

Warsaw, 10th of February, 2011

Subject: Initial consolidated financial statement of the Capital Group of Bank Handlowy w Warszawie S.A. for 2010

Legal basis: Art. 5 section 1 item 25) of the Ordinance of the Minister of Finance on current and periodic information provided by issuers of securities and conditions for recognizing as equivalent information required under the law of a non-member state dated 19 February 2009 (Journal of Laws No. 33, item 259).

Bank Handlowy w Warszawie S.A. presents initial consolidated financial results of the Capital Group of Bank Handlowy (“Group”) for the year 2010.

The Group recorded PLN 754.8 million initial consolidated net profit in 2010 which translates to a PLN 250.4 million increase as compared to 2009 (i.e. 50%). The consolidated gross profit reached PLN 942.6 million in 2010 translating to 44% increase in comparison to 2009 results.

Results of 2009 were positively influenced by a one-off VAT return amounting to PLN 128 million (PLN 125 million as an increase of revenue and PLN 3 million as a decrease of depreciation). The 2010 result was, on the other hand, negatively impacted by two one-off events in total amount of PLN 23.2 million included in the ‘net other operating income’ line.

Below we present a summary of key financial ratios and data for 2010 as compared to 2009. The impact of the one-off event on 2009 results has been excluded in this summary.

Summary:

- **Net profit:** PLN 754.8 million (an increase of PLN 348.7 million or 85.8% as compared to 2009)
- **Operating margin:** PLN 1 183.4 million (an increase of PLN 113.1 million or 10.6% as compared to 2009)
- **Operating income:** PLN 2 558.9 million (an increase of PLN 101.7 million or 4.1% as compared to 2009)
- **Operating expenses:** PLN 1 375.5 million (a decrease of 0.8% as compared to 2009)
- **Improvement of key ratios:**
 - return on equity **ROE:** 12.8% (an increase of 5.7 p.p. as compared to 2009)
 - return on assets **ROA:** 1.9% (an increase of 1.0 p.p. as compared to 2009)
 - **Cost/Income ratio:** 54% (a decrease of 2 p.p. as compared to 2009)
- **Capital adequacy ratio:** 18.8% (an increase of 2.1 p.p. as compared to 2009)
- **Interest margin:** 3.8% (an increase of 13 b.p.)

Profit and loss account

Consolidated income statement

<i>In thousands of PLN</i>	01.01 -	01.01 -	<i>Change</i>	
	31.12.2010	31.12.2009	<i>PLN '000</i>	<i>%</i>
Net interest income	1 497 452	1 505 381	(7 929)	(0.5%)
Net fee and commissions income	654 928	560 865	94 063	16.8%
Dividend income	6 040	6 451	(411)	(6.4%)
Net income on financial instruments and revaluation	281 154	269 248	11 906	4.4%
Net gain on investment debt securities	119 921	77 845	42 076	54.1%
Net profit on investment equity instruments	3 888	3 437	451	13.1%
Net other operating income	(4 497)	158 630	(163 127)	(102.8%)
Operating income	2 558 886	2 581 857	(22 971)	(0.9%)
General administrative expenses and depreciation	(1 375 485)	(1 383 906)	8 421	(0.6%)
Profit/(loss) on sale of tangible fixed assets	1 031	2 698	(1 667)	(61.8%)
Net impairment charges	(242 520)	(545 809)	303 289	(55.6%)
Share in profits/(losses) of undertakings accounted for under the equity method	666	426	240	56.3%
Profit before tax	942 578	655 266	287 312	43.8%
Income tax expenses	(187 767)	(150 867)	(36 900)	24.5%
Net profit	754 811	504 399	250 412	49.6%

Net interest income amounted to PLN 1 497.5 million in 2010 in comparison with PLN 1 505.4 million in 2009 (down by PLN 7.9 million or 0.5%) – a slight decrease was mainly a result of lower income from loans in non-financial sector. However, it should be pointed out that the Bank recorded a significant increase of interest income from debt securities available for sale, and a reduction of deposits' costs in both financial and non-financial sectors.

