of a takeover deal in which Computerland bought out the IT company Emax. The PLN 480 million transaction, in which the Bank was mandated the adviser, was one of the main M&A events of the past year in Poland;
- Closing of a 3-year working capital facility agreement with PKP Polskie Linie Kolejowe S.A. The total transaction value stands at PLN 500 million and involves two banks. Bank Handlowy w Warszawie S.A. acted as the facility arranger and agent. The Bank won this transactions in a public tender for financing of PKP PLK S.A. settled in May 2007;
- Increasing of a bond issue programme for Telekomunikacja Polska S.A. (TP S.A.) from PLN 1 billion to PLN 2.5 billion; through annexes to the private Bond Issue Programme documentation. Thus the TP S.A. Bond Issue Programme has become the largest corporate programme of its type in Poland;
- Financing for PKO BP S.A. in the form of a syndicated loan for general banking needs in a total amount of CHF 950 million, in which Bank Handlowy w Warszawie S.A. acted as the lead arranger;
- Organisation of financing for Zakłady Farmaceutyczne Polpharma S.A. for the purpose of executing corporate capital restructuring. The 5-year financing in a total amount of PLN 300 million was organised with participation of Bank Handlowy w Warszawie S.A., which acted as the loan agent;
- Organisation of financing for Anura S.A. (Penta Holding Ltd) designated for co-financing of acquisition of Żabka Polska S.A. Bank Handlowy w Warszawie S.A. co-organised the 7-year financing in an amount of PLN 300 million, in which it also acted as the loan agent and the hedging arrangement agent;
- In the fourth quarter of 2007 Bank Handlowy w Warszawie S.A. won the public tender for servicing bank accounts of the Capital City of Warsaw, with the relevant agreement signed by the Mayor of the Capital City of Warsaw and the President of the Bank Management Board. The Bank aspires to improve the city's financing structure with employment of modern banking solutions. There is an expectation that the banking expenses the city incurs will be substantially reduced;
- Execution of an agreement for setting up a programme for issuance of prepaid cards for customers of Netia S.A. The product represents the first prepaid card in the telecommunication sector. The transaction involves issuance of tens of thousands of cards and is expected to improve in material way the Bank's client's competitive position;
- Organisation of a bond issue programme for CIECH S.A. up to a total amount of PLN 500 million, in which Bank Handlowy w Warszawie S.A. acted as one of 3 arrangers and dealers as well as the paying agent and the custodian bank. In December 2007 CIECH S.A. issued under the programme a 5-year bond of PLN 300 million, enabling the company to finance acquisition of Sodawerk Holding Stassfurt GmbH and partial repayment of short-term debt.

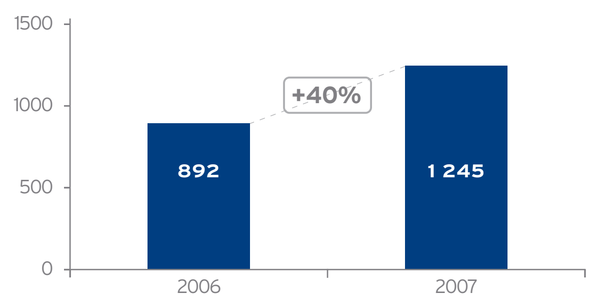
Owing to high quality of its financial products and services and their innovative nature, the Bank has maintained its position of leadership in supporting clients in achievement of their development plans. As it continues to implement the latest financing structures and instruments on the increasingly competitive and demanding Polish banking market, the Bank participates in financing transactions of crucial importance for its clients and the Polish economy.

Commercial Bank

Through the Commercial Bank we serve clients with annual revenue in excess of PLN 8 million and up to PLN 1 billion and corporates with global relations with Citigroup.
In the year 2007 the Bank serviced accounts of approximately 7,500 clients as compared to approximately 25,000 entities operating in the entire Polish market that meet the abovementioned criterion.
The Bank serves this large and diverse group of clients though its new customer service model, which covers three main customer service segments of Small and Medium Enterprises (SMEs), Large Enterprises (Middle Market Enterprises or MMEs) and Global Clients (incorporated into the model at the end of September 2007). Within the SME segment the Bank serves clients with annual sales of PLN 8 million to PLN 75 million, within the MME segment those with annual sales of PLN 75 million to PLN 1 billion whilst within the Global Clients segment it provides services to clients with global relations with Citigroup. This structure allows the Bank to provide smaller enterprises with more individualised service and to achieve a better fit between its offering and the clients' broad product needs. The Bank has an extensive network of regional branches dedicated to its Commercial Bank clients, with substantial part of its retail network also equipped to serve corporate clients. In total, clients of that segment are served by 122 branches throughout Poland.

In 2007 the Bank revised its approach to acquisition of new clients and executed a number of effective and efficient acquisition campaigns, such as Building Assets and Online Trading, addressed to selected groups of clients.

Number of customers acquired*



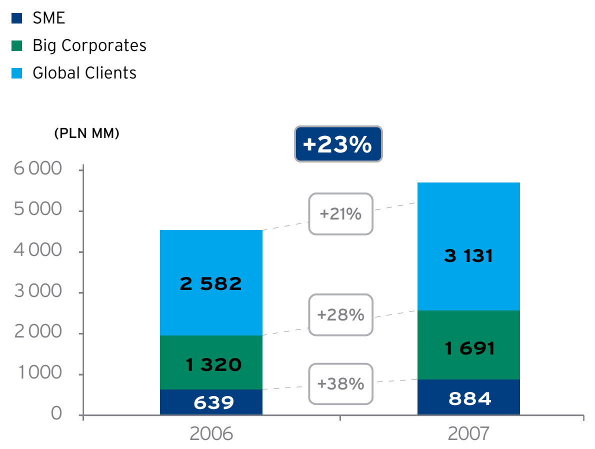
* excluding Global Customers

Throughout the year, we were able to acquire nearly 1,250 new clients (40% more than in 2006), net of Global Clients. It is estimated that 60% of these were acquired through the abovementioned campaigns.

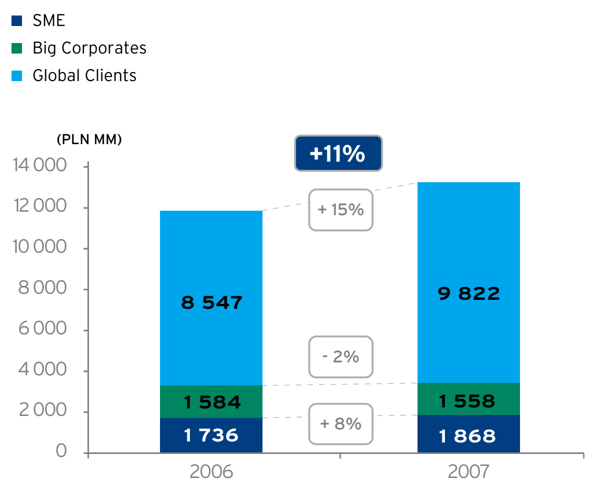
The good acquisition result received support from the new lending programme and the innovative product solutions in the field of FX transactions.

As at the end of 2007 the Bank registered near 23% in the Commercial Bank assets compared to equivalent period a year earlier, whilst in the SME segment the growth reached 38% . As at the end of 2007 the Bank also registered an 11% increase in current account and term deposit balances compared to the balances as at the end of 2006, with a 15% increase in the Global Clients segment.

Commercial Bank – assets



Commercial Bank – deposits



With its unique distribution channel that the FX transacting platform represents in market terms (OLT platform), the Commercial Bank in the 2007 registered 83% growth in value of FX transactions executed by its clients, with the SME segment growing by 102%.

Value of FX transactions*

PLN m	2007	2006	Change	
			Amount	%
Total Commercial Bank	**34,548**	**18,892**	**15,656**	**83%**
Including:				
SMEs	14,654	7,249	7,405	102%
MMEs	17,612	10,594	7,018	66%

** excluding Global Clients*

Within the continual improvement of its loan offer and review of the lending programme in the third quarter of 2007 the Bank launched an offer of long-term investment loans for property development; secured on the financed real estate. The product also provides for longer than previously available financing terms: the MME segment clients can now obtain loans of maximum 10-year tenor while the SME segment clients can obtain loans of up to 12-year tenor. Previously the maximum loan tenors the Bank offered were 10 years for SMEs and 8 years for MMEs.

The Bank also launched the Consolidated Bank Account Agreement, which facilitates activation of electronic banking, the Online Trading platform and of debit cards in parallel to opening of a regular bank account. The solution cuts down significantly on the time to operational readiness for serving the newly acquired clients.

The Deposit Account Agreement is another recently launched offer, which is primarily addressed to public sector units and MMEs.

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

As the enterprises are the main beneficiaries of the grant funding awarded by the EU within the new budgeting period, EU advisory services are being offered to these clients through the EU Office operating in the Bank. The clients can take advantage of these services at every stage of their grant application process: research of the available funding sources, grant application development, to project cost reconciliation and settlement.

The offer addressed to the public sector continues to include an attractive long-term investment loan co-financed by the Kreditanstalt für Wiederaufbau bank in collaboration with the European Commission; available within the framework of investment project financing of the Municipal Finance Facility programme.

The public sector has also shown much interest and appreciation for the Mikrowpłaty (MicroPayments) service, a tool for management of third party cash deposits (e.g. bid bonds, security deposits). In 2007 the Bank executed agreements for provision of that product with 18 clients.

Brokerage activity

The Group operates its capital market securities brokerage business through Dom Maklerski Banku Handlowego S.A. (DMBH), its wholly-owned subsidiary. DMBH was formed on 1 April 2001 through contribution of organised assets of the Bank's Centrum Operacji Kapitałowych (COK) to the Citibrokerage S.A. subsidiary, the name of which was subsequently changed.

Value of the equity transactions on the Warsaw Stock Exchange (WSE) cleared through DMBH reached PLN 43.8 billion represented 22.6% YOY growth.

The share of DMBH in equities trading in 2007 reached 9.47% (11% in 2006), giving it the third position in the ranking of the WSE member.

The number of investment accounts operated by DMBH at the year-end of 2007 reached 10,287, which was 5.8% fewer that a year earlier. The decline in the number of the investment accounts came mainly from closure by DMBH of the inactive accounts.

The key factors impacting net income generated by DMBH in 2007 included the continuing robust growth in the markets and the record-high trading in equities, with volumes reaching approximately PLN 462 billion. The conditions prevailing on the capital market resulted from the robust condition of the Polish economy and the inflow of EU funds into it as well as the changing structure of household savings and the increased interest of domestic investors in equity investments.

COK commenced operations on WSE on own account in 1994: initially, under the old trading system, as a Stock Exchange Member-Specialist, and subsequently, at implementation of the WARSET system on WSE, as a Market Maker. Prior to merger with Citibrokerage, COK became active as an Organiser of the Centralna Tabela Ofert (MTS-CTO) market, a function similar to that of a Market Maker. DMBH has continued that activity.

As at the end of 2007 DMBH acted as Market Maker for 44 companies, which represented 12.6 % of all shares traded on WSE. Additionally, the Proprietary Investments Unit performed the same function in respect of WIG20 index linked futures contracts and the MW20 index investment units. The number of the companies provided with market making services included foreign companies with parallel listings on their home markets. This group, which previously included BACA and MOL, was in the course of the year expanded to include ORCO Property Group.

On the MTS-CTO floor DMBH acted as the Organiser for the CitiBond US Dollar Mixed Investment Fund investment certificates.

Value of the private market transactions cleared through DMBH in 2007 exceeded PLN 890.5 million.

In the year 2007 DMBH arranged the following new share issues:

- Issue of D series shares of Zakłady Tłuszczowe "Kruszwica" SA. The issue was addressed exclusively to the shareholders of three private companies, in the process of merger of the issuer with these companies (the shares were allotted in exchange for assets in the merged companies). The issue value, equivalent to that of the assets exchanged for shares, reached PLN 277,416,000 (Q1 2007); and
- Initial public offering (on the Polish market) of the shares of Orco Property Group (a property developed) combined with listing of the shares on WSE. The IPO reached value of PLN 652 million (Q2 2007).

Combined value of the two abovementioned issues was PLN 929,416,000, which represents approximately 5.1% of the new issues executed in the market in 2007. The market share of DMBH included here does not take into account its activity on the NewConnect market.

Selected Income Statement and Balance Sheet item*

Company	Headquarter	% of authorised capital owned by the Bank	Total assets	Own equity	Net profit/loss
			31.12.2007	31.12.2007	2007
		%	PLN '000		
Dom Maklerski Banku Handlowego S.A.	Warsaw	100	438,055	99,925	18,993

** pre-audit data*

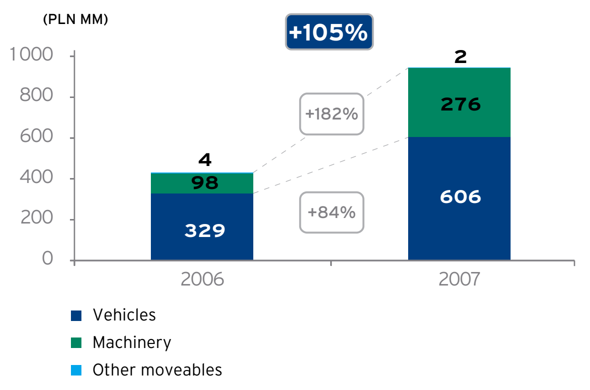
Leasing

The Group operates its leasing business through HANDLOWY-LEASING Sp. z o.o. The company was formed in September 1996 as a subsidiary of Bank Handlowy w Warszawie S.A.
In 2001 the Group commenced the process on combining operations of two leasing firms: Handlowy-Leasing S.A. and Citileasing Sp. z o.o. Since 10 January 2006 the two companies have operated under a common brand of Handlowy-Leasing Sp. z o.o. The operations of Handlowy-Leasing Sp. z o.o. include servicing of medium and large ticket transactions, and provision of vendor financing, i.e. support of sales programmes operated by equipment manufacturers and suppliers.

