TRANSLATION

THE ANNUAL FINANCIAL STATEMENTS OF BANK HANDLOWY W WARSZAWIE S.A. AS AT 31 DECEMBER 2010

March 2011

SELECTED FINANCIAL DATA	**In PLN '000**		**In EUR '000****	
	2010	**2009**	**2010**	**2009**
Interest income	1,939,998	2,047,451	484,467	471,698
Fee and commission income	671,052	608,434	167,579	140,173
Profit before tax	928,214	675,501	231,799	155,624
Net profit	748,026	525,152	186,801	120,986
Total comprehensive income	784,204	588,236	195,836	135,520
Increase/decrease of net cash	(831,840)	525,913	(207,731)	128,015
Total assets	36,701,673	36,455,439	9,267,397	8,873,823
Liabilities due to Central Bank	-	980,446	-	238,656
Financial liabilities valued at amortized cost	26,943,235	25,761,339	6,803,332	6,270,712
Shareholders' equity	6,422,092	6,134,623	1,621,618	1,493,263
Share capital	522,638	522,638	131,969	127,218
Number of shares (in pcs)	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN / EUR)	49.15	46.95	12.41	11.43
Earnings per ordinary share (PLN / EUR)	5.72	4.02	1.43	0.93
Diluted net profit per ordinary share (in PLN / EUR)	5.72	4.02	1.43	0.93
Declared or distributed dividends per ordinary share (PLN / EUR)*	5.72	3.77	1.44	0.92

** The presented ratios are related to declared dividend from the appropriation of the 2010 profit and dividend paid in 2010 from the appropriation of the 2009 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 2010 - PLN 3.9603 (as at 31 December 2009: PLN 4.1082); for the income statement - the arithmetic average of month - end NBP exchange rates in 2010 – PLN 4.0044 (in 2009: PLN 4.3406).*

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Income statement

In thousands of PLN For a period	*Note*	2010	2009
Interest and similar income	*4*	1,939,998	2,047,451
Interest expense and similar charges	*4*	(474,302)	(586,839)
Net interest income	*4*	**1,465,696**	**1,460,612**
Fee and commission income	*5*	671,052	608,434
Fee and commission expense	*5*	(71,723)	(80,074)
Net fee and commission income	*5*	**599,329**	**528,360**
Dividend income	*6*	12,509	17,848
Net trading income and revaluation	*7*	282,535	275,615
Net gain on investment debt securities	*8*	119,921	77,845
Net gain on investment equity instruments	*9*	3,888	3,437
Other operating income	*10*	69,850	212,039
Other operating expenses	*10*	(58,678)	(49,701)
Net other operating income	*10*	**11,172**	**162,338**
General administrative expenses	*11*	(1,276,558)	(1,271,091)
Depreciation expense	*12*	(56,762)	(74,473)
Profit/(loss) on sale of tangible fixed assets	*13*	1,045	2,705
Net impairment losses	*14*	(234,561)	(507,695)
Profit before tax		**928,214**	**675,501**
Income tax expense	*15*	(180,188)	(150,349)
Net profit		**748,026**	**525,152**
Weighted average number of ordinary shares (in pcs)	*16*	130,659,600	130,659,600
Net profit per ordinary share (in PLN)	*16*	5.72	4.02
Diluted net profit per ordinary share (in PLN)	*16*	5.72	4.02

Notes on pages 9-92 are integral parts of financial statement.

Statement of comprehensive income

In thousand of PLN For a period	*Note*	2010	2009
Net profit		**748,026**	**525,152**
Other comprehensive income:			
Valuation of net financial assets available-for-sale	*17*	36,178	63,084
Total comprehensive income for the period		**784,204**	**588,236**

Notes on pages 9-92 are integral parts of financial statement.

Balance sheet

State on day		31.12.2010	31.12.2009
In thousands of PLN	*Note*		
ASSETS			
Cash and balances with central bank	*18*	3,206,554	4,113,355
Financial assets held for trading	*19*	3,995,217	5,372,618
Debt securities available-for-sale	*20*	13,029,254	8,290,225
Equity investments	*21*	303,165	305,016
Loans and advances	*22*	13,938,510	15,940,293
to financial sector		*3,164,818*	*5,043,395*
to non-financial sector		*10,773,692*	*10,896,898*
Property and equipment	*24*	431,366	471,103
land, buildings and equipment		*413,058*	*452,795*
investment property		*18,308*	*18,308*
Intangible assets	*25*	1,283,134	1,278,793
Income tax assets	*27*	305,253	459,413
current		*67,171*	*86,687*
deferred		*238,082*	*372,726*
Other assets	*28*	199,319	205,077
Non-current assets held-for-sale	*29*	9,901	19,546
Total assets		**36,701,673**	**36,455,439**
LIABILITIES			
Liabilities due to central bank	*30*	-	980,446
Financial liabilities held for trading	*19*	2,804,437	3,108,493
Financial liabilities valued at amortized cost	*31*	26,943,235	25,761,339
deposits from		*26,544,190*	*25,408,506*
financial sector		*6,138,803*	*4,861,146*
non-financial sector		*20,405,387*	*20,547,360*
own issue		*11,533*	*-*
other liabilities		*387,512*	*352,833*
Provisions	*32*	32,227	49,527
Other liabilities	*33*	499,682	421,011
Total liabilities		**30,279,581**	**30,320,816**
EQUITY			
Issued capital	*35*	522,638	522,638
Share premium	*35*	2,944,585	2,944,585
Revaluation reserve	*35*	(44,848)	(81,026)
Other reserves	*35*	2,251,691	2,223,274
Retained earnings		748,026	525,152
Total equity		**6,422,092**	**6,134,623**
Total liabilities and equity		**36,701,673**	**36,455,439**