Interest income

<i>In thousands of PLN</i>	01.01 -	01.01 -	<i>Change</i>	
	31.12.2010	31.12.2009	<i>PLN '000</i>	<i>%</i>
Interest and similar income from:				
Central Bank	26 957	41 173	(14 216)	(34.5%)
Placements in banks	26 897	59 362	(32 465)	(54.7%)
Loans and advances, of which:	1 193 934	1 288 664	(94 730)	(7.4%)
<i>financial sector</i>	28 994	34 561	(5 567)	(16.1%)
<i>non-financial sector</i>	1 164 940	1 254 103	(89 163)	(7.1%)
<i>Credit Cards</i>	375 516	353 845	21 671	6.1%
Debt securities available-for-sale	618 450	564 025	54 425	9.6%
Debt securities held-for-trading	105 807	145 714	(39 907)	(27.4%)
Total	1 972 045	2 098 938	(126 893)	(6.0%)
Interest expense and similar charges for:				
Central Bank	(14 565)	(32 442)	17 877	(55.1%)
Deposits from banks	(28 390)	(32 169)	3 779	(11.7%)
Deposits from financial sector (excl. banks)	(62 982)	(102 863)	39 881	(38.8%)
Deposits from non-financial sector	(359 501)	(408 705)	49 204	(12.0%)
Loans and advances received	(9 155)	(17 378)	8 223	(47.3%)

<i>In thousands of PLN</i>	01.01 - 31.12.2010	01.01- 31.12.2009	Change	
			<i>PLN '000</i>	<i>%</i>
Total	(474 593)	(593 557)	118 964	(20.0%)
Net interest income	1 497 452	1 505 381	(7 929)	(0.5%)

In 2010 net fee and commissions income reached PLN 654.9 million against PLN 560.9 million in 2009 (an increase of PLN 94.1 million, or 16.8%). The growth was mainly driven by net income from payment and credit cards, as a result of changes in sales structure (higher volume of foreign transfers), positive impact of renegotiating partnership deals and lower acquisition costs. Net fee and commissions income was further improved by an increase of income from custody services and brokerage operations. The latter was related to an increased turnover volume on the Warsaw Stock Exchange and a greater share of Dom Maklerski Banku Handlowego (DMBH) in the total turnover. DMBH also played an important role as an intermediary in the public offerings of shares belonging to State Treasury, such as the privatization of the Warsaw Stock Exchange.

Net fee and commission income

<i>In thousands of PLN</i>	01.01 - 31.12.2010	01.01- 31.12.2009	Change	
			<i>PLN '000</i>	<i>%</i>
Fee and commissions income:				
Insurance and investment products	136 334	142 163	(5 829)	(4.1%)
Payment and credit cards	237 022	183 986	53 036	28.8%
Payment services	122 690	122 410	280	0.2%
Custody services	82 427	63 468	18 959	29.9%
Cash loan fees	11 975	14 484	(2 509)	(17.3%)
Brokerage operations	76 101	51 646	24 455	47.4%
Other	80 542	81 854	(1 312)	(1.6%)
Total	747 091	660 011	87 080	13.2%
Fee and commissions expense:				
Payment and credit cards	(49 937)	(59 521)	9 584	(16.1%)
Brokerage operations	(20 440)	(19 072)	(1 368)	7.2%
Other	(21 786)	(20 553)	(1 233)	6.0%
Total	(92 163)	(99 146)	6 983	(7.0%)
Net fee and commissions income				
Insurance and investment products	136 334	142 163	(5 829)	(4.1%)
Payment and credit cards	187 085	124 465	62 620	50.3%
Payment services	122 690	122 410	280	0.2%
Custody services	82 427	63 468	18 959	29.9%
Cash loan fees	11 975	14 484	(2 509)	(17.3%)
Brokerage operations	55 661	32 574	23 087	70.9%
Other	58 756	61 301	(2 545)	(4.2%)
Net fee and commissions income	654 928	560 865	94 063	16.8%

The treasury income reached PLN 401.1 million in 2010, as compared to PLN 347.1 million in 2009. The annual increase of PLN 54.0 million was a result of higher income from sales of debt securities that amounted to PLN 119.9 million in 2010.