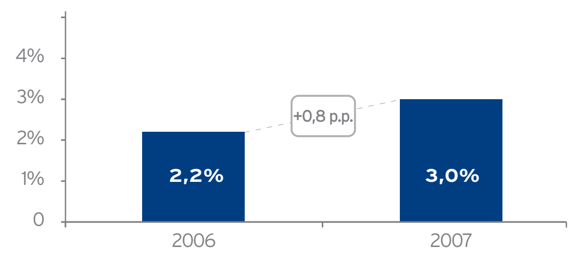
In 2007 the company registered a 105% growth in net value of leasing assets (NAV) to a total amount of PLN 883.4 million, against PLN 431.3 million at the end of 2006. Transport vehicles represented 68.6% of NAV in 2007 and 76.4% in 2006. In line with the adopted strategy, leased machinery increased in 2007 to reach 31.2% of NAV (181.5% growth rate).

The company's market share in the market of movables leasing increased from 2.2% to 3% YOY.

Handlowy-Leasing Sp. z o.o. – net assets value



Handlowy-Leasing Sp. z o.o. – market share



In 2007 total net leasing receivables held by the company increased from PLN 728.6 million to PLN 1,086.7 million. The company also registered substantial increase in sales revenue and was thus able realise net profit of PLN 14.6 million. Though 2007 net profit was below that posted in 2006, this resulted from overpaid corporation income tax advance of previous year reimbursed to the company in 2006. Worth underscoring is the very good condition of the company's portfolio, both in terms of the low impairment losses and low arrears in leasing payments, with 3-4% of receivables in arrears of above 30 days, which is substantially below the accepted benchmarks.

The year 2007 was a period in which the Group continued with actions aimed at strengthening the market positioning of the company and building a platform for its further dynamic development.

These key actions included:

- Expansion of the product offer directed at financing of machinery and equipment used in e.g. printing, metal and wood processing, plastics processing and construction, and particularly of the small ticket offer, as the firm implemented a fast-track processing of such transactions, with advisers equipped in a tool enabling processing and closing of leasing transaction within 48 hours;
- Streamlining of internal transaction execution processes, both within the company and in its cooperation with the Bank; with the resultant improvement in customer satisfaction and overall effectiveness;
- Development of cross-selling within the Group, particularly with the Corporate Bank; the firm developed and implemented promotional and collaborative programmes aligned with the Bank's client and customer segmentation. Both sides were provided with measurable goals and on-going monitoring was implemented. Additional cooperation support measures included incentive schemes, joint training programmes and marketing actions. The increased share of sales to the Bank's clients in total sales revenue testifies that the adopted and implemented strategy is effective;
- Expansion of distribution channels through addition of external sales representatives and improved cooperation with suppliers and brokers;
- Increased activity of the company in sector specific trade channels, with major emphasis on growing machinery leasing. The firm singled out a network of leasing adviser dedicated to that sector, and was thus able to increase its market penetration, competitiveness and transaction processing times;

- Much attention devoted to after-sale service, with the aim of improving customer satisfaction and corporate effectiveness. Specifically, the company strengthened its after-sale service and its Transaction Closing Unit and Leasing Servicing Unit teams. The firm drew on opinions and expectation expressed by clients through a VOC survey in its organisational restructuring and process upgrading. All these were aimed at ensuring quality comprehensive after-sale service and improving customer service satisfaction; a customer satisfaction survey carried out in the 4th quarter of 2007 demonstrated 84% customer satisfaction level.
- Assuring high portfolio quality.

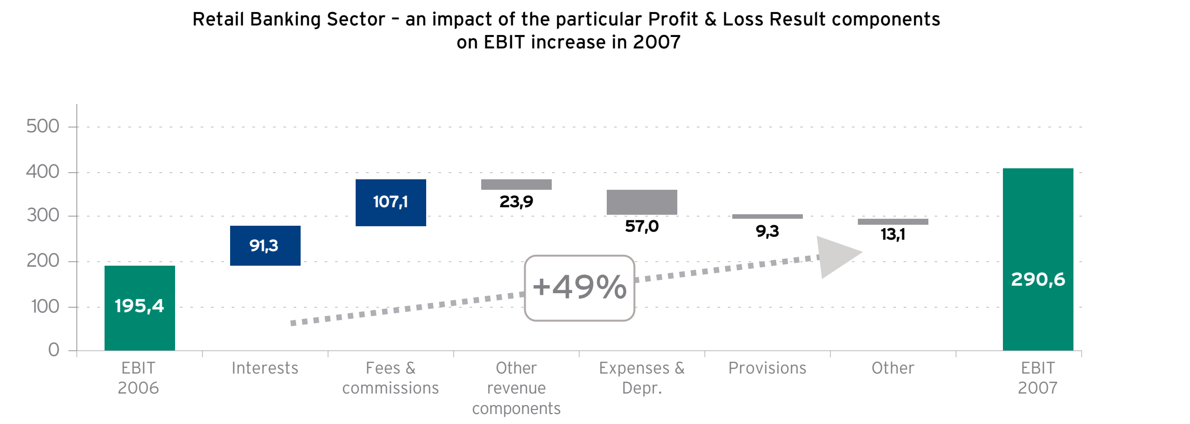
Selected Income Statement and Balance Sheet item*

Company	Headquarter	% of authorised capital owned by the Bank	Total assets 31.12.2007	Own equity 31.12.2007	Net profit/loss 2007
		%		PLN '000	
Handlowy-Leasing Sp. z.o.o.	Warsaw	100	1,132,166	211,367	13,172

** pre-audit data*

Retail banking

Summary segmental results



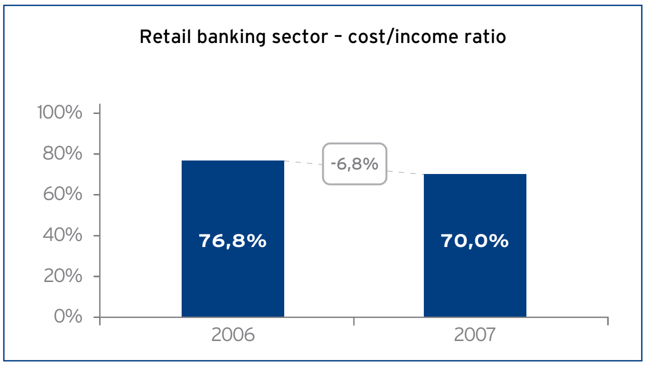
In the year 2007 the Consumer Bank achieved an impressive gross profit growth of 50%. The key contributors included:

- PLN 91.3 million or 15.8% growth in net interest income; primarily an effect of the credit card portfolio and the cash loan portfolio growth, partially compensated by reduction of interest rates and an increase in interest income arising from the growing portfolio of savings accounts;
- PLN 107.1 million or 33.5% growth in net commission income; primarily a result of sales of insurance and investment products and the growing credit card and loan portfolios.

The factors which had a negative impact on gross profit of the Consumer Bank in YOY terms included:

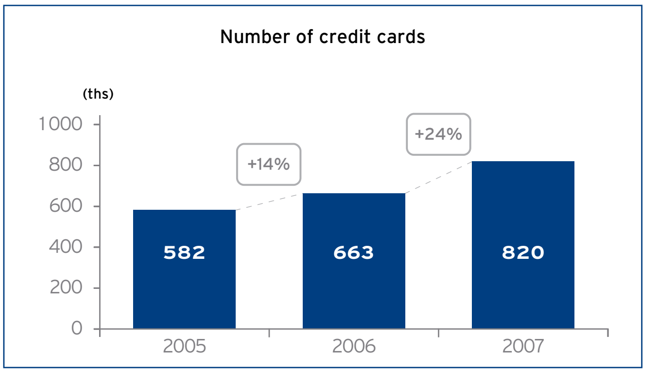
- Higher costs driven mainly by intensification of marketing actions (particularly in the media) and an increase in personnel costs, both variable (consequence of good sales results) and fixed (increased employment in distribution informed by business development and expansion of the distribution channels);
- Net increase in impairment losses, largely in the incurred but not reported (IBNR) provision and resulting from growth of the consumer loan receivables portfolio and the growing share of delinquent loan receivables.

Worth underscoring is the substantial improvement in effectiveness of the Consumer Bank in 2007. In the course of the year cost/income ratio came down by over 7 percentage points, with income growth (18.3% YOY) being much stronger than cost growth, (only 6.8% YOY).



Credit cards

In the year 2007 the Bank issued over 237,000 new cards, which was 55% more than in 2006 and which was the best to date in terms of the number of the newly acquired credit cards.



As at 31 December 2007, the number credit cards in the Bank's portfolio exceeded 820,000. The sales network developed in parallel. The credit cards are now offered not only via the Bank's representatives, but also via sales points at BP petrol stations and shopping centres, throughout the Bank's retail branch network, the CitiFinancial network as well as its Telesprzedaż, CitiPhone and internet channel.

In June 2007 the Bank added to its product offer two new partner co-branded cards: Citibank-LOT and Citibank-Plus.

The Citibank-LOT Credit Card was issued in collaboration with LOT Polish Airlines. The card combines the credit card functionality with the benefits accruing from participation in the Miles & More loyalty program. Cooperation with LOT Polish Airlines, which serve over 4 million passengers a year, has contributed to further rapid development of Citibank's card portfolio. As a sales support measure, the Bank held an exclusive lottery for holders of the Citibank-LOT Credit Cards, with the main prize of one million Miles & More bonus miles and 10 prizes of 100,000 bonus miles each. Qualified to take part in the lottery were all Citibank-LOT Credit Card holders who had executed at least one transaction by the end of November 2007. The draw took place on 17 December 2007, with the grand prize going to a Citibank-LOT Gold Credit Card holder from Wrocław.

The Citibank-Plus Credit Card combines the credit card functionality with certain additional benefits prepared with the Polkomtel S.A. clients in mind. Each transaction effected with the Citibank-Plus Credit Card earns the client points with the 5 Plus Program, which can then be swapped into attractive prizes, including additional minutes. The Citibank-Plus card offer is addressed directly to the 4 million individual customers of Polkomtel S.A.

Both these new products have met with very positive customer recognition, as confirm the numbers of cards acquired within the first 6 months of their market launch. As at the end of the year, the portfolio of the Citibank-LOT cards reached 28,000 while that of the Citibank-PLUS cards over 30,000 cards.

The number of issued Citibank-BP Credit Cards exceeded 170,000 Thus, in the course of the year 2007 Motokarta strengthened its position of the best partner card on the Polish market.

In conjunction with the 10th anniversary of the Citibank Credit Card, the Bank organised a special lottery for all holders of cards marked "Luckily you have got a card!". Each of the holders could win one of the 9,999 cash prizes or the main prize being the sporty AUDI TT.

The past year was also a period of dynamic development of the Discount Program. The overall number of vendor establishments offering discounts to customers usinf Citibank Credit Cards increased to 2,550.

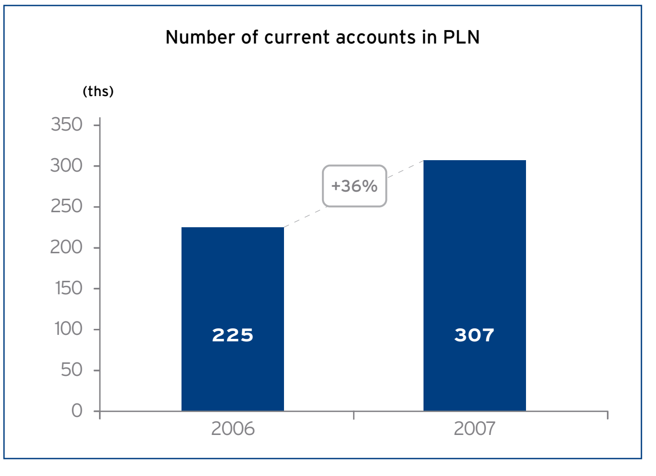
In 2007, the Bank also continued with its offer addressed to students, which covers full-time and extramural students of all the universities in the country. This has continued to meet with unabating interest, with over 6,000 students now holding Citibank Credit Card in their wallets.

Consumer Bank

Bank accounts

The Citibank Savings Account introduced in April 2007 in conjunction with the promotional interest offer on that account drove acquisition of new customers and contributed to substantial expansion of the Bank's deposit basis. In the third quarter of 2007 the balance of funds deposited on savings accounts available in a choice of three currencies (PLN, USD, EUR) exceeded PLN 1 billion and continued to growth further in the remaining months of the year; supported, among others, through a television campaign. At the end of the year the funds collected on the savings accounts operated by the Bank exceeded PLN 1.7 billion.