Notes on pages 9-92 are integral parts of financial statement.

Statement of changes in equity

In thousands of PLN	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	**Total equity**
Balance as at 1 January 2010	**522,638**	**2,944,585**	**(81,026)**	**2,223,274**	**525,152**	**6,134,623**
Total incomes	-	-	36,178	-	748,026	784,204
Valuation of capital awards program, including:	-	-	-	(4,148)	-	(4,148)
- *valuation changes*	-	-	-	*(3,017)*	-	*(3,017)*
- *deferred income tax*	-	-	-	*(1,131)*	-	*(1,131)*
Dividends paid	-	-	-	-	(492,587)	(492,587)
Transfers to capital	-	-	-	32,565	(32,565)	-
Closing balance as at 31 December 2010	**522,638**	**2,944,585**	**(44,848)**	**2,251,691**	**748,026**	**6,422,092**

In thousands of PLN	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	**Total equity**
Balance as at 1 January 2009	**522,638**	**2,944,585**	**(144, 110)**	**1,570,673**	**645,664**	**5,539,450**
Total incomes	-	-	63,084	-	525,152	588,236
Valuation of capital awards program, including:	-	-	-	6,937	-	6,937
- *valuation changes*	-	-	-	*8,917*	-	*8,917*
- *deferred income tax*	-	-	-	*(1,980)*	-	*(1,980)*
Transfers to capital	-	-	-	645,664	(645,664)	-
Closing balance as at 31 December 2009	**522,638**	**2,944,585**	**(81,026)**	**2,223,274**	**525,152**	**6,134,623**

Notes on pages 9-92 are integral parts of financial statement

Statement of cash flows

In thousands of PLN — For the period	2010	2009
A. Cash flows from operating activities		
I. Net profit (loss)	**748,026**	**525,152**
II. Adjustments to reconcile net profit or loss to net cash provided by operating activities:	**(1,007,896)**	**333,392**
Current and deferred tax income, recognised in income statement	180,188	150,349
Amortisation	56,762	74,473
Impairment	260,443	478,652
Net provisions (recoveries)	(25,882)	29,043
Income on sale of investments	(1,435)	(3,046)
Received interest	1,631,653	1,949,922
Retained interest	(486,851)	(587,522)
Other adjustments	(1,689,456)	(1,624,235)
Cash flows from operating profits before changes in operating assets and liabilities	**(74,578)**	**467,636**
Increase/decrease in operating assets (excl. cash and cash equivalents)	**(955,179)**	**5,165,386**
Increase/decrease in loans and receivables	2,044,904	252,233
Increase/decrease in securities available-for-sale	(4,392,928)	2,424,202
Increase/decrease in equity investments	624	(13,631)
Increase/decrease in assets held for trading	1,371,485	2,556,765
Increase/decrease in assets available-for-sale	-	888
Increase/decrease in other assets	20,736	(55,071)
Increase/decrease in operating liabilities (excl. cash and cash equivalents)	**21,861**	**(5,299,630)**
Increase/decrease in advances from central bank	(973,058)	973,058
Increase/decrease in financial liabilities valued at amortised cost	1,208,771	(2,498,519)
Increase/decrease in liabilities in respect of own issue	11,533	-
Increase/decrease in liabilities held for trading	(304,056)	(3,779,851)
Increase/decrease in other liabilities	78,671	5,682
Cash flows from operating activities	**(259,870)**	**858,544**
Income taxes (paid) refunded	**(40,810)**	**(298,929)**
III. Net cash flows from operating activities	**(300,680)**	**559,615**
B. Cash flows from investing activities		
Cash payments to acquire tangible assets	(22,916)	(25,674)
Cash receipts from the sale of tangible assets	16,840	11,127
Cash payments to acquire intangible assets	(17,146)	(14,607)
Cash receipts from tangible assets/liabilities available for sale	9,801	15,679
Dividends received	6,938	11,767
Other inflows from investing activities	1,227	-
Net cash flows from investing activities	**(5,256)**	**(1,708)**
C. Cash flows from financing activities		
Dividends paid	(492,587)	-
Inflows from long-term loans from financial sector	10,365	21,530
Repayment of long-term loans from financial sector	(46,822)	(52,592)
Net cash flows from financing activities	**(529,044)**	**(31,062)**
D. Effect of exchange rate changes on cash and cash equivalent	**3,140**	**(932)**
E. Increase/(decrease) in net cash	**(831,840)**	**525,913**
F. Cash at the beginning of reporting period	**4,133,389**	**3,607,476**
G. Cash at the end of reporting period (see note 42)	**3,301,549**	**4,133,389**