Other net operating income amounted to PLN -4.5 million in 2010, as compared to an income of PLN 158.6 million in 2009. Changes in this line were influenced by a number of factors. First of all, 2009 result includes a one-off VAT return amounting to PLN 125 million. Secondly, results of 2010 were burdened by the following provision events: in the first quarter of 2010 PLN 10.7 million provision was created for the purpose of buyback of Lehman Brothers bonds that were purchased by customers through the Bank; the fourth quarter of 2010 experienced a creation of provisions towards a Vat tax, concerning re-invoicing of the insurance of risk assets in Handlowy Leasing Sp. z.o.o., as a consequence of changing interpretations of existing legal regulations. Adjustment in leasing operations negatively influenced both gross and net result by the amount of PLN 12.5 million.

As compared to 2009, the Group has recorded in 2010 a decrease of general administrative expenses and depreciation by PLN 8.4 million (or 0.6%). The Group has increased its employment levels to support the extension of its operations by those areas that were previously outsourced to external companies. Consequently, staff expenses increased by PLN 20.4 million (or 3.2%).

However, this was partially compensated by the decrease of administrative expenses by PLN 12.5 million (or 1.9%), within which the key factors were the reduction of building maintenance and rent costs, lower advisory, audit, consulting and other services cost, and lower telecommunication fees and hardware purchases costs.

The overall results were also improved by the dropping depreciation costs amounting to PLN 16.4 million (or 20.8%)

General administrative expenses and depreciation

<i>In thousands of PLN</i>	01.01 - 31.12.2010	01.01- 31.12.2009	Change	
			<i>PLN '000</i>	<i>%</i>
Staff expenses:	(666 414)	(645 979)	(20 435)	3.2%
Remuneration costs	(558 321)	(528 665)	(29 656)	5.6%
Perks and rewards	(108 093)	(117 314)	9 221	(7.9%)
Administrative expenses	(646 592)	(659 080)	12 488	(1.9%)
Telecommunication fees and hardware purchases costs	(156 019)	(165 344)	9 325	(5.6%)
Advisory, audit, consulting and other services costs	(143 123)	(156 361)	13 238	(8.5%)
Building maintenance and rent costs	(112 724)	(130 565)	17 841	(13.7%)
Marketing	(44 569)	(38 557)	(6 012)	15.6%
Transaction costs	(59 300)	(56 339)	(2 961)	5.3%
Postal services costs	(33 640)	(37 362)	3 722	(10.0%)
Training and education costs	(9 413)	(9 592)	179	(1.9%)
Banking supervisory expenses	(3 496)	(4 072)	576	(14.1%)
Other expenses	(84 308)	(60 888)	(23 420)	38.5%
Depreciation	(62 479)	(78 847)	16 368	(20.8%)
Total expenses	(1 375 485)	(1 383 906)	8 421	(0.6%)

Net impairment losses in 2010 amounted to PLN 242.5 million, which constitutes a significant decrease as compared to results of 2009 (decrease of PLN 303.3 million, or 55.6%). That was mostly due to release of provisions in the corporate sector (PLN 27.3 million), which occurred as a consequence of improving financial condition of customers. The retail segment experienced a minor increase of net impairment losses to the level of PLN 269.8 million. This was due to the sustaining impact of worse economic climate on the quality of cash loans and credit card portfolio. However, second half of 2010 already showed signs of gradual improvement in this segment.

Balance sheet

As of 31 December 2010 total assets of the Group reached PLN 37 517.5 million and were 0.3% lower than at the end of 2009

Assets

The greatest changes in assets portfolio was recorded in the section of debt securities available for sale, which increased by PLN 4.7 billion (or 57.2%) as compared to 2009. This was mostly caused by the purchase of money market bills of the National Bank of Poland. At the same time, the portfolio of financial assets held-for-trading decreased by PLN 1.4 billion (or 26.0%) mainly as a result of a decrease in the portfolio of traded commercial papers (consequence of expected rise in interest rates), as well as a reduction of derivative instruments volumes.

Loans and advances decreased in 2010 by PLN 2.2 billion (or 13.3%). This was particularly related to loans to financial sector and levels of term deposits held within banks.

Loans and advances to non-financial sector have dropped marginally throughout 2010 by PLN 0.4 billion (or 3.2%). The negative change has been the greatest in the area of retail cash loans and was a result of tightening credit policies.

Liabilities

Deposit levels accounted for the greatest change in terms of liabilities. The Group recorded an increase in this area of PLN 1.1 billion (or 4.4%), mostly due to increase in financial sector deposits, with banks playing the greatest role here. Within deposits, worth pointing out is a 25% increase of volumes on current accounts of corporate clients, which is an effect of Banks' focus on operations accounts.