In June 2007 the Bank launched a MasterCard debit card with a contemporary, transparent look, effective for authorising internet payments. This card complements ideally the CitiOne Direct internet account, which Gazetę Prawna singled out as the best account for all those who actively use the available internet functionalities.



The Bank continued its special personal account promotions aimed at acquisition of customers transferring their pay to the Bank, both the broadly available ones (the CitiKonto promotion) as well as those accessible to employees of selected firms within the framework of the Bank in Your Firm Programme. Account promotion offers in conjunction with expansion of customer acquisition channels and streamlining of the account opening process contributed to growth in the number of the Bank's middle segment customers by 22% in the course of the year. At the same time the Bank registered substantial growth in the number of the high net worth customers, holders of the CitiGold accounts: by 27% YOY. Reception of the CitiGold account offer on special terms addressed to the first Citibank Credit Card holders, the so called Founder Members, was very positive. As a result, the number of PLN current accounts operated by the Bank, as at 31 December 2007, reached 307,000, which is by 36% higher than as at the end of the previous year.

In the area of deposits the Bank continued to offer attractive combined cross-sell promotions. Particularly advantageous for the customers was the Investment Portfolio offer in combination with the uniquely high interest on three-month PLN deposits of 11% p.a.

In September 2007 the Bank implemented a comprehensive offer addressed to expatriate Poles in the United States and the United Kingdom and their families. At the same time it enabled its customers to make free of charge or highly price competitive fund transfers in real time to Poland via its Citibank Global Transfers service. Additionally, the Bank's customers in the United States and the United Kingdom can call a toll-free information desk and set up accounts with Citi Handlowy for their relatives in Poland.

Credit products

Citibank Loan

In 2007 the Bank introduced new longer repayment periods for its Citibank Loan product. Previously, 60 months was the longest available lending period. Certain changes introduced in the product made possible granting of loans for periods of 72 and 84 months. The longer lending periods can be offered to customers meeting predetermined borrowing capacity criteria.

In June 2007 the Bank introduced new attractive interest terms in Citibank Loans offered to the CitiGold customers. Loan interest is equivalent to that offered in loans for the Professionals segment, with loan preparation fee of 1% irrespective of the loan amount.

In the course of the year 2007 the Bank's customers were also able to take advantage of a number of Citibank Loan promotional campaign, aimed at stimulating loan amount increases. These campaigns were supported with leaflets and posters in the Bank branches and with advertisements placed on the Internet, and from 19 February to the end of the first quarter of 2007 also through a media campaign with the message: Money available at Citibank Handlowy ("Udostępniamy pieniądze w Citibank Handlowy").

The Bank provided the following promotional offers:

- waiver of the loan preparation fee (offer valid with loans of above a set amount), which was available over the entire third quarter of 2007; and
- deferred repayment of the first loan instalment by 1 month, which was available between 15 November and 14 December 2007.

The promotional offers enabled the Bank to achieve substantial improvements in product sales results, with July being the month with the highest sales of the entire year 2007 .

Over the entire year 2007 the Bank continued cross-selling to holders of Citibank Loans (with the aim of increasing loan amounts) and holders of credit cards and personal accounts. These cross-selling activities were supported through mailings and personal contacts the Sales Division staff initiated with pre-selected customers.

In 2007 the Bank also continued working toward harmonisation of its unsecured credit products, being Citibank Loans and Cash Loans.

Citibank Credit Line

In 2007 the Bank conducted activities aimed at increasing the take up of Citibank Credit Line. The main support vehicle was the promotion of the product, in which customers were offered it with waiver of the annual fee in the first year of use.

From 18 January to the end of May 2007 the Bank offered promotional pricing of Citibank Credit Line (renewable personal account overdraft limit) for customers ready to transfer their credit lines from other banks.

This campaign permitted achievement of substantial growth in the sale of Citibank Credit Line compared to results of the previous months. As a result, in October 2007 Citibank Credit Line sales reached a record-breaking sales result, the highest since 2004.

Secured Credit Line

The product is primarily intended to retain customers and is addressed mainly to the CitiGold customer segment. In 2007 the Bank proceeded with actions aimed at enriching the Secured Credit Line offer with additional types of collateral. In April 2007 we expanded the collateral registry to add Investment Portfolios and in November 2007 also included structured bonds. We withdrew from the offer term deposits as an acceptable Secured Credit Line collateral. In May 2007 we reduced the Secured Credit Line margin and interest rate, this in response to the CitiGold customers' expectations.

Investment and insurance products

Investment products

In the first half of 2007 the Bank's offer was expanded to include two additional domestic funds: the new DWS Top 50 Small and Medium Enterprises Plus fund in January and the new ING Central Europe Financial Sector Subfund Plus sub-fund in May.

In June 2007 two new Merrill Lynch International Investment Funds funds were added to the offer of available foreign funds: MLIIF New Energy Fund and MLIIF World Gold.

In July 2007 the Union Investment fund was transformed into the UniFundusze FIO umbrella fund. As a result the Bank's offer now has the second umbrella fund (next to ING), which offers the customers opportunities for optimising their tax position while they invest into funds.

Also in July 2007 the Bank renewed distribution of ING Small and Medium Enterprises Fund and DWS Polska Top 25 Small Enterprises Fund, which returned to the offer at introduction of relevant changes to their article of association.

In the third quarter of 2007 the offering of foreign funds was expanded to include an additional one of the Merrill Lynch International Investment Funds family: MLIIF European Fund available in two currency options – EUR and USD.

In the fourth quarter of 2007 the Bank's offer of investment funds was expanded to include 9 new funds. ING SFIO Umbrella Fund was enriched with the Central Europe Small and Medium Enterprises Fund Subfund Plus, while the UniFundusze FIO umbrella fund included 8 new subfunds (UniAkcje (equity): European Championship 2012, UniAkcje: Small and Medium Enterprises, UniSektor Real Estate: New Europe, UniObligacje (bonds): New Europe, UniStabilny Wzrost (stable growth), UniMax: Shares, UniMax: Balanced, UniMax: Debt). Worth noting is the fact that 3 new UniMax subfunds represent the first in the Bank's domestic funds offer that pursue an investment strategy involving investing of participation unit funds in investment funds of other mutual fund companies.

In October 2007 the foreign investment funds on offer was expanded to include 12 Franklin Templeton Investment Funds, being equity funds denominated in EUR and USD: Franklin Mutual European, Templeton Asian Growth Fund, Templeton China Fund, Templeton Eastern Europe Fund, Templeton Euroland Fund, Templeton Global Balanced, Templeton Latin America Fund, Templeton Thailand, Franklin India Fund, Templeton BRIC Fund, Franklin Global Real Estate (EUR) and Franklin Global Real Estate (USD). These funds are highly rated by rating agencies, among other things, as they are under the care of managers highly regarded in the financial world.

Additionally, the Bank's unique offer of foreign investment products was expanded to include in the previously offered 3 commodities funds of the Merrill Lynch International Investment Funds family (MLIIF World Energy, MLIIF World Gold and MLIIF World Mining) certificates of participation which follow a hedging strategy (EUR-hedged).

The customers were offered 50 different structured bonds in different currencies and linked with different market indices. The broad-ranging offer includes products for both conservative investors as well as those looking for opportunities of higher gains at higher asset value loss risk.

Since September 2007 the offer of investment products has included Investment Life Insurance, a new product, which combines life insurance protection with the possibility of obtaining a premium provided a specified market indicator is maintained, thus guaranteeing return on the invested capital.

Aiming to further improve customer service quality and investment product sales the Bank throughout the year provided its advisory sales force with intensive training in the investment products currently in its offer. This effort was complemented by regular meetings and conference calls with representatives of local and international investment fund companies.

Additionally, we organised a series of seminars devoted to foreign funds and their investment strategies, the Investment Life Insurance product and the problem of diversification of assets. The meetings were conducted by product specialists and fund managers.

Insurance products

Since February 2007 the choice of funds available under the Investment Portfolio and the Life Insurance Linked Investment Programme was enlarged through addition of three new funds:

- ING Selective Subfund Plus
- ING Construction and Real Estate Subfund Plus, and
- DWS Top 50 Small and Medium Enterprises Plus

In May 2007 the offer of funds available under the Investment Portfolio and the Life Insurance Linked Investment Programme was enlarged through addition of one new fund: ING Central Europe Financial Sector Subfund Plus. Thus the customers allocating assets under the Investment Portfolio and the Life Insurance Linked Investment Programme could choose from amongst 32 funds.

As of 10 August 2007 the Investment Portfolio product was replaced by the Global Investment Portfolio product providing customers with access to as many as 46 funds, including 15 foreign funds (9 in USD and 6 in EUR). Also, the Bank was able to cut down substantially on the time needed for closing of insurance policies within the Global Investment Portfolio, the Foreign Funds Portfolio and the Life Insurance Linked Investment Program: from circa 40 to 6 days.

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

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

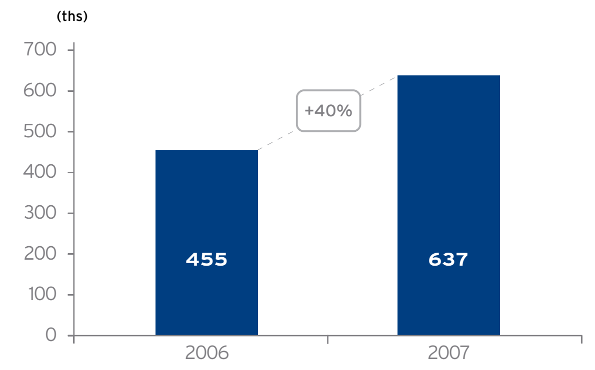
In March the Bank commenced tele-sales of a new insurance product dedicated to the Citibank credit card holders. The Safe Way insurance product ("Bezpieczna Droga") is a voluntary life insurance, which ensures high compensations in the event of accidental death of an insured, including additional compensation in case of road accident. During three following quarters the Bank intensified sales of its Safe Way insurance product, as a result the number of customers holding a policy of this life insurance increased by nearly 15%.

Year 2007 was also a period of active selling of Policy for Good Life ("Polisa na Dobre Życie") life insurance product, which resulted in expansion of the portfolio of the insured by 24%.

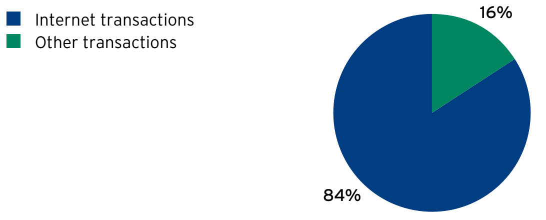
Internet

In 2007 was a period of developing use of the Citibank Online (CBOL) internet platform, in which the Bank registered an increase in the number of users taking advantage of the facility at least once to over 637,000, which was a 40% growth YOY. The number of transactions executed via Citibank Online represented over 84% of all financial transactions initiated by the Consumer Bank customers.

Number of Citibank Online users

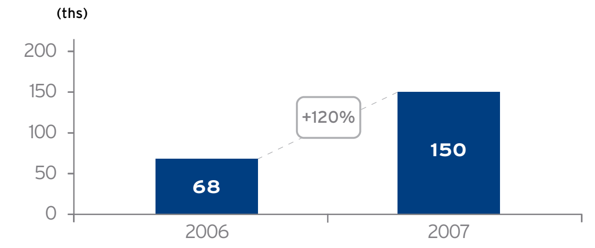


Online transactions share



The Bank also actively promoted its Online Account Statement ("Wyciąg Online") service registering the resultant stable growth in the number of its users, which generated considerable savings. Online Account Statement is the electronic version of the account statements from the Citibank Personal Account and the Citibank Credit Card products, which the customers can choose instead of the paper-based account statement. In 2007 the number of customers using that service exceeded 150,000, which represents a 120% growth in YOY terms.

Number of Online Account Statements



Internet has also become a substantial channel of distribution, one in which the Bank is achieving continually improving sales results. The internet channel is currently used to offer three key product groups:

- credit cards,
- Citibank Credit, and
- personal accounts.

CitiBusiness micro-company banking

Since 2004 the Consumer Bank carries the CitiBusiness offer dedicated to small enterprises with annual revenue of up to PLN 8 million, irrespective of the legal form under which the business is organised.

For CitiBusiness the year 2007 was a period of intensive work and many changes. In the early months the Bank concentrated on development of the sales force and expansion of the product offer. By mid-year customers could start using OLT (Online Trading platform) and FX Options – excellent tools for customers aiming to execute FX transaction. In July 2007 the list of CitiBusiness products was expanded to include a very attractive account for small firms: CitiBusiness Direct. Among many products and innovations added to CitiBusiness in 2007 we would also mention corporate Credit Cards, which were introduced into the Bank's offer in October 2007.

In mid-2007 CitiBusiness intensified its marketing activities and increased its media visibility. In 2007 CitiBusiness was promoted on the Internet, through the largest financial portals (in the second half the year), on the radio (in October) an on television, as a sponsor of the "Facts, People, Money – set up own business" program (the entire fourth quarter of 2007). Over that period CitiBusiness also developed cooperation with other units of the Bank, which made new customer search effective.