Notes on pages 9-92 are integral parts of financial statement.

Explanatory notes to the financial statements

1. General information about the Bank

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

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

The Bank was set up for unspecified period of time.

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

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

The Bank operates on the basis of applicable regulations and its Articles of Association.

The Bank offers a wide range of banking services in domestic and foreign markets for individuals and corporates.

2. Significant accounting policies

Statement of compliance

The annual unconsolidated financial statements of the Bank were prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by European Union and with other applicable regulations.

In addition, annual consolidated financial statements of Group have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations.

The consolidated financial statements were authorised by Management of the Bank for issue on 9 March 2011. The financial statements will be finally authorised by The Bank's General Meeting.

Basis of preparation

These annual financial statements have been prepared for the period from 1 January 2010 to 31 December 2010. The comparable financial data is presented for the period from 1 January 2009 to 31 December 2009.
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 valued 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.

In 2010 the Bank changed the accounting policy in respect of recognizing the cost of securities sold. So far the Bank applied FIFO (first in, first out). In order to improve the relevance of information provided by the financial statements, the Bank adopted the specific identification method which better reflects the way the Bank manages its securities portfolio.

Standards or Interpretations awaiting European Union's approval that can have influence on financial statement of the Bank concerning IFRS 9 "Financial Instruments".In November 2009 the International Accounting Standards Board issued IFRS 9 „Financial Instruments", which changes IAS 39 provisions in respect of classification and measurement of financial assets. The main change is classification of financial assets into one of two categories - measured at amortized cost or at fair value. The new standard will be applicable for annual periods beginning on or after 1 January 2013 with earlier application permitted.

The Bank has not completed the assessment of the impact of changes to standards awaiting European Union's endorsement.

Other standards, amendments to the standards and IFRIC interpretations recently endorsed or awaiting endorsement are either not relevant to the Bank'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 form the basis 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 order to maintain comparability of financial data with the approach of the current period, changes were made to the presentation of financial data for 2009 as compared to previously published data in "The Annual financial statements of Bank Handlowy w Warszawie SA for the period ending December 31, 2009". These changes affected the way of grouping and presentation of financial data in the selected explanatory notes and do not affect the balance sheet and financial results of the Bank.

In 2010, the Bank changed the presentation of costs associated with producing and distributing cards and credit cards, making them move from the "cost of fees and commissions" to "the bank's operating and administrative expenses. " As a result of the changes, comparable data revisions are as follows:

In thousands of PLN **Profit and loss for the period from January 1 to December 31, 2009**

Position	**Report for 2009 – data presented previously**	**Report for 2010 – comparable data**	**Difference**	**Change in note**
Income from fees and commissions	608,434	608,434	-	
Fee and commission expense	(84,925)	(80,074)	4,851	Note 5 – position "The costs of fees and charges for payment and credit cards"
Net commission income	**523,509**	**528,360**	**4,851**	
The costs of bank and administrative expenses	(1,266,240)	(1,271,091)	(4,851)	Note 11 – position „General administrative expenses - Cost of consulting services, auditing, consulting and other external services"

Foreign currency translations

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 dates of transactions.

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.

For foreign exchanges, the NBP mid exchange rate prevailing at the balance sheet date is applied.

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

in PLN		**31 December 2010**	**31 December 2009**
1	USD	2.9641	2.8503
1	CHF	3.1639	2.7661
1	EUR	3.9603	4.1082

Financial assets and financial liabilities

Classification

The Bank classifies its financial instruments into the following categories:

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

In the reporting period, the Bank did not classify assets to investments held to maturity. The Bank classifies financial assets to particular categories on the date of their first recognition.

a) Financial assets or financial liabilities at fair value thought profit and loss

This category has two sub-categories: financial assets and liabilities held for trading and those designated 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 Bank 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 Bank 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 at fair value through profit or loss. Customers' deposits are classified to this category.

Recognition and exclusions

Transactions of purchase or sale of financial assets classified at fair value through profit or loss and available-for-sale are recognized using transaction settlement date, i.e. the date on which the Bank will receive or transfer the ownership right to assets. The rights and liabilities from a concluded transaction are measured at fair value from the transaction conclusion day to the transaction settlement day.
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 have been transferred and the Bank 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 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 Bank 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 rate method, and investments in equity instruments for which no quotations in an active market are available and whose value cannot be reasonably determined are measured at cost.