Balance sheet

<i>In thousands of PLN</i>	State on day		Change	
	31.12.2010	31.12.2009	PLN '000	%
ASSETS				
Cash and balances with central bank	3 206 554	4 113 355	(906 801)	(22.0%)
Financial assets held-for-trading	3 995 916	5 397 125	(1 401 209)	(26.0%)
Debt securities available-for-sale	13 029 254	8 290 225	4 739 029	57.2%
Equity investments accounted for under the equity method	56 332	56 895	(563)	(1.0%)
Other equity investments	23 949	24 140	(191)	(0.8%)
Loans and advances	14 543 248	16 777 255	(2 234 007)	(13.3%)
to financial sector	2 949 839	4 802 562	(1 852 723)	(38.6%)
to non-financial sector	11 593 409	11 974 693	(381 284)	(3.2%)
Property and equipment	475 373	505 192	(29 819)	(5.9%)
Intangible assets	1 285 757	1 282 574	3 183	0.2%
Income tax assets	321 669	476 372	(154 703)	(32.5%)
Other assets	569 587	690 384	(120 797)	(17.5%)
Non-current assets held-for-sale	9 901	19 546	(9 645)	(49.3%)
Total assets	37 517 540	37 633 063	(115 523)	(0.3%)
LIABILITIES				
Liabilities due to Central Bank	-	980 446	(980 446)	(100.0%)
Financial liabilities held-for-trading	2 804 437	3 108 493	(304 056)	(9.8%)

Financial liabilities valued at amortized cost	27 308 344	26 359 837	948 507	3.6%
deposits from	26 430 223	25 307 218	1 123 005	4.4%
financial sector	6 007 190	4 735 260	1 271 930	26.9%
non-financial sector	20 423 033	20 571 958	(148 925)	(0.7%)
liabilities from own issue	11 533	-	11 533	-
other liabilities	866 588	1 052 619	(186 031)	(17.7%)
Provisions	32 240	49 390	(17 150)	(34.7%)
Other liabilities	879 584	935 508	(55 924)	(6.0%)
Total liabilities	31 024 605	31 433 674	(409 069)	(1.3%)
EQUITY				
Share capital	522 638	522 638	0	0.0%
Share premium	3 031 149	3 030 546	603	0.0%
Revaluation reserve	(44 848)	(81 026)	36 178	(44.6%)
Other reserves	2 248 707	2 225 712	22 995	1.0%
Retained earnings	735 289	501 519	233 770	46.6%
Total equity	6 492 935	6 199 389	293 546	4.7%
Total liabilities and equity	37 517 540	37 633 063	(115 523)	(0.3%)

Loans and advances to non-financial sector, gross (including reverse repo transactions)

	31.12.2010	31.12.2009	Change	
<i>In thousands of PLN</i>			<i>PLN '000</i>	<i>%</i>
Not at risk of impairment:	11 628 708	12 502 809	(874 101)	(7.0%)
non-financial sector customers				
<i>corporate customers</i>	5 717 287	5 637 988	79 299	1.4%
<i>individual customers</i>	5 237 116	5 540 852	(303 736)	(5.5%)
At risk of impairment	1 878 129	2 120 333	(242 204)	(11.4%)
non-financial sector customers				
<i>corporate customers</i>	971 044	1 460 258	(489 214)	(33.5%)
<i>individual customers</i>	883 164	637 658	245 506	38.5%
Dues related to matured derivative transactions	122 191	137 373	(15 182)	(11.1%)
Total	13 629 028	14 760 515	(1 131 487)	(7.7%)
Impairment, including:	1 358 920	1 460 989	(102 069)	(7.0%)
Dues related to matured derivative transactions	96 487	106 360	(9 873)	(9.3%)
Net total loans and advancements from non-banking sector	12 270 107	13 299 526	(1 029 419)	(7.7%)
Provision coverage ratio	67,2%	63,9%		
<i>corporate customers</i>	45,5%	52,5%		
<i>individual customers</i>	90,4%	88,7%		

*Corporate customers include corporations, public sector, governmental and private companies, cooperatives, individual enterprises and non commercial institutions operating for the benefit of households.