Numbers clearly confirm the success. Compared to a year earlier, in 2007 we opened over four times more accounts of these firms. The substantial increase in the number clients rapidly translated into an increase in revenue from servicing CitiBusiness segment clients. Year 2007 brought an 8% increase in revenue from that segment over that of 2006. Also, from the beginning of the year CitiBusiness registered growth in the number of granted loans.

CitiFinancial

The basic product portfolio the Bank offered under the CitiFinancial brand is addressed to the segment of middle and low income customers and includes Cash Loan, Debt Consolidation Loan and Mortgage Loan. The products are channelled through own branch network, authorised outlets and the central process, in other words, via financial intermediaries and brokers.

In early 2007 the Bank added another product to the CitiFinancial offer, a credit card, which – because of its high degree of responsiveness to the target group needs – met with high interest on the part of the customers.

In March 2007, for the purpose of ensuring better match of the Cash Loan offer to customers seeking to renew the product, we introduced a new Cash Loan specific scorecard application, built on the basis of the results and conclusions drawn from the portfolio built by CitiFinancial.

In April 2007 CitiFinancial began its first nationwide television campaign with the slogan "CitiFinancial Cash Loan Centre – We are experts in lending" supported with the promotion of „0% preparation fee". As a result of that campaign the Bank achieved excellent sales results in all the products offered by CitiFinancial. The campaign was continued in the following months and enjoyed great success, as confirmed in the number of contacts with customers made through the dedicated call centre number accessible 24 hours by 7 days a week.

In 2007 a customer relationship management system (CRM) was implemented in the CitiFinancial branch network and its authorised outlets. The purpose of the implementation is to increase effectiveness of marketing campaigns in these distribution channels.

In August 2007 the Bank launched a special "Back to School" offer, which included a low value cash loan, available at presentation of a personal identity card. The CitiFinancial Cash Loan was tailored to the seasonal needs of the customers, such as school supplies, household goods, etc.

In September the Bank came out with another special offer addressed to the pervious borrowers. In order to obtain a new loan, of whatever value, the former Cash Loan users do not need to present any additional documents confirming their earnings, provided they had ended their relationship with the Bank not more than 24 months ago.

At the end of 2007 the Bank launched a promotional offer for the Cash Loan customers promoted as: "Deferred first instalment repayment". All of the customers who executed their loan agreements within the promotion period were able to take advantage of a 30-day extension of their contractual grace period. The campaign was given strong media support, a television campaign at the end of November.

CitiFinancial reorganised its brokerage channel by entering at the end of 2007 into agreements with six substantial partners offering Cash Loan in their sales points.

In the course of the entire 2007 CitiFinancial proceeded with a customer retention programme with much success, as a result the Bank was able to reduce the outflow of customers to other financial institutions in a substantial way.

Branch network

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

In the course of the year 2007 the Bank also expanded one Retail Bank branch in Gliwice.

In the year 2007 within the Branch Network Optimisation scheme:

- 2 retail outlets were moved to Corporate Bank locations:
  - CitiGold branch in Poznań from ul. Garbary 57 to Pl. Wolności 4;
  - CitiBanking branch in Bielsko-Biała from Pl. Ratuszowy 4 to Pl. Ratuszowy 5;
- branch in Poznań at ul. Św. Marcina 46/50 was expanded and reopened; its functionalities were also increased to include complete service of CitiGold customers;
- branch in Warsaw at ul. Ostrobramska 75A was expanded to include a CitiGold zone; thus becoming the Bank's first outlet in this part of the city to provide complete service of CitiGold customers;
- the branches consolidated in Tarnów and Gliwice were built out and reopened;
- in Gdynia a corporate branch was combined with a retail branch, as a result retail customers and corporate clients are served in a single location;
- in Gorzów Wielkopolski a corporate branch together with a retail customer service point were transferred to a new location;
- in Tarnów Podgórny and Jelenia Góra two retail customer service points were opened in corporate outlets;
- location at ul. Jana Pawła II 24 in Warsaw was shut down due to reasons beyond the Bank's control; continuity of service to CitiGold clients by advisers of that branch was ensured through a temporary location.

The Bank introduced interchangeable customer service (both retail and corporate) in most of its retail and corporate branches.

With the view of intensifying its relationships with the corporates using the Citi at Work Comprehensive Financial Programme, the Bank continued installation of ATMs and Information Points (MiniBranches) in the client company premises.

Number of branches at the end of the year

	2007	2006	Change
Number of outlets:	**237**	**236**	**+1**
Consumer Bank	**87**	**86**	**+1**
Multifunctional outlets	71	72	(1)
CitiGold Wealth Management	15	12	+3
Investment Centre	1	1	No change
- of which serving Corporate Bank clients	84	13	+71
CitiFinancial	**112**	**111**	**+1**
Branches	100	99	+1
Agencies (partner outlets operating under the CitiFinancial logo)	12	12	No change
Corporate Bank	**38**	**39**	**(1)**
- of which serving Consumer Bank customers	38	30	8
Other sales/customer service outlets:			
Mini-branches (within "Citibank at work")	6	0	+6
BP petrol station sales points	88	47	+41
Supermarket stands	7	5	+2
Number of own ATMs	160	154	+6

In summary, the branch network status as at the end of 2007:

- Corporate Bank clients are served by 122 branches,
- Consumer Bank customers are served by 125 branches,
- CitiFinancial customers are served by 112 outlets.

Additionally, the customers and clients are provided with access to a large network of ATMs offering commission-free cash dispensing services:

- in Poland:
  - 1,248 ATMs of the Bankomat 24/Euronet Sp. z o.o. network,
  - 233 eCard network ATMs, including 9 within "Citibank at work",
- abroad:
  - all of the CitiShare ATMs (18,000).

Changes in IT

IT development projects aim to optimise processes while ensuring data security and continuity, and implementation of new solutions reflecting technological progress, product needs and the Bank's regulatory environment.

Corporate Bank

The solutions which contributed to development of a leading-edge product range, improvement of its quality and efficiency, and reduction of its cost introduced in 2007 in the Corporate Bank:

Software applications:

- Enabling the CitiTreasury Online Trading system for marketing of Treasury Division products to retail customers and the CitiBusiness sector clients;
- Build-out of the eOrders electronic platform involving adding of new functionalities:
  - processing of bank payment slips with a field code reader;
  - processing of mass transactions (over 1 million transactions daily); and
  - modernisation of the platform through addition of a new OFX component, a flexibility enhancing solution;
- Implementation of the CallManager Treasury system, for telephone based management of relationships with clients of the Treasury Division;
- Development of Electronic Postal Orders platform – transfers handling of new business products to a system that meets all the data security requirements, with the aim of improving process efficiency and reduction of operational risk;
- Launch of www.ZrozumFinanse.pl, an educational purpose financial portal, which promotes knowledge about banking and finance among young people.

Technical infrastructure:

- Installation of a new technology in the form of internet kiosks for the Bank's customers in 55 retail branches. The solution is a response to the customers' expectation for further build-out of channels of access to products and services. Additionally, the internet kiosks provide the customers with an opportunity for direct participation in an electronic survey in which they can assess the Bank's services and products;
- Opening of new Consumer Bank branches of the CitiGold type in Warsaw, at IBC-Polna and Ostrobramska;
- Opening of a new Back-Office location for the Consumer Bank in Pruszków (250 telesales agents).

Other newly started and continuing modification projects, which will impact the Bank's operations in the future:

Software applications:

- Continuing development work on a new release of the system servicing the SpeedCollect and SpeedCollect + products, aimed at ensuring the Bank's competitiveness in the market for these services;
- Replacement of the main application used by DMBH with a system providing broader set of functionalities and with more advanced architecture;
- Expansion of the CallManager Treasury system, for telephone based management of relationships with clients of the Treasury Division to incorporate a greater number of users;
- Adaptation of the existing business applications to the new verion of the Microsoft Vista operating system;
- The first phase implementation of the new internet based e-banking system for SMEs, which – in comparison to the existing CitiDirect platform – can provide a simpler customer interface and certain new functionalities of importance for that client segment.

Technical infrastructure:

- Replacement of the telephone system infrastructure with Cisco IPT in 31 Bank locations. The project is under implementation, with the planned completion in July 2008. There are two categories of benefits accruing for the Bank from implementation of the project: of technological and business nature. The primary benefits for the business units include:
  - reduction of bills for internal and external calls;
  - elimination of the costs of servicing the existing telephone exchanges in 31 branches;
  - reduction of subscription charges;
  - a single address book and a single numbering standard inside the Bank;
- Replacement of the existing telecommunication lines. The new solution involves replacement of the existing lines with new ones based on the MPLS (Multiprotocol Label Switching) technology, which uses VPN technologies, with project completion planned for February 2008. The primary benefits of the new solution include:

- provision of redundant lines of identical parameters and capacity as the primary lines, which is very important in breakdown situations;
- protection of data transmission for critical business applications at an unaltered level irrespective of the line load;
- enabling implementation of new technologies in the Bank's branches, such as VoIP;
- reduction of total cost of line maintenance;
- reduction of charges for data transmission services.

Total IT technology expenditures of the Corporate Bank in the year 2007:

- Software applications – PLN 14 million,
- Technical infrastructure – PLN 21 million.

Consumer Bank

The implementation plan of the IT system projects for the Consumer Bank was developed on the basis of the business strategy adopted for that sector.

Its main thrust and expenditures were concentrated on technological initiatives, which can deliver effective return on investment: they enhance the product offer, improve acquisition effects and customer service quality and reduce the Bank's operating costs.

The key technical projects involving expansion of the product offer and functionalities executed in 2007 include:

- New credit cards issued in collaboration with Polkomtel and LOT;
- Implementation of a product offer addressed to expatriate Poles and their families in the form of a special product package developed by Citigroup in Poland and foreign branches. The offer provides for immediate transfer of cash to the Bank's branch with the use of Citigroup Global Transfers. This represents an innovative service in terms of the Polish market;
- Implementation of a system for sale of the Bank's credit products by external agents of AURUM;
- Savings account, a product which enable collection of savings and unconstrained application of funds without loss of interest income;
- Mastercard Unembossed debit card, a card with attractive appearance, which permits execution of transactions on the Internet;
- CitiOne Direct account, a new type of an internet account with attractive price offer;
- The "Reszta dla Ciebie" (Keep the Change) programme, an innovative offer which permits saving of small amounts while making payments at vendor outlets;
- Launch of a service that enables automated identification of a customer calling to CitiPhone, which cuts down substantially on time to connection with a CitiPhone consultant;
- Launch of a videoconferencing link between a customer at a Bank branch and a CitiPhone employee;
- Implementation of a service that makes available account statements in the electronic form to all customers, irrespective of whether they have access to Citibank Online internet banking service;
- The new comprehensive product offer for the CitiBusiness segment, including, among other things, implementation of a new Direct package and a credit card;
- Launch of a loyalty programme for users of the BP co-branded card.

The projects aimed at improvement of processes and reduction of costs executed in 2007 include:

- Capability for automated ALOP (Advanced Loan on Phone) funds transfer order in the branches and CitiPhone;
- Automation of booking incoming foreign transactions;
- Introduction of the capability for selective waver of ATM withdrawal charges, which enabled expansion of the number of e-card ATMs with the free-of-charge cash withdrawal capability;
- Implementation of a system which supports the process of settlements in the ATM network.

Total IT technology expenditures of the Consumer Bank in the year 2007 reached over PLN 17 million.

Key projects and initiatives, which – in accordance with the adopted strategy – will be continued or undertaken in 2008:

- Implementation of ECS+ (Enhanced Card System), expansion of credit cards servicing functionalities, which permit implementation of initiatives that automate manual processes. The initiatives identified for implementation with support of the ECS+ system:
  - differentiation of cash withdrawal charges, enabling organisation of dedicated promotions;
  - more flexible management of loan pricing through, inter alia, setting of different interest rates dependant on transaction type or date. ECS+ will also enable setting of different loan prices for debts being transferred from other banks (so-called balance transfer), which will contribute to increasing receivables from customers and will translate into increased revenue for the Bank;
  - additional CreditShield insurance for the ALOP product, which will be able to function irrespective of the normal CreditShield insurance on a card;
  - additional elective insurance for holders of credit cards, which will contribute to growth of the Bank's fee revenue;
  - implementation of cards with microprocessors;
  - enhancement of the offer of credit cards for CitiBusiness clients;
- Implementation of a comprehensive platform supporting the sales of investment, insurance and deposit products; provides help in determining and realisation of the customer's financial goals; enables the customer and the consultant to have ongoing monitoring of the held products and of their transaction history;
- Implementation of a new comprehensive platform supporting the sales of uniforms loan products and credit cards;
- Further development of the internet banking service: would enable management of investment fund units, integration with CRM, which can reduce the costs of communication with the customers, and increase operational efficiency of selling via the internet channel; possibilities for personalised user profiles, e-payments;
- Expansion of the offer for expatriate Poles through enabling them to send cash funds abroad in real time;
- Mobile payments enabling execution of payments via mobile phones;
- Implementation of the EMV functionality (acceptance of chip cards) in the Bank's ATM network.