After initial recognition, financial liabilities are measured at amortized cost using the effective interest rate 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 rate method is recognized in the income statement. Dividends on available-for-sale equity investments are recognized in the profit and loss when the entity's right to receive payment is established.

The fair value of shares in companies other than subsidiaries and associates listed in an active market is based on their current purchase price. If the market for specific financial assets is inactive (this also applies to not-listed securities), the Bank determines fair value using appropriate valuation techniques.

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 available-for-sale assets and all derivative instruments with negative fair values, as available-for-sale liabilities.
Embedded derivatives are accounted for as separate derivatives if the risks and economic characteristics of the embedded derivative is 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 Bank 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 Bank does not offset and present its financial assets and liabilities on a net basis.

Cash pooling

The Bank 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 are presented on a net basis only if they meet the requirements of IAS 39 regarding derecognition of financial assets and liabilities from the balance sheet. Accounts receivable presented on a gross basis, are presented as loans and accounts payable as deposits.

Repurchase and resale agreements Repo / reverse repo transactions

The Bank enters into purchase and sale transactions under agreements to resell and repurchase the same financial assets, so called sell-buy-back and buy-sell-back respectively as well as repo and reverse repo transactions on securities.
Securities sold under repurchase agreements continue to be shown as the Bank's assets and the Bank 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 Bank 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 Bank 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 Bank 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 Bank, 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 that was previously made will be reversed as appropriate through profit or loss.

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 Bank 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 for impairment, the cumulative loss recognized in equity which are the amount of the difference between the purchase price adjusted for subsequent payment and amortization and fair value, taking into account the previous impairment losses, should be transferred to the profit and loss account. Impairment losses on equity investments classified as available for sale are not reversed through profit or loss. Loss on impairment of debt instruments classified as available for sale are reversed through profit or loss, if in subsequent periods, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the loss.

Impairment of financial assets valued at cost

The group of financial assets valued at cost in the financial statements of the Bank 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) and equity investments in subordinated entities valued at purchase price in accordance with IAS 27 (Consolidated and separate Financial Statements). 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 reliable measured are not reversed though the profit and loss account. When there are impairment losses of equity investments in subordinated entities valued at cost method in accordance with IAS 27, IAS 36 “Impairment of Assets” is applied.

Impairment of assets other than financial assets

The carrying amounts of the Bank’s assets, excluding deferred tax 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.

Rrevaluation 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 market towards the 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

Impairment loss in respect of goodwill is not reversed. In respect of assets, an impairment loss 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.

Equity investments – shares in subordinated entities

Subordinated entities comprise subsidiaries and associates.

Subsidiaries

Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank has power, directly or indirectly, 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 on governing bodies.

The Bank 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 Bank'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.

Associates

Associates are those entities in which the Bank 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 cost method.

Subsidiaries and associates - recognition and measurement

Investments in subsidiaries and associates in the Bank's separate financial statements are accounted for using the cost method in accordance with IAS 27. The cost method is a method of accounting for an investment whereby the investment is recognized at cost. The Bank recognizes income from the investment only to the extent that the Bank receives distributions from accumulated profits of the investment arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognized as a reduction of the cost of the investment.

Investments - shares in other entities

Shares in entities other than subordinated entities are classified as financial assets available-for-sale.

Goodwill

In the financial statements of the Bank, goodwill represents the difference between the cost of the acquisition and the fair value of the Bank's interest in identifiable assets, liabilities and contingent liabilities acquired. Goodwill is included in intangible assets. 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. 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)

Property and equipment plant 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 any 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 Bank and the cost of the asset can be measured reliably. Any other expenditure e.g. 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 2010.

Illustrative 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 Bank as investment properties are presented in the financial statements as part of property and equipment. The Bank 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 Bank'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 employees are entitled to participate in Citigroup equity compensation plans. In accordance with these plans, 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 settled up in capital instruments according to IFRIC 11 and IFRS 2. According to requirements of a standard, the fair value of award is determined at the grant date and is recognized in profit and loss account over the vesting period. At the same time, according to agreement between Bank and Citigroup, which regulates the principles of program settlements, a provision is charged to equity for the Bank future payments, which is presented in "Other liabilities" position of consolidated financial statements. The provision amount is determined on the basis of the fair value of the award as at the settlement date and is remeasured on every balance sheet date.

Long-term employee benefits

Under its compensation scheme, the Bank guarantees its employees retirement benefits, which depend on the length of service with the Bank 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 Bank enables its employees to join a pension plan, which is described in detail in Note 44. The Bank 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 related period.

Provisions

A provision is recognized in the balance sheet when the Bank 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 Bank 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 Bank records accruals and prepayments of expenses, primarily in relation to the Bank's overhead expenses, in reporting periods to which they relate.