Gross loans and advancements to non-financial sector by w performing/non-performing (including reverse repo transactions)*

<i>In thousands of PLN</i>	31.12.2010	31.12.2009	<i>Change</i>	
			<i>PLN '000</i>	<i>%</i>
Performing loans including:	11 970 898	12 892 154	(921 256)	(7.1%)
Non-financial sector				
<i>corporate customers</i>	5 963 712	5 950 278	13 434	0.2%
<i>individual customers</i>	5 332 881	5 617 907	(285 026)	(5.1%)
Non-performing loans including:	1 535 939	1 585 761	(49 822)	(3.1%)
non-financial sector				
<i>corporate customers</i>	724 619	1 002 691	(278 072)	(27.7%)
<i>individual customers</i>	787 399	560 603	226 796	40.5%
Dues related to matured derivative transactions	122 191	137 373	(15 182)	(11.1%)
Total	13 629 028	14 615 288	(986 260)	(6.7%)
Non performing loans ratio (NPL)	11,4%	11,0%		

*Corporate customers include corporations, public sector, governmental and private companies, cooperatives, individual enterprises and non commercial institutions operating for the benefit of households.

Loans and advancements, net*

<i>In thousands of PLN</i>	31.12.2010	31.12.2009	<i>Change</i>	
			<i>PLN '000</i>	<i>%</i>
Non-financial sector				
Corporate customers	6 271 803	6 361 327	(89 524)	(1.4%)
Individual customers including:	5 321 606	5 613 366	(291 760)	(5.2%)
<i>Credit cards</i>	2 376 105	2 406 703	(30 598)	(1.3%)
<i>Cash loans to customers</i>	2 540 499	2 918 866	(378 367)	(13.0%)
Total	11 593 409	11 974 693	(381 284)	(3.2%)
Financial sector				
Banks and other monetary institutions	2 273 138	3 477 729	(1 204 591)	(34.6%)
Non-banking financial institutions	676 701	1 324 833	(648 132)	(48.9%)
Total	2 949 839	4 802 562	(1 852 723)	(38.6%)
Total loans and advancements	14 543 248	16 777 255	(2 234 007)	(13.3%)

*Corporate customers include corporations, public sector, governmental and private companies, cooperatives, individual enterprises and non commercial institutions operating for the benefit of households.

Deposits

<i>In thousands of PLN</i>	31.12.2010	31.12.2009	<i>Change</i>	
			<i>PLN '000</i>	<i>%</i>
Non-financial sector				
Current accounts including:	11 912 333	10 611 552	1 300 781	12,3%
<i>corporate customers</i>	7 591 803	6 066 200	1 525 603	25,1%
<i>individual customers</i>	4 320 530	4 545 352	(224 822)	(4,9%)
Term deposits including:	8 493 723	9 939 698	(1 445 975)	(14,5%)
<i>corporate customers</i>	7 096 639	8 148 746	(1 052 107)	(12,9%)
<i>individual customers</i>	1 397 084	1 790 952	(393 868)	(22,0%)
Accrued interest	16 977	20 708	(3 731)	(18,0%)
Total	20 423 033	20 571 958	(148 925)	(0,7%)

	31.12.2010	31.12.2009	Change	
<i>In thousands of PLN</i>			<i>PLN '000</i>	<i>%</i>
Financial sector				
Banks and other monetary institutions	2 852 645	1 643 480	1 209 165	73,6%
Non-banking financial institutions	3 154 545	3 091 780	62 765	2,0%
Total	6 007 190	4 735 260	1 271 930	26,9%
Total deposits	26 430 223	25 307 218	1 123 005	4,4%

By the end of December 2010, return on equity ratio reached the level of 12.8%, thus achieving a year over year increase of as much as 3.9 p.p. Return on assets ratio has also improved significantly, reaching the level of 1.9% by the end of year.

Cost to income ratio has been maintained at the level of 54%. However, if one-off events of 2009 are to be excluded, 2010 has experienced an improvement of C/I ratio by 2 p.p. (from 56% to 54%).

Crucially, interest margin has further improved to the level of 3.8%. Consequently, Citi Handlowy has maintained its position of a bank with one of the largest interest margins on the market.

Financial Ratios	2010	2009
ROE	12.8%	8.9%
ROA	1.9%	1.2%
Cost/Income	54%	54%
Cost/Income (excluding one-offs)	54%	56%
Interest margin	3.8%	3.7%