Equity investments

The capital exposures of the Bank are classified as part of its strategic and divestment portfolios. In the year 2007 the Bank continued its previously chosen capital investment policy. In managing the strategic portfolio it sough to maximise profits in the long term; grow the market share; and stimulate development of cooperation with the Bank. In managing its divestment portfolio the Bank aimed to optimise financial result on the transactions and to minimise the risk inherent in such transactions.

Strategic Portfolio

The Bank's strategic holdings include entities operating in the financial sector, whose performance has an impact on the result on banking operations of the Bank. This approach has helped the Bank to expand its product offer, increase its prestige and competitive advantage in the

financial services market in Poland, (e.g. Handlowy-Leasing Sp. z o.o., Dom Maklerski Banku Handlowego S.A.). Its strategic companies also include infrastructure providers operating for the benefit of the financial sector. In these the Bank does not hold controlling interests, yet they are of strategic importance for it in view of the operations they perform, (e.g. the Warsaw Stock Exchange, MTS-CeTO, the National Clearing House or the Credit Information Bureau).
The Bank intends to retain its strategic holdings in the infrastructure providing entities and take an active role in outlining the strategic directions of their development while exercising its right of vote. Its overriding objective in the exercise of its corporate governance prerogatives over these companies is to ensure their stable development and continuance of their present operations, which the participants of the financial market, including the Bank, rely on.

Divestment Portfolio

The holdings deemed available for sale include entities in which the Bank's exposure is not strategic. That portfolio includes entities held directly and indirectly (e.g. Lubelska Fabryka Maszyn Rolniczych S.A., Pol-Mot Holding S.A., NFI Magna Polonia S.A.), and special purpose investment companies used by the Bank for execution of capital transactions (Handlowy Investments S.A., Handlowy Investments II S.a.r.l.). Some of these holdings are restructured exposures, which originate from debt-to-equity swap transactions.

The strategic objective of the Bank with regard to the companies earmarked for sale provides for gradual decrease of the Group's participations in them. The adopted assumption is that the individual participations will be sold whenever market conditions are most favourable. The divestment portfolio comprises capital exposures without predetermined rate of return. The Bank does not plan any additional capital investments with the view of their subsequent divestment. The divestment portfolio may grow only if the Bank chooses to convert its debt to equity in the future.

Other Information about the Group

Rating

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

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

Additionally, on 26 February 2007 the agency notified the Bank of its decision to upgrade its financial strength rating of the Bank from D+ to C-. This rating change is a consequence of introduction of a new methodology for assessment of financial strength of banks by Moody's, but equally reflects assessment of the changes taking place in the Bank.

Moreover, on 3 March 2007 the agency notified the Bank of its decision to grant it the Aa2 rating (3rd from the top) for long-term deposits in PLN and the Prime-1 for short-term deposit in PLN. However, on 11 April 2007 the same agency informed the Bank of a change in the rating of its long-term deposits in PLN from Aa2 to Aa3, which in this case was again caused by a change in the methodology for assessment of banks in this respect.

To sum up, as at the end of the year 2007 the Bank had the following ratings awarded by Moody's:

Rating for long-term deposits in the domestic currency	Aa3
Rating for long-term deposits in foreign currencies	A2
Rating for short-term deposits in the domestic currency	Prime-1
Rating for short-term deposits in foreign currencies	Prime-1
Financial condition	C-

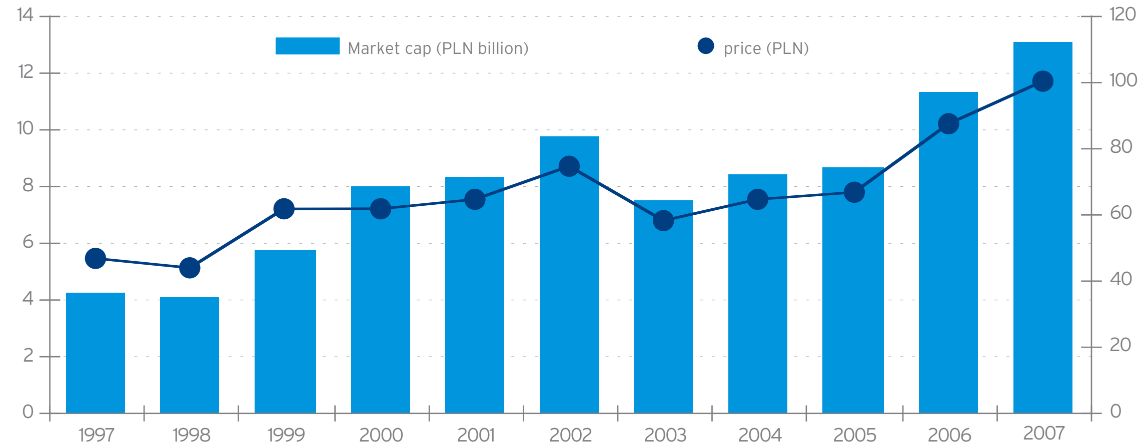
The Bank's shareholding structure and its performance on the Warsaw Stock Exchange

The only shareholder of the Bank that holds a minimum 5% participation in its share capital and votes at its General Shareholders Meeting (GSM) is Citibank Overseas Investment Corporation (COIC), a Citigroup company that holds its oversees investments. COIC is at the same time the strategic majority shareholder of the Bank. Throughout the year 2007 the number of shares held by COIC as well as its participation in the share capital and votes at the GSM of the Bank did not change and reached 97,994,700, which represents a 75% participation in the share capital and votes at the GSM. The following diagram depicts the positioning of Bank Handlowy w Warszawie S.A. in Citigroup structure:

The remaining shares (32,664,900 equivalent to 25% of the share capital) constitute free float, in other words, remain in free trading and are listed on the Warsaw Stock Exchange (WSE).

Year 2007 was an exceptional one in the context of the Bank's trading history. On 30 June 2007 a decade elapsed since equity of Bank Handlowy in Warszawie S.A. was first traded on the WSE, and two days earlier, i.e. on 28 May 2007, the Bank's shares traded at their record-high of PLN 137.50 per share.

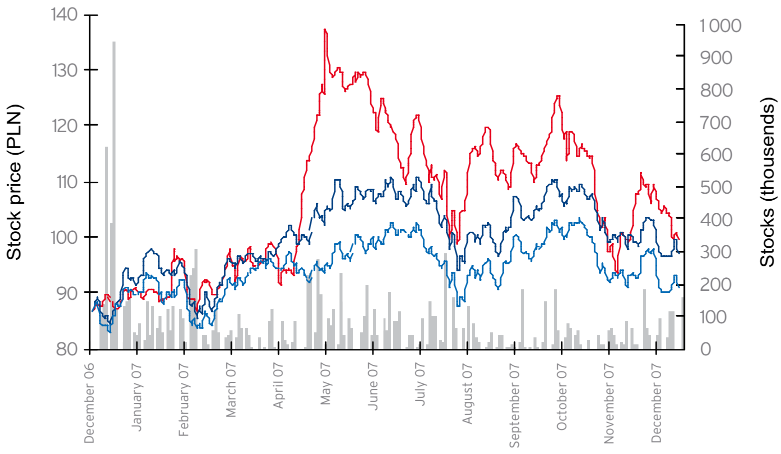
BHW market capitalisation and share price over the 10 years of trading on the WSE



Generally speaking, the Bank stock price remained highly volatile in the course of the year 2007. In the early months (until 10 May) it remained stable at a relatively moderate level (price band of PLN 86.90 to PLN 99.00). On 11 May the stock price for the first time in its history overcame the ceiling of PLN 100.00. From that moment on the share price began to climb rapidly to reach the maximum of PLN 137.50 per share on 28 May 2007. This quite a substantial increase in the share price was primarily driven by the positive valuation which the market gave to the Bank after publication on 9 May 2007 of the Interim Consolidated Financial Statements of the Capital Group in respect of the initial quarters of the year 2007.

In step with a general market decline as of the end of May 2007, price of the Bank equity began to decline gradually reaching PLN 99 per share on 16 August after which it recovered considerably until 16 October 2007, when it peaked at PLN 125.60. The next equity price decline ended on 21 November, at PLN 94 per share, after which it bounced back to PLN 112 on 5 December 2007. In December, again in parallel with a general declining trend of the market, the Bank shares lost in value. At the final Warsaw Stock Exchange session of the year 2007 the share price stabilised at PLN 99.90, which compared to the price of the final session of the year 2006 represents an over 15% increase. Market capitalisation of the Bank at the end of 2007 stood at PLN 13.1 billion (compared to PLN 11.3 billion at the end of 2006), with the following market price indicators: P/E of 13.7 (17.3 in 2006) and P/BV of 2 (2.1 in 2006).

It should be noted that over most of the year the price of the Bank equity clearly outperformed the Warsaw market (relative the WIG index) and the sector (relative the WIG-Banks). The Bank owes the successful share price development in the course of the year primarily to its very strong financial performance and its positive assessment by market analysts and investors.



Interest rates

The tables below present information on the average weighted effective interest rates of receivables and liabilities in the respective segments of the Group.

As at 31 December 2007:

%	Corporate Bank			Consumer Bank		
	PLN	EUR	USD	PLN	EUR	USD
ASSETS						
Receivables from financial and non-financial sector entities						
- fixed term	5.77	5.59	5.06	19.63	6.75	9.05
Debt securities	5.29	3.57	4.83	-	-	-
LIABILITIES						
Payables to financial and non-financial sector entities						
- fixed term	4.36	4.52	5.03	4.21	3.36	3.92

As at 31 December 2006:

%	Corporate Bank			Consumer Bank		
	PLN	EUR	USD	PLN	EUR	USD
ASSETS						
Receivables from financial and non-financial sector entities						
- fixed term	5.31	5.27	5.11	20.66	5.95	7.40
Debt securities	4.84	3.49	2.99	-	-	-
LIABILITIES						
Payables to financial and non-financial sector entities						
- fixed term	4.00	3.33	5.25	3.62	2.02	3.52

Awards and honours

In the year 2007 The Group of Bank Handlowy w Warszawie S.A. and Fundacja Bankowa im. Leopolda Kronenberga received the following awards and honours:

- In recognition of its outstanding HR management programme, the Bank was honoured with the **"Investor into Human Capital"** awarded by the Management Institute;
- Results of a client survey ranking of banks prepared by the **"Home & Market"** magazine, Bank Handlowy w Warszawie S.A. was **the best bank in terms of quality and level of service**;
- The award committee of the **Pro Publico Bono** competition, presided over by **professor Andrzej Zoll**, honoured the Bank's Kronenberg Foundation with its **honorary award**;
- The Bank was honoured by the title of the **"Patron of the Year 2007"** of the National Philharmonic in Warsaw;
- For the seventh consecutive year the 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 settlements of debt and equity instruments;
- The Bank's campaign promoting **Online Trading for corporate clients** won recognition in the **"Golden Arrow"** competition organised by the **Direct Marketing Association** and **VFP Communications Ltd.**, the publisher of the "Media & Marketing Polska" weekly magazine;
- The Bank's UNIKASA payments processing network was honoured with the prestigious **"Europrodukt"** title;
- The Bank was the winner of the **"Market Leader 2007"** title in the "Best Service in Poland" category for its Reserved Account and MicroPayments and of the special **EURO LEADER 2007** mention for the Reserved Account service;
- **Euromoney** and **Project Finance Magazine** awarded the Bank with the title of the **"European Power Deal of the Year 2006"** for the best power sector transaction in Europe, for a financing to BOT Elektrownia Bełchatów S.A.;
- For the second consecutive time the Bank received the top prize in the 4th edition of the Colours of Volunteer Work competition in the **"Employee Volunteer Programme"** category;
- The Bank received the top prize of the **Polish Business Club – The Firm of the Year 2006** for its comprehensive and tailored offer for the SME sector;
- The Bank won in a ranking of the best internet banks in the category of **"the best internet bank for enterprises and institutional clients"** in Poland in 2006 organised by the **"Global Finance"** magazine.

Engagement in cultural patronage and social responsibility projects

Social responsibility projects

The Group has pursued its mission of social responsibility via the Kronenberg Foundation, a charitable institution which supports on the Bank's behalf various public benefit activities. In the year 2007 the Foundation focused its efforts on such areas of interest as: economic education and promotion of entrepreneurship, and initiation and coordination of own employee volunteer projects addressed to the socially disadvantaged as well as those aiming at preservation of cultural heritage.

The Kronenberg Foundation acted as the sponsor of some of the most influential programmes of economic education in Poland:

My Finance – the largest Polish economic education programme 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. Its first edition was completed in the year 2007. In the years 2005-2007 it provided training to more than 2,500 teachers of over 2,000 schools across Poland. The teachers conducted classes for 216,000 students with 118 volunteers of the Bank in attendance. The classes took place at schools and in the selected branches of the Bank, where the pupils played the roles of bankers and customers. In November 2007 we held a conference entitled "My finances today and tomorrow", which inauguration the second edition of the programme, in which the number of students was doubled to 450,000, with the educational curriculum expanded to also include their parents.

Within the framework of the programme and in collaboration with the "Gazeta Wyborcza" daily, we organised the "My Finance – from class to teller window" competition, with the aim of assisting the students in acquiring the skills of making reasonable financial decisions. Over 56,000 pupils of lower and higher secondary schools participated in this competition.