Interest income and interest expenses

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

The effective interest rate 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 futures 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 Bank 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

Commission and fee income is generated when the Bank renders financial services to its customers. The Bank 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 integral parts of the effective interest rate are recognized in the income statement adjusted by the calculation of the effective interest rate and are shown in 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.

The Bank distributes insurance products. Insurance agency commissions are recognized as revenue on the effective commencement or renewal of the related insurance policies because the Bank is not required to render further significant services after the sale is completed.
Moreover for some products, the Bank is entitled to additional remuneration which represents the portion of the insurance company's profit from the product. Such remuneration is recognized on accrual basis.

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 Bank 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. 38 letter a) in the Corporate Income Tax Act, the Bank has recognized a receivable from the Budget in respect of its right to reduce its taxation liabilities in accordance with the Act.

Segment reporting

A segment is a separate area of the Bank'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 for that segment. The business segment has been adopted as the reporting segment in the Bank since both risks and rates of return result from differences between products. The Bank is managed at the level of two 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 particular segments are measured in accordance with the accounting policies and standards adopted by the Bank.

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 must have been 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

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 of 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 Bank applies the following methods of measurement of particular types of derivative instruments:

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

Counterparty credit risk is the most significant input from non-active market used by the Bank to fair value financial instruments.

Due to considerable increase in counterparty credit risk, the Bank has made an additional assessment of the risk related to derivative transactions entered into with the Bank's clients, including foreign exchange options. The assessment was performed as of the balance sheet date and taking into account the mark-to-market of derivative financial instruments as of that date. The risk related to the derivative financial instruments is monitored by the Bank on a regular basis. The key factors affecting risk assessment are (i) changes in the fair value of derivative financial instruments resulting amongst other from the changes in foreign exchange and interest rates and (ii) changes in the counterparty credit risk. Taking into account significant volatility of the economic environment, uncertainty exists as to the accuracy of the accounting estimates.

Impairment of loans

At each balance sheet date, the Bank assesses whether there is objective evidence of impairment of loan exposures. If so, the Bank 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 Bank applies statistical analysis of financial assets in respect of which evidence of impairment has not been identified individually, or in spite of finding the evidence of impairment, the individual assessment of the given asset has not indicated the necessity of recording an impairment write-down.

The Bank uses estimates to determine whether there is objective evidence of impairment and 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 that was 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 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 present value of future cash flows discounted at the present market rate for similar financial assets.

Impairment of goodwill

The Bank carried out impairment tests of goodwill as at 31 December 2009 and 31 December 2010. 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 Bank 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. Segment reporting

According to the Standard an operating segment is a separable component of the Bank that engages in business activities from which it earns revenues and incurs expenses (including intragroup transactions between segments), whose operating results are regularly reviewed by the Management Board, as chief operating decision maker of the Bank, in order to allocate resources and assess its performance.

The Bank is managed in respect of two main operating segments – Corporate Banking and Consumer Banking. The valuation of assets and liabilities as well as calculation of financial results of the segment complies with the Bank's accounting policies, including intragroup transactions between segments.

The allocation of assets, liabilities, revenues and expenses of the Bank to operating segments was performed using the internal information prepared for the management purposes. Transfer of funds between the Bank segments is based on market prices. The transfer prices are calculated using the same rules for both segments and any difference results only from maturity and currency structure of assets and liabilities.

– *Corporate Bank*

Within the Corporate Bank segment the Bank 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, 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, obtaining and underwriting financing via public and non-public issue of financial instruments. The segment activities also comprise proprietary transactions in the capital, debt and derivative instruments market. The Corporate Bank products and services are available through the distribution channels tailored to client needs, both through the branch network, direct contact with customers and modern and effective remote channels – services through the telephone and electronic banking.

– *Consumer Bank*

Within the Consumer Bank segment the Bank 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, the Bank 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 Bank conducts its operations solely in the territory of Poland.

Income statement by business segment

For the period	2010			2009		
In thousands of PLN	**Corporate Bank**	**Consumer Bank**	**Total**	**Corporate Bank**	**Consumer Bank**	**Total**
Net interest income	677,829	787,867	1,465,696	701,269	759,343	1,460,612
Net interest income , including:	*18,916*	*(18,916)*	*-*	*40,227*	*(40,227)*	*-*
internal incomes	*18,916*	*-*	*18,916*	*40,227*	*-*	*40,227*
internal costs	*-*	*(18,916)*	*(18,916)*	*-*	*(40,227)*	*(40,227)*
Net fee and commission income	249,494	349,835	599,329	215,694	312,666	528,360
Net fee and commission income, including:	*-*	*-*	*-*	*14,945*	*(14,945)*	*-*
internal incomes	*-*	*-*	*-*	*14,945*	*-*	*14,945*
internal costs	*-*	*-*	*-*	*-*	*(14,945)*	*(14,945)*
Dividend income	9,368	3,141	12,509	15,112	2,736	17,848
Net income on financial instruments and revaluation	252,879	29,656	282,535	236,274	39,341	275,615
Net gain on investment (deposit) securities	119,921	-	119,921	77,845	-	77,845
Net gain on investment (capital) instruments	428	3,460	3,888	3,437	-	3,437
Other operating income	40,643	(29,471)	11,172	67,355	(29,660)	37,695
General administrative expenses	(554,417)	(722,141)	(1,276,558)	(530,619)	(740,472)	(1,271,091)
Depreciation expense	(24,218)	(32,544)	(56,762)	(43,020)	(31,453)	(74,473)
Profit/(loss) on sale of tangible fixed assets	(57)	1,102	1,045	1,888	817	2,705
Net impairment losses	35,252	(269,813)	(234,561)	(256,179)	(251,516)	(507,695)
Other incomes unattributed to segments*	-	-	-	-	-	124,643
Profit before tax	**807,122**	**121,092**	**928,214**	**489,056**	**61,802**	**675,501**
Income tax expenses			(180,188)			(150,349)
Net profit			**748,026**			**525,152**

** Correction of settlement of accounts with IRS in respect of goods and services tax (see note 10)*

As at	31.12.2010			31.12.2009		
Total assets, including:	**30,919,287**	**5,782,386**	**36,701,673**	**30,431,285**	**6,024,154**	**36,455,439**
Non-current assets held-for-sale	*-*	*9,901*	*9,901*	*2,999*	*16,547*	*19,546*
Total liabilities and equity, including, including	**28,123,649**	**8,578,024**	**36,701,673**	**27,211,263**	**9,244,176**	**36,455,439**
Liabilities	*23,849,910*	*6,429,671*	*30,215,524*	*23,256,803*	*7,064,013*	*30,320,816*

4. Net interest income

In thousands of PLN	**2010**	**2009**
Interest and similar income from:		
Central Bank	26,957	41,173
Placements in banks	26,897	59,362
Loans and advances, of which:	1,161,887	1,237,177
financial sector	*37,943*	*43,182*
non-financial sector	*1,123,944*	*1,193,995*
Debt securities available-for-sale	618,450	564,025
Debt securities held for trading	105,807	145,714
	1,939,998	**2,047,451**
Interest expense and similar charges for:		
Central Bank	(14,565)	(32,442)
Deposits from banks	(28,390)	(32,154)
Deposits from financial sector (excl. banks)	(68,230)	(107,802)
Deposits from non-financial sector	(358,652)	(408,402)
Loans and advances received	(4,465)	(6,039)
	(474,302)	**(586,839)**
	1,465,696	**1,460,612**

Net interest income for 2010 includes interest received on impaired loans, of PLN 26,649 thousand (for the 2009: PLN 19,560 thousand).

5. Net fee and commission income

In thousands of PLN	**2010**	**2009**
Fee and commission income:		
Insurance and investment products (agency)	136,334	142,163
Payment and credit cards	237,022	183,986
Payment services	122,690	122,479
Custody services	82,427	63,468
Charges from cash loans	11,975	14,484
Cash management	30,617	32,410
Off-balance sheet guarantee liabilities	15,363	16,002
Off-balance sheet financial liabilities	7,499	8,237
Other	27,125	25,205
	671,052	**608,434**
Fee and commission expense:		
Payment and credit cards	(49,937)	(59,521)
Fees paid to the National Depository for Securities (KDPW)	(12,544)	(8,615)
Brokers fees	(3,270)	(3,997)
Other	(5,972)	(7,941)
	(71,723)	**(80,074)**
	599,329	**528,360**

The net commission result for 2010 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 246,354 thousand (for 2009: PLN 193,714 thousand) and commission expenses in amount of PLN 49,937 thousand (for 2009: PLN 59,521 thousand).

Due to changes in the model of cooperation with agencies of direct sales part of the costs of the Bank for services provided by agencies recognized in 2009 as a result of fee income, in 2010, are presented in general administration expenses under the heading "Costs of external services for banking product distribution banking”.

6. Dividend income

Dividend income amounted to PLN 12,509 thousand in 2010 (2009: PLN 17,848 thousand) and is related to Bank’s equity investments. Total amount of dividends income include dividends received from Bank’s subsidiaries: Dom Maklerski Banku Handlowego S.A. – PLN 6,938 thousand (in 2009: PLN 9,695 thousand). The remaining amount of dividend was received from entities with not exercising control equity interest.