Week for Savings is a nationwide social action organised under the patronage of the Financial Supervision Authority. The high point of the week is the World Savings Day celebrations held on 31 October. The programme aims to promote among the Poles the habit of saving and the skills of rational management of own financial resources. The key elements of the Week for Savings are various educational activities undertaken in lower and higher secondary schools. The first edition of the programme involved 270 such schools, with total of approximately 135,000 students. As a result of cooperation with the media, information on the universally accessible methods of saving and effective management of personal finances reaches out to millions of Poles.

Competition for the Award of Bank Handlowy w Warszawie S.A. – the most prestigious competition addressed to research scientists in economy and finance in Poland. The winner of the 13th competition edition was Dr. hab. Henryk Gurgul, the author of "Analysis of equity market events", which describes the ways in which information impacts the price of securities.

Micro-entrepreneur of the Year 2007 Competition – a competition addressed to operators of small businesses. Through organisation of the event the Foundation seeks to promote active stance toward entrepreneurship, stimulate establishment of small businesses and to present the best of them as effective business models. The Micro-entrepreneur of the Year 2007 title went to Halina Kustosz, for development of a web portal, which disseminates information on women's vocational activity through an interdisciplinary development of HR, implementations new technologies, training and support for development of entrepreneurial activities.

Banks in Action – an educational programme based on a decision-making game that simulates operation of a bank. By discovering the operational technicalities of the institution, the programme participants gain knowledge of how the banking sector works. As the game is conducted in English, the students are provided with natural opportunities for complementing their knowledge of the language with economic and banking terms. 5,040 students representing 168 schools took part in the first edition of the programme.

In November 2007 the Bank launched the **ZrozumFinanse.pl** educational portal – created to serve as an accessible entry point to the topic of managing personal finances. Developed by the Bank's specialist, the website offers novel solutions portals of the type do not normally include. It is the only bank initiated portal in Poland to offer the user the choice of content and navigation approach based on the user profile (Single, Pair of Family respectively). The portal content has been organised to follow the needs of the representatives of the respective user groups in such a way as to ensure that they find topical information of interest there. The material is divided into sections, which present various approaches to the subject of finances, so as to facilitate the use of the available resources for the visitors. Additionally, the portal features some useful tools, such as calculators, a glossary of financial and economic terms, and multimedia solutions, including films presenting various fields of personal finance.

In the field of cultural heritage, the Foundation completed the eight edition of granting the **Gieysztor Award**. This most prestigious award is granted for activity aimed at preservation of the Polish cultural heritage. It is granted annually to institutions and individuals, among others, for:

- museum, restoration, archive and library work,
- commemoration and preservation of the Polish cultural heritage abroad,
- initiatives aimed at collection and preservation of traces and mementos of cultural heritage,
- dissemination of knowledge on the needs and methods of preservation of cultural heritage in Poland.

This year's award went to **Krzysztof Lech Czyżewski**, the President of the BORDERLAND Foundation and the Director of the "Borderland of the Arts, Cultures and Nations" Centre in Sejny.

To help the Bank employees develop social responsibility and involvement, the Foundation expanded the **Employee Volunteer Programme**. The three main pillars of the programme include: employee engagement in dissemination of financial education among young people, through the My Finances nationwide economic education programme delivered jointly with the National Bank of Poland and the Foundation of Entrepreneurship of Young People; construction of homes for underprivileged families together with the Habitat for Humanity foundation; and the innovative voluntary work projects executed in the course of corporate integration trips and Citi's Global Community Day. Additionally, the Bank employees can choose from among hundreds of voluntary work offers sent through by the Volunteer Centre. The employees offer their voluntary assistance individually and in organised groups. In 2007 the voluntary activities of various types engaged 2,161 Bank volunteers across the country, who contributed overall 14,000 hours of their time to social causes. The second edition of Citi's Global Community Day encompassed 38 localities and 81 projects across Poland involving 1,856 volunteers and 30,000 beneficiaries. Overall these projects were granted PLN 255,000.

The Bank and the Kronenberg Foundation are the main partners of the Newsweek magazine in organisation of a **series of 16 regional conferences on Social Responsibility of Business**, which involve local business circles. The main purpose of these meetings is to disseminate the idea of social responsibility of business among local businessmen in Poland, to demonstrate to them how they can engage in activity of this kind and what they stand to gain from engaging in the life of the community in which their run their business. The regional conferences promote the idea of social responsibility, show some best practices and encourage the audiences to apply for EU funding available for socially responsible actions. The programme includes the Good Deal competition for the most socially engaged firm in the region. The Academy for Development of Philanthropy in Poland acts as the project's consultant partner.

The Kronenberg Foundation also runs the **Subsidy Programme**, which in 2007 granted 63 subsidies to social projects fun by NGOs across Poland. The list of projects the Foundation supported includes, among others: the 3rd National Enchanted Song Festival organised by Anna Dymna's "Mimo Wszystko" Foundation; the 12th Edition of the National History Competition for Secondary School Students organised by the KARTA Centre Foundation; the Capital Market Leaders Academy training courses organised by the Lesław A. Paga Foundation; the 20th Economic Knowledge Olympics organised by the Polish Economics Society; and digitalisation of the Wrocław University Library resources.

In the year 2007 we strengthened our position of a leader among the socially committed companies. Some awards and honours which attest to that include:

The **Colours of Volunteerism** award for the Bank's Employee Volunteerism Programme. The Bank received this most prestigious of the volunteer movement's awards for the second time in succession;

The **Strong Image** award of the 4th Public Relations Congress for Citi's Global Community Day 2006 as an innovative social project;

The **Gold Badge of Honour** of the Polish Economics Society for the Bank's longstanding involvement in increasing the quality of general economic knowledge;

The **Philanthropist 2006** award in the "Exemplary cooperation with NGOs" category. This is the most prestigious award in the field of socially responsible of business;

The title of the **"Year 2007 Patron of the Business Volunteer Programme"**, awarded by the Business Volunteer Programme Council at the Volunteer Centre;

The **Honorary Award of the Pro Publico Bono Competition** awarded for the Bank's contribution to public good. This is the most prestigious award among those granted by Polish NGOs; for the first time in history awarded to a business related foundation.

Cultural patronage

For its patronage of culture and the arts and cooperation with the National Philharmonic, the Bank was once more awarded the title of the "Patron of the Year 2007". This is a particularly important honour for us as the Bank considers social involvement its distinguishing mark.

In May 2007 the Bank sponsored the musical event that the concert given in Warsaw by the New York Philharmonic conducted by Lorin Maazel was. The Bank also sponsored a philharmonic concert of the Chinese megastar pianist **Lang Lang**. In his triumphant march through the world's leading stages, this remarkably talented pianist was joined by the National Philharmonic Symphony Orchestra conducted by Antoni Wit in performance of two famous piano concertos: Chopin Piano Concerto in E minor, Op. 11 and Tchaikovsky Piano Concerto No. 1 in B flat minor, Op. 23.

In September 2007 the Bank was the patron of a special concert held at the National Philharmonic Hall at the occasion of the 75th birthday of **Wojciech Kilar**, a pre-eminent Polish composer. The concert was devoted in its entirety to the composer's opuses of the recent years: "Magnificat" and "September Symphony", a composition honouring the victims of the 9/11 terrorist attacks.

Special purpose investment vehicle companies

In 2007 the Group conducted its capital investment operations through its three investment companies, their operations financed by the Bank through reverse capital increases, subordinated and other loans, and from their own earnings. As the Group intends to limit the scale of this type of operations, the investment companies are going to be successively divested or liquidated. As per the data available at the date of preparation of the financial statements (interim, unaudited), summary financial data of these entities, as at 31 December 2007, were as follows:

Company	Headquarter	% of authorised capital owned by the Bank	Total assets	Own equity	Net profit/ loss
		%	PLN '000		
Handlowy Inwestycje Sp. z o.o.	Warsaw	100.00	19,103	11,211	376
Handlowy Investments S.A.	Luxemburg	100.00	28,735	28,649	33,592
Handlowy Investments II S.a.r.l.	Luxemburg	80.97	7,513	7,275	(249)

Significant risk factors relating to operation of the Group of Bank Handlowy w Warszawie S.A.

Major risk factors and threats to the Bank's operating environment

Economy

According to the macroeconomic forecasts developed by the Bank, the economic growth in Poland may slow down to approximately 5.0% in 2008 from 6.5% in 2007. As in the year 2007, the growth will most probably come from strong domestic demand, with trade balance contributing to weakening of the GDP growth. One serious threat to fulfilment of that scenario is the uncertainty as to the scale and persistence of the weakening of the world's largest economies; as affected by volatility in the credit markets.

Strong domestic demand and accelerating wage inflation may contribute to further central bank rate increases in 2008. Mounting salary increase pressures would additionally increase the risk of inflation stabilised substantially above the target set by the Monetary Policy Council. Under such circumstances the monetary authorities could resolve on a more aggressive course of action in respect of interest rate increases.

With the better than projected economic growth, the year 2007 budget deficit stabilised at an exceptionally low level. Nonetheless, due to the risk of a slowdown in the economic growth, this highly favourable fiscal condition will probably be harder to repeat in 2008.

Capital market risk

Since the end of the year 2007 capital markets globally have weakened further, spurred by the mounting risk of occurrence of recession in the United States economy and the global consequences of that. The Polish equities market is not insensitive to these developments. From the beginning of the year 2008 all of the WSE indexes registered substantial declines and a risk exists that these declines may deepen further. Individual and institutional investors are visibly becoming more risk averse, while rising interest rates increase attractiveness of bank deposits and bonds as against investments in equities. One of the greatest risks in the year 2008 is that related to selling down of participation units by clients of investment funds. This phenomenon was in evidence in January 2008.

All of the abovementioned events and development have a negative impact on activity of the investor community and thus on stock market trading volumes, and can have a negative impact on the Group's earnings.

Regulatory risk

Any changes in economic policy and the legal system may significantly affect the financial standing of the Bank. Of particular relevance here is the regulation of the banking sector, which takes the form of primary legislation and regulations issued by the Finance Minister, resolutions of the Management Board of the National Bank of Poland (NBP), ordinances issued by the President of NBP and resolutions of the Commission for Banking Supervision (KBN). As of 1 January 2008 the competences of the Commission for Banking Supervision are transferred on to the Financial Supervision Authority.

The most relevant of these regulations include and cover:

- acceptable concentration of loans and total receivables (Banking Law Act),
- maximum limit of equity that may be invested in the capital market (Banking Law Act),
- liquidity, solvency and credit risk standards (resolutions of KNB),
- risk management in banks (Banking Law Act, resolutions of KNB),
- mandatory reserves, establishment and transfer (NBP Act, Banking Law Act, resolutions of KNB and resolutions of the NBP Management Board),
- taxes and similar charges,
- Act Amending the Civil Code Act and Certain Other Acts of 7 July 2005 limiting the maximum interest rates on consumer loans and the maximum fees chargeable on such loans,
- restrictions in granting mortgage-secured foreign currency loans arising from Recommendation S of the Commission for Banking Supervision,
- Competition and Consumer Protection Act of 16 February 2007,
- Countering Unfair Market Practices Act of 23 August 2007.

Furthermore, because of the failure to implement in the Polish law within the required timescales, i.e. by 1 November 2007, of the Commission Directive 2004/39/EC of 21 April 2004 on markets in financial instruments (MiFID Directive) and in its executive legislation, such as the Commission Regulation (EC) 1287/2006 and the Commission Directive 2006/73/EC (both dated 10 August 2006), the process adjustment of activities of the institutions covered in the MiFID Directive (investment firms and lending institutions conducting investing activities) had not been carried out in pursuance of the guidelines laid down by the European Union. Legislative work will continue in 2008 with the aim of transposing the European to the national regulations, in particular into the Trading in Financial Instruments Act and ordinances issued by the Minister of Finance on that basis. The legislative changes in the abovementioned field planned for the year 2008 shall affect the activities of the Bank's subsidiary, Dom Maklerski Banku Handlowego S.A.

Additionally, the Bank will adjust its operations to the legal requirements arising from the change in the regulations that related to the implementation of the New Capital Accord. The key changes – as compared to the currently effective regulations – involve the newly added operating risk related minimum regulatory capital requirements, the possibility of application of the more accurate credit risk related capital requirement calculation method and the addition of two new systemic measures: pillars II and III. Under the Pillar II measures (Supervisory Review), banks now need to develop internal economic capital assessment processes and the set their capital allocation targets, which are aligned with their unique risk profiles and with the supervisory environment. Of significance here is inclusion in that process of the risks previously not accounted for within the Pillar I minimum regulatory capital requirement (e.g. interest rate risk in the bank portfolio, liquidity risk, etc.). This process falls under supervisory analysis and assessment, next to assessment of corporate governance, risk management performance, compliance monitoring and internal controls system. Under the Pillar III measures (Market Discipline) institutions are required to disclose to market participants information on their risk profile, risk management measures and capital adequacy. The regulatory changes relating to implementation of the New Capital Accord will influence changes in capital requirements and solvency ratio of the Bank.