7. Net income on financial instruments valued at fair value through profit and loss account

In thousands of PLN	**2010**	**2009**
Net income on financial instruments valued at fair value through profit and loss account from:		
Debt instruments	(28,343)	45,077
Derivative instruments including:	(382)	(1,331)
Interest rate	*(3,707)*	*(1,452)*
Capital	*966*	-
Commodity	*2,359*	*121*
	(28,725)	**43,746**
Net profit on foreign exchange		
Net profit on foreign currency derivatives	122,485	(76,677)
Revaluation	188,775	308,546
	311,260	**231,869**
	282,535	**275,615**

Reversed write-offs resulting from increased counterparty credit risk on derivative transactions in the amount of PLN 20,984 thousand (in 2009 write-offs amounted to PLN 50,083 thousand) are included in net income on financial instruments and revaluation.
The losses were determined through the assessment of the clients’ financial standing and their needs to use derivative instruments. The amounts at which the derivative transactions will be settled remain uncertain and the actual losses depend on the changes in the future foreign exchange rates and counterparties’ financial standing.

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 includes net income on interest rate swaps, options, futures and other derivatives.

Net profit on foreign exchange includes profit and losses on revaluation of assets and liabilities denominated in foreign currency and foreign currency derivatives such as forward, swap and option contracts and also contains realized margin from current and matured currency transactions.

8. Net gain on investment debt securities

In thousands of PLN	**2010**	**2009**
Profits realized on available-for-sale debt securities	122,667	90,150
Losses realized on available-for-sale debt securities	(2,746)	(12,305)
	119,921	**77,845**

In 2010, the Bank changed the accounting policy adopted for recognition of the cost of sold securities. Application of the method of specific identification of securities sold by the effect of increasing investment in debt securities of PLN 20,331 thousand. in relation to the previously used method of FIFO (first in, first out). The new method, as indicated in note 2, better reflects the way in which the Bank manages a portfolio of securities

9. Net gain on investment equity securities

In thousands of PLN	**2010**	**2009**
Profits realized on equity instruments available-for-sale:	**3,888**	**3,437**

10. Net other operating income

In thousands of PLN	**2010**	**2009**
Other operating income		
Data processing for related parties	49,471	58,516
Income from office rent	2,986	3,874
Investment property	106	1,206
Income from settlement of tax on goods and services for previous years (VAT)	-	124,643
Other	17,287	23,800
	69,850	**212,039**
Other operating expenses		
Amicable procedure and vindication expenses	(17,229)	(10,016)
Reserve for recognition of Lehman Brothers Treasury Co.B.V. bonds from customers *	(9,571)	-
Costs related to compensation paid	(3,000)	-
Investment property	(2,912)	(768)
Fixed assets held-for-sale	-	(12,945)
Other	(25,966)	(25,972)
	(58,678)	**(49,701)**
	11,172	**162,338**

*On 22 of January 2010 the Management Board of the Bank decided to make an offer of purchase from customers who has bought Lehman Brothers Treasury Co.B.V. bonds granted by Lehman Brothers Holdings Inc. with intermediation of the Bank. According to the offer the Bank or other entity from the Capital Group of the Bank could purchase the bonds for amount equal to 60% of their original value in original currency

11. General administrative expenses

In thousands of PLN	**2010**	**2009**
Staff expenses*		
Remuneration costs, including:	(539,559)	(510,575)
Provisions for retirement benefits	*(22,631)*	*(15,116)*
Perks and rewards, including:	(98,593)	(111,521)
Payments related to own equity instruments	*(12,296)*	*(9,305)*
*Rewards for long time employment***	*11,740*	*-*
	(638,152)	**(622,096)**
Administrative expenses		
Telecommunication fees and hardware purchases	(151,562)	(161,802)
Advisory, audit, consulting and other services	(88,202)	(107,241)
Building maintenance and rent	(110,478)	(127,616)
Transaction costs	(59,300)	(56,339)
Marketing	(44,437)	(38,391)
Costs of external services for the distribution of banking products (see note 5)	(42,522)	(38,684)
Postal services	(32,978)	(36,711)
Training and education	(9,138)	(9,412)
Banking supervisory expenses	(3,496)	(4,072)
Other expenses	(96,293)	(68,727)
	(638,406)	**(648,995)**
	(1,276,558)	**(1,271,091)**

* Staff expenses in 2010 include PLN 11,523 thousand of remuneration and bonuses paid and payable to current and former members of the Management Board (in 2009: PLN 11,675 thousands).

** As a result of updating the provisions for awards for long-term employment, resulting from changing the rules of awarding staff costs have been reduced by the amount of release of reserves.