Competition within the banking sector

The attractive and fast growing banking service market in Poland has been the subject of growing competition across its segments. Observable both in retail and corporate banking is the mounting pressure on fees and commissions. We expect this trend to persist in the near term due to the growing number of banking and non-banking institutions in the market and the considerable interest which foreign financial institutions have shown in the Polish banking sector. Additional factors likely to impact this state of the banking services market further include the corporate sector pursuing alternative financing sources, such as leasing or factoring, and the companies in good financial condition pressuring for reduction of credit margins.

Poland's accession to the European Union, which has allowed foreign banks to operate cross-border activities in Poland, has also increased competition on the banking services market, though the process is not likely to alter the structure of that market in the near term. The main argument in favour of that market development scenario materialising is the fact that the institutions interested in operation on the attractive Polish banking market have already been present here for a number of years and have managed to achieve a position in it that any new players commencing their activities in Poland under conditions of mounting competition will have difficulty challenging. The race for strong market positioning will thus play itself out primarily in the dimension of service quality and the related customer service efficiency and speed. Only further consolidation within the banking sector can conceivably have a diminishing effect on the competition in it.

Another risk factor which can have a negative impact on margins achieved by the banking sector is the development of financial product and service offers – previously the sole domain of banks – by non--banking entities, such as retailer chains or loan brokers.

The Bank takes note of the potentially detrimental effect of the global crisis sweeping across world's financial markets; originally triggered by the troubled sub-prime segment of the U.S. mortgage lending market. Due to the small scale of the Bank's exposure vis-à-vis that segment, potential crisis on that market will have a limited impact on the Bank's operations. What is more, the situation taking place in the United States on the sub-prime mortgage loans market is not likely to happen in Poland, where the conditions of granting mortgage loans are considerably more restrictive. In spite of the dynamically growing mortgage loan volumes, their value in relation to GDP remains much lower than in the developed economies of West Europe.

On the other hand it may turn out that increasing demand from other banks' for financing via interbank will be a positive factor for the Group. It may lead to the rise in demand for the products offered by the Group within this area and thus to the increase in Group's revenue.

Aware of the existing risk factors, the Bank is nonetheless well prepared to compete under conditions of pan-European marketplace. However, there is some likelihood that competition now mounting in the banking sector can have a negative impact on the Bank's results.

Major risk factors and threats connected with the Capital Group of Bank Handlowy w Warszawie S.A. and its operations

Liquidity risk

As is typical of banking activity, the Bank experiences maturity mismatches between loans and the deposits funding the earlier. These can give rise to problems with 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 for specific areas of operation, to define the pricing policy and to make decisions concerning the transfer pricing system used within 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 its liquidity limits as well as contingency action plans in the area of liquidity. It also determines threshold 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 base. The level of liquidity risk is thus low.

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, the unit managing the Bank's liquidity and its 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 below 1% of the Bank's equity.

Interest rate risk

Along with the other Polish banks, the Bank is exposed to a risk arising from mismatch in timing of changes in interest rates on its assets and the underlying liabilities. Interest rate risk can arise when a fall in income caused by lower rates of interest on loans proves impossible to offset 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 forms part of the remit of the Bank's Asset and Liability Committee, which determines the Bank's pricing policy in the context of interest rate risk. In the year 2007 interest rate risk was moderate to high.

Credit risk

Lending and guarantee business is inherently linked with the risk of payment delinquency (of both loan principal and interest) as 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 and classifies and establishes provisions against them in accordance with the relevant regulations. The Bank Management Board is of the opinion that the current level of provisions is appropriate. As the possibility of change in the external environment that can have a negative impact on the financial condition of the Bank's customers always exists, there is no certainty if some future need for adequate provisioning against the existing asset portfolio may have an adverse effect on the Bank's financial condition or if the provisions and the collateral in place will prove sufficient to absorb the possible losses arising out of lending activity.

Equity investment risk

Equity investments fall into two basic categories: strategic and for sale. The strategic portfolio includes the Bank's shares in Polish financial institutions of strategic significance to the Bank due to their operations. The 'for sale' category exposures originate from debt-to-equity conversion operations performed in the past. Investments are held directly by the Bank or indirectly via its wholly-owned special purpose investment vehicles. In the case of some of the equity investments, their valuation is based on the assumption of ultimate identification of a strategic investor for the company in which the Bank is a shareholder. Therefore, maintenance of the high level of foreign direct investment may be of key importance for the valuation of these investments. Moreover, due to a number of macroeconomic effects, the conditions prevailing in the capital markets and other factors having an impact on activities of the companies in which the Bank is a shareholder may cause the selling price of the held shares to be lower than expected, or even lower than the value at which they are held on the Bank's books. The Bank has already made substantial write-offs related to impairment of its investments, thus bringing the risk of further decline in value of the Bank's investment portfolio to a low level.

Operating risk

The Bank defines operating risk as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. Operating risk includes the risk relating to business practices and legal risk, in other words, the risk of non-compliance with the effective regulations of law and internal regulations of the Group.

All of the principles of the operating risk management, including the roles and responsibilities at different levels of the Group's hierarchy have been defined in the Policy for the Operating Risk Management. The responsibility for monitoring the operating risk in the Bank is vested with the relevant Risk and the Control and Compliance System Committees. All detected oversights, remedial actions, operational events and operating risk indicators are the subject of regular reports submitted with the relevant Committees. At the same time, the operating risk management process quality (including the self-assessment process) in the respective organisational units of the Group are the subject of inspections and assessment carried out by the internal audit.

For a number of years now the Bank has employed various tools and methods in managing operating risk (including in particular the self-assessment process, check lists, limits and contingency planning). The operating risk management process is supported through qualitative and quantitative measurement of the operating risk. The monitoring processes the Bank uses serve to minimise the causes of development of any negative consequences of operational events (including operational losses), to reduce the probability of their occurrence and to minimise the severity of the potential consequences.

The operating risk management relies on the following key elements:

- Identification of risk,
- Limiting risk,
- Self-assessment of risk and audit,
- Risk monitoring,
- Measurement of risk,
- Reporting on any areas vulnerable to the operating risk.

The self-assessment process implemented in the Bank enables ongoing identification, audit, assessment, monitoring, measurement and reporting of the assessment of the quality of the control processes and the potential risk hazards. For a number of years the Bank has regularly collected data on the impact of operating risk related events (losses). The operating risk management process centralisation and automation introduced in the recent years has contributed to the substantial reduction of the incidence and the value of the operating losses.

The following categories of risk related losses are the subject of loss assessment:

- Losses caused by human error on the part of the staff,
- Losses resulting from external fraud and theft,
- Losses resulting from failure of systems and/or technologies, and
- Losses resulting from failure of processes or products.

In the Management's opinion, the general level of the Bank's operating risk can be assessed as moderate, typical to the scope and scale of the Bank's operations. The Bank will concentrate its future actions in this area on the processes included in the Bank's risk profile.

The Bank follows the standard method of calculation of the operating risk related capital requirement.

Contributions to the Bank Guarantee Fund

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

In the event of general deterioration of standing of the banking sector institutions or of 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 guaranteed deposit insurance fund calculated in respect of a given institution or institutions. This could adversely affect the Bank's earnings.

Development prospects for Capital Group of Bank Handlowy w Warszawie S.A.

The Bank's general development objectives

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

The Bank intends to continue active acquisition of new customers – both consumer and corporate – in all market segments, with a particular emphasis on middle-income consumers and SME banking clients. The Bank perceives customer satisfaction as key to effective customer acquisition and intends to undertake a number of initiatives aimed at increasing it (e.g. streamlining of operational processes, shared branch network).

In the medium term, the Bank aspires to achieve double digit market share, measured as the share in the result on banking activity of the entire banking sector. In the year 2007 its share was approximately 6%. The market share growth will be attained as the Bank maintains its position of leadership in corporate banking and improves its market share in retail banking services.

While proceeding with capital expenditures and intensifying its marketing activities, the Bank will continue to maintain strict cost discipline. In the year 2007 the Bank's share in costs of the banking sector stood at approximately 7% and was lower than a year earlier.

Corporate and Commercial Bank

As a leader in corporate banking in Poland, the Bank addresses a rich offer to all companies, irrespective of the market segment in which they operate, with the exception of those that belong to the sectors permanently excluded from the Bank's target markets due to the Bank's policy or to their blacklisting, a consequence of them being sanctioned by either international organizations or the U.S. government. The Bank's market share in corporate loans at the end of 2007 stood at 4.2% compared to 4.6% at the end of 2006, whereas its share in corporate deposits rose to 8.5% compared to 9.5% at the end of 2006.

The Bank's position is particularly strong in servicing international corporations and the largest Polish companies. The Bank also holds a leading position in handling of money market and foreign exchange transactions. Its goal is to retain its present market share in these segments and to improve its position in the remaining areas.

The Bank plans expansion in the small and medium enterprise segment (SMEs), as it perceives every company of that market segment as its strategic client. The Bank intends to continue acquiring new customers on this market and to deepen the relationships with its existing customers. The Bank is going to actively finance SMEs and expand the offer dedicated to the SME sector clients as well as to improve accessibility by increasing the number of branches dedicated to serving this group of enterprises.

Substantial part of the Bank's revenue will come from Treasury Division products, including cash management, trade finance. The solutions and innovations in these product groups and the high service quality will be the key determinants of the Bank's competitive advantage, particularly in its cooperation with the most demanding international and leading Polish companies. The Bank's aim is to gain a position among the top three banks in terms of revenue from banking activity in the corporate banking segment.

Brokerage activity

Institutional clients are the dominant client segment of DMBH in revenue terms. DMBH intends to retain the current share in that customer segment and to increase its efforts toward acquiring of new individual customers. For the purpose of acquiring a greater number of retail customers, at the end of 2007 DMBH closed a cooperation agreement with the Consumer Bank, which enables acceptance of orders in selected branches of the Bank and their execution by DMBH.

Moreover, in 2007 the Group strengthened and expanded the team dedicated to servicing primary market transactions, which – in accordance with assumptions – is going to contribute substantially to increasing revenues in this segment in the subsequent years.

Leasing activity

In the year 2008 Handlowy–Leasing Sp. z o.o. plans to intensify its activities in its key distribution channels, including:

- Further development of cross-selling with the Bank: plans implementation of the cooperation programmes and promotional offers developed in 2007 and addressed to Citibusiness clients, for joint exploration of the investment capacity of smaller firm clients. Market activity of Handlowy Leasing S.A., through cross-selling, can conversely contribute to growth in sales of bank products by the Bank;
- Cooperation with suppliers (further growth of activity, particularly in the field of machinery and equipment): in 2007 the firm began to negotiate cooperation agreements with strategic trade suppliers and anticipates that at the beginning of 2008 these will be implemented. The firm plans to increase the volume of transactions generated in the direct sales channel – the trade channel, which it will support though specific marketing, acquisition and product measures;
- Continued development of external distribution channels; and
- Retaining high portfolio quality with increasing financial and operational efficiency.

Consumer Bank

The Bank's aim is to become the most frequently recommended consumer bank in Poland, one which delivers lasting benefits to its customers, employees and shareholders. The Bank's market share in loans to private individuals (excluding mortgage loans) at the end of 2007 remained at the same level as that achieved in the year 2006, i.e. 5.1%, whereas in deposits from individuals rose to 2.2% as compared to 2.0% at the end of 2006.

The Bank's product offer is responsive to need of the customers representing various market segments.

The Bank intends to further strengthen its leading position in servicing wealthy individuals by offering them top quality advisory in investment products, by expending the product offer and through facilitation of access to the global solutions of Citigroup. In order to improve accessibility of services, activities of the Warsaw-based Investment Centre will be expanded to other regions of the country.

The Bank has concentrated on acquisition of new customers in the middle income customers segment. Through creation of a comprehensive product offer responsive to their financial needs, the Bank seeks to strengthen its relations with the customers. In addition to rolling out its traditional network of branches, it has focused on exploitation of indirect distribution channels. On the basis of these the Bank has developed a package of service addressed to expatriate Poles and their relatives in Poland, and is presently creating a comprehensive offer addressed to students.

Acquisition of new customers and growth of the market share are the goals adopted by CitiBussiness. Marketing action is intended to increase brand recognition among small businesses. Year 2008 will bring in many new products, such as custody accounts or mortgage loans.

The Bank's products are well adjusted to the needs of the respective customer segments. The basic deposit offer was expanded to include Savings Account and CitiOne Direct internet account. Subsequent innovations and attractive promotions are expected to convince the customers to the benefits of undertaking cooperation with the Bank.

The broad offer of investment and insurance products are a response to the continuing interest in products of that type. High quality products and objective advisory are the distinctive marks of the Bank. The Bank intends to retain its position of leadership in distribution of foreign funds and to continue enhancing its offer of domestic funds. It also plans to enable acquisition of investment fund units via the Internet and to thus substantially increase their accessibility.

The Bank intends to retain its position of leadership on the highly competitive credit cards market. With that purpose in view, the Bank has concentrated on developing partnership offers, diversification of distribution channels and cutting down on the credit decision time. It also intends to be the leading supplier of cash loans.

Distribution network

As at the end of the year 2007, the Bank operated on the market under two brands:

- citi handlowy – for distribution of consumer, corporate and investment banking products
- citi financial – for CitiFinancial's distribution channels.

The Bank serves its clients and customers through a network of outlets, consultants and relationship managers, third party direct sales agents and remote distribution channels, such as internet banking, a call centre, IVR (interactive automatic telephone service) and multi-functional ATMs.

In order to meet the growing customer expectations and the growing competitive challenge, the Bank took a decision on integration of all of its outlets. As of 1 January 2008 it merged the branch networks of the Corporate Bank, the Consumer Bank and CitiFinancial.

The network integration project assumptions provide for a number of benefits accruing from the change to the Bank and its customers and clients, among others:

- expansion of the scope of customer service in selected outlets of the Bank;
- delivery of a broad product offer to the Bank's customers and clients;
- combining of selected outlets and their relocation to locations assessed as more accessible from the perspective of the customers and clients;
- implementation of the model of authorised customer service points (so-called lite branches) offering customer service in the area of loan products.

The planned integration of the branch networks will also generate synergies, particularly in the field of SMEs and CitiBusiness as well as between the Consumer Bank and the Commercial Bank. The priorities include increasing functionality and accessibility of remote distribution channels and further enhancement of the qualifications of the bank consultants, in particular those serving large entities which require more sophisticated financial products. In the case of the Consumer Bank, substantial emphasis will be placed on further growth of Internet usage (Citibank Online). As a target, Internet is to become for private individuals the basic transaction medium.
The high functionality and quality of access to call centres via the CitiPhone system for the Consumer Bank customers and via the client service unit for large and medium-sized enterprises will be maintained.

Synergies

The Bank combines its longstanding traditions and experience gained in the Polish market with the global experience of Citigroup to offer comprehensive solutions and service to all the customer and client segments, whatever their need. In this it takes advantage of the opportunities afforded by the synergies between corporate and consumer banking and between banking, leasing and brokerage services.

The Bank will continue exploiting the synergies between its consumer and corporate parts, among others, in the area of: offering attractive detail banking products to employees of the largest companies being the Bank's clients; offering corporate products (inter alia, specialist products of treasury, brokerage and asset management) to customers of the CitiGold segment; offering a tailored product offer of the treasury division to micro-enterprises; and of using a uniform branch network accessible to all customers and clients.

Corporate Governance

Good corporate practices and principles in the Bank

As per the Bank Management's representation adopted in the form of a resolution of 17 April 2007 and included in the Current Report No. 22/2007 of 22 June 2007, the Bank has undertaken to follow the corporate governance practices specified in the Best Practices in Public Companies 2005 paper.

The statement obtained a positive opinion of the Bank Supervisory Board in the form of its resolution of 23 May 2007 and was subsequently approved by the General Shareholders Meeting of 21 June 2007.

The Bank aspires to the position of the most respected financial services company in Poland, with a strong sense of business and social responsibility. Since 2003 the Bank has complied with the corporate governance rules adopted by the Warsaw Stock Exchange in the form of the Best Practices in Public Companies paper. The main purposes for adoption of the corporate governance rules as the standard in the Bank include building transparent relationships between all the entities involved in operation of the Company and ensuring proper and diligent management of the Company and its business as well as diligent and fair treatment of all its shareholders.

In order to ensure transparency of the Bank's operations, including in particular of relationships and processes between statutory bodies of the Company, the Bank introduced the Best Practices discussed further.

A report on application of the corporate governance rules in the Bank in the year 2007 is appended to the Bank's standalone Annual Report in respect of the year 2007.

Investor Relations

The Bank's information policy, the aim of which is to provide information to all persons and institutions that need information about the Company, includes as its integrated part the investment relations function that provides information to current and potential investors and capital market analysts. The Bank's information policy is implemented by investor relations, among others, through:

- 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 the Public Relations Office at quarterly media press conferences, organised at publication of periodic reports;
- Publishing on the Bank's website current information about the Bank and its businesses, and all the current and periodical reports; the website facilitates contact with the Investor Relations team, which provides information about the Bank and its Capital Group;
- Enabling representatives of the media to participate in General Meetings.

Transparency

The Bank continually undertakes actions aimed at improving transparency in the Bank's organisation, its division of powers and functioning of its respective governing bodies, and their mutual relations. These include the following:

- The Bank has published its financial statements in accordance with International Financial Reporting Standards (IFRS) since 1 January 2005;
- One half of the Bank Supervisory Board is composed of independent members, including the Chairman of the Board;
- Within the Bank Supervisory Board functions the Audit Committee composed of two independent members, including the independent Chairman of the Committee;
- In compliance with the corporate governance rules, total value of remuneration of all the Management Board members is disclosed in the annual report. Remuneration of individual Management Board members reflects their scope of duties and accountability;
- All significant internal regulations as well as information and documents relating to the Company General Meetings are available at the Company's headquarters and via its website.

Minority Shareholders protection

The Bank ensures adequate protection of the minority shareholders' rights, within the limits dictated by the Company's status and the associated primacy of the majority rule principle. In particular, in order to ensure equitable treatment of all shareholders, the Bank adheres, among others, to the following rules and practices:

- The General Meetings always take place in the Company's registered seat in Warsaw;
- In accordance with corporate practice, all important materials being prepared for the General Meeting, including draft resolutions with justifications and opinions of the Supervisory Board, are made available to Shareholders no later than within 7 days of the date of the General Meeting, at the Company's seat and via the Bank's website;
- The General Meeting has stable set of regulations setting out detailed rules of procedure and adoption of resolutions;
- Members of the Management Board and Supervisory Board take part in the General Meeting in order to provide it with explanations and information about the Bank within the scope of their competencies;
- The General Meeting participants objecting to a resolution are offered an opportunity for brief presentation of the rationale of their objection. Moreover, each General Meeting participant can submit written statements to the meeting minutes.

Bank's Authorities and other corporate governance rules

In the year 2007, no principles of management followed by the Bank were amended. These principles are presented in the relevant Note to the Bank's Financial Statements.

Changes in the composition of the Bank Management Board in the year 2007

Sławomir Sikora	President of the Bank Management Board
Michał Mrożek	Vice-President of the Bank Management Board*
Edward Wess	Vice-President of the Bank Management Board
Sonia Wędrychowicz-Horbatowska	Vice-President of the Bank Management Board
Witold Zieliński	Vice-President of the Bank Management Board
Lidia Jabłonowska-Luba	Member of the Bank Management Board

* On 23 May 2007 the Supervisory Board appointed Mr. Michał H. Mrożek to the position of Vice-President of the Bank Management Board for the following 3-year term. Previously Mr. Michał Mrożek acted in the capacity of Member of the Bank Management Board.

Changes in the Composition of the Bank Supervisory Board in the year 2007

Stanisław Sołtysiński	Chairman of the Supervisory Board
Shirish Apte	Vice-Chairman of the Supervisory Board
Andrzej Olechowski	Vice-Chairman of the Supervisory Board
Susan Blaikie (formerly Dean)	Member of the Supervisory Board
Sanjeeb Chaudhuri	Member of the Supervisory Board
Goran Collert	Member of the Supervisory Board
Mirosław Gryszka	Member of the Supervisory Board
Sabine S. Hansen	Member of the Supervisory Board from 20 March 2007
Rupert Hubbard	Member of the Supervisory Board until 20 March 2007
Stephen H. Long	Member of the Supervisory Board until 21 June 2007
Krzysztof L. Opolski	Member of the Supervisory Board
Aneta Polk (formerly Popławska)	Member of the Supervisory Board
Michael Schlein	Member of the Supervisory Board from 21 June 2007
Wiesław Smulski	Member of the Supervisory Board

Rules relating to appointments and discharges of the Management Board Members and the powers of the Management Board Members

The Bank Management Board consists of five to nine members. Members of the Management Board are appointed by the Supervisory Board for 3-year terms of office. At least half of the Management Board membership need to be holders of Polish citizenship. Their mandates expire:

- on the day the General Meeting approves 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 the Management Board member's death;
- upon the discharge of the Management Board member; or
- upon the submission by the Management Board member of a written resignation with the Chairman of the Supervisory Board.

Powers of Management Board Members

The Management Board adopts decisions, by way of resolutions, on matters 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) forms and dissolves committees and determines their powers and responsibilities;
3) determines the Management Board Rules and Regulations and submits them to the Supervisory Board for approval;
4) determines, and submits to the Supervisory Board for approval, regulations for 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 authorised representatives and general authorised representatives entitled to substitution;
7) makes decisions concerning the matters defined in the Management Board Rules and Regulations;
8) settles the matters submitted to it for consideration by the President of the Bank's Management Board, Vice-President or a member of the Management Board;
9) makes independent decisions on the purchase and sale of real estate, perpetual usufruct or participations in real property;
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 the HR and credit policy, and the legal principles of the Bank operation;
14) approves the capital management policy;
15) approves the employment structure;
16) determines the basic organisational 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 inspection reports;
18) decides on other matters that, according to the Articles of Association, require submission with the Supervisory Board or the General Meeting;
19) adopts 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 authorisations to indicated persons to adopt such decisions, 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.

The Bank Management Board drafts, introduces and ensures operation of a system of management in the Bank, including written development, implementation and updating of strategies and procedures, and undertakes actions in the areas of the risk management system, internal audit and estimation of internal capital and reviews of the processes of estimation and maintenance of internal capital.

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 2007 is as follows:

PLN '000	Short terms salaries, awards and benefits		Capital assets granted
	Base salaries and awards	Other benefits	
Sławomir Sikora	2,994	270	604
Edward Wess	2,314	218	223
Sonia Wędrychowicz--Horbatowska	1,515	123	229
Witold Zieliński	1,347	122	365
Lidia Jabłonowska--Luba	1,156	45	188
Michał Mrożek	1,777	44	261
	11,103	**822**	**1,870**

Base salaries and awards include gross salary paid and payable for the year 2007 as well as awards granted for 2007.

According to a decision of the Supervisory Board the remaining amount of awards granted to the members of the Bank Management Board for 2006, paid in 2007, in total amounted to PLN 4,613,000.

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 2007 as well as value of options on Citigroup common stocks for which exercise rights were granted in 2007.

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:

PLN '000	Short terms salaries, awards and benefits		Capital assets granted
	Base salaries and awards	Other benefits	
Sławomir Sikora	2,666	220	244
Edward Wess	2,004	345	105
Sonia Wędrychowicz--Horbatowska	1,395	115	116
Witold Zieliński	1,276	69	251
Lidia Jabłonowska--Luba	1,259	28	82
Michał Mrożek	1,568	40	146
Former members of the Bank Management Board:			
Reza Ghaffari[1)]	718	385	187
Sanjeeb Chaudhuri[2)]	615	31	275
Sunil Sreenivasan[3)]	-	34	-
Philip King[4)]	-	152	-
Cezary Stypułkowski[5)]	-	2,000	-
	11,501	**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 2003

Base salaries and awards include gross salary paid and payable for the year 2006 as well as awards granted for 2006.
According to a decision of the Supervisory Board the remaining amount of awards granted to the members of the Bank Management Board for 2005, paid in 2006, in total amounted to PLN 2,370,000.

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.

The total amount of salaries, awards and benefits paid or payable to the current and former members of the Bank Supervisory Board in the years 2007 and 2006 is as follows:

PLN '000	2007	2006
Stanisław Sołtysiński	267	276
Göran Collert	120	93
Mirosław Gryszka	195	168
Andrzej Olechowski	203	156
Edward Kuczera (until 31 January 2006)	-	28
Jarosław Myjak (until 2 October 2006)	-	74
Krzysztof L. Opolski (from 27 February 2006)	177	97
Wiesław Smulski (from 5 December 2006)	119	97
	1,081	**989**

Dates specify times of appointment/resignation of the Supervisory Board members

Remuneration paid and payable for 2007 and 2006 for the persons managing subordinates of the Bank amounted respectively PLN 2,059 thousand and PLN 3,294 thousand.

The persons supervising subordinates of the Bank did not receive remuneration in 2007 (in 2006 this remuneration amounted to PLN 136 thousand).

Total number and nominal value of the Bank shares and shares in affiliated companies of the Bank 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 1,200 shares of Bank Handlowy w Warszawie S.A., with total nominal value of PLN 4,800.

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.

Other rules

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.

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 Financial Supervision Authority. 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.

Agreements concluded with registered audit company

On 20 March 2007, 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 2007. 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 2007 and 2006 are presented in the table below:

Applicable to year In thousands of PLN	2007	2006
Audit and review fees of the Bank[1]	1,091	1,157
Audit and review fees of subsidiary entities[2]	427	447
Other assurance fees[3]	-	9
	1,518	**1,613**

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 24 October 2007) and for the review of the semi-annual stand-alone and consolidated financial statements (agreement signed on 4 July 2007).

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).

3) 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 and 2).

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 consolidated financial statements of the Bank.

Signatures of all Management Board Members

Date	Name	Position/function	Signature
13.03.2008	Sławomir S. Sikora	President of the Management Board	
13.03.2008	Michał H. Mrożek	Vice-President of the Management Board	
13.03.2008	Edward Wess	Vice-President of the Management Board	
13.03.2008	Sonia Wędrychowicz-Horbatowska	Vice-President of the Management Board	
13.03.2008	Witold Zieliński	Vice-President of the Management Board	
13.03.2008	Lidia Jabłonowska-Luba	Member of the Management Board	