12. Depreciation expense

In thousands of PLN	**2010**	**2009**
Depreciation of property and equipment	(44,006)	(60,402)
Depreciation of intangible assets	(12,756)	(14,071)
	(56,762)	**(74,473)**

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

In thousands of PLN	**2010**	**2009**
Profits on:		
Sale of fixed assets	1,324	2,805
Sale of fixed assets held-for-sale	179	1,114
	1,503	**3,919**
Losses on:		
Sale of fixed assets	(435)	(947)
Sale of fixed assets held-for-sale	(23)	(267)
	(458)	**(1,214)**
	1,045	**2,705**

14. Net impairment losses

Net impairment write-downs of financial assets

In thousands of PLN	**2010**	**2009**
Impairment write-downs:		
Loans and receivables valued at amortized cost	(590,748)	(714,156)
Amounts due from matured transactions on derivative instruments	(15,040)	(104,163)
Other	(26,649)	(19,560)
	(632,437)	**(837,879)**
Reversals of impairment write-downs:		
Equity investments	875	1,193
Loans and receivables valued at amortized cost	345,900	358,034
Amounts due from matured transactions on derivative instruments	25,218	-
	371,993	**359,227**
	(260,444)	**(478,652)**

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

In thousands of PLN	**2010**	**2009**
Charges to provisions for off-balance sheet commitments	(53,629)	(83,460)
Releases of provisions for off-balance sheet commitments	79,512	54,417
	25,883	**(29,043)**
Net impairment losses	**(234,561)**	**(507,695)**

15. Income tax expense

Recognized in the income statement

In thousands of PLN	**2010**	**2009**
Current tax		
Current year	(186,799)	(212,711)
Adjustments for prior years	5,453	(640)
	(181,346)	**(213,351)**
Deferred tax		
Origination and reversal of temporary differences	1,258	64,354
Movement in receivables arising from tax deductions	(100)	(1,352)
	1,158	**63,002**
Total income tax expense in income statement	**(180,188)**	**(150,349)**

Reconciliation of effective tax rate

In thousands of PLN	**2010**	**2009**
Profit before tax	928,214	675,501
Income tax at the domestic corporation tax rate at 19%	(176,361)	(128,345)

In thousands of PLN	**2010**	**2009**
Non-deductible expenses including*:*	(9,826)	(17,780)
- loss on sale of receivables disposal	-	*(6,262)*
- updating deduction expenses	-	*(8,240)*
Deductible income not in income statement including:	(382)	(3,998)
-income from conversion of debt on shares	-	*(3,870)*
Non taxable income	1,318	2,236
Other	5,063	(2,462)
Total tax expenses	**(180,188)**	**(150,349)**
Effective tax rate	**19.41%**	**22.26%**

Deferred tax recognized directly in equity

Deferred tax recognized directly in equity as at 31 December 2010 is related to debt and capital instruments available-for-sale and capital awards program and amounted to PLN 634 thousands (31 December 2009: PLN 17,184 thousands).

16. Earnings per share

As at 31 December 2010 earnings per share amounted to PLN 5,72 (31 December 2009: PLN 4.02).
The calculation of earnings per share at 31 December 2010 was based on profit attributable to ordinary shareholders of PLN 748,026 thousand (31 December 2009: PLN 525,152 thousand) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2010 of 130,659,600 (31 December 2009: 130,659,600).
The Bank does not have any ordinary shares that may have a dilution impact.

17. Comparison of changes in other total revenue

Deferred income tax and reclassification included in other total revenue concern calculation of financial assets available for sale (AFS).

In thousands of PLN	Gross value	Deferred income tax	**Net value**
As at 1 January 2010	**(100,190)**	**19,164**	**(81,026)**
AFS valuation change	172,173	(38,859)	133,314
Valuation of sold AFS moved to profit and loss account	(119,921)	22,785	(97,136)
As at 31 December 2010	**(47,938)**	**3,090**	**(44,848)**

In thousands of PLN	Gross value	Deferred income tax	**Net value**
As at 1 January 2009	**(177,832)**	**33,722**	**(144,110)**
AFS valuation change	155,487	(29,349)	126,138
Valuation of sold AFS moved to profit and loss account	(77,845)	14,791	(63,054)
As at 31 December 2009	**(100,190)**	**19,164**	**(81,026)**

18. Cash and balances with the Central Bank

In thousands of PLN	**31.12.2010**	**31.12.2009**
Cash at hand	475,227	478,114
Current balances with central bank	2,731,327	3,635,241
	3,206,554	**4,113,355**

On the current account in the National Bank of Poland (NBP), the Bank maintains an obligatory reserve with the declared balance as at 31 December 2010 of PLN 842,441 thousand (31 December 2009: PLN

776,347 thousand). The Bank 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.

19. Financial assets and liabilities held for trading

In thousands of PLN	**31.12.2010**	**31.12.2009**
Financial assets held for trading		
Debt securities held for trading		
Bonds and notes issued by:		
Banks	37,577	40,729
Financial sector	63,111	-
Government	1,495,597	2,235,064
	1,596,285	**2,275,793**
Including:		
Listed	*1,461,545*	*2,274,966*
Unlisted	*134,740*	*827*
Derivative financial instruments	**2,398,932**	**3,096,825**
	3,995,217	**5,372,618**

Financial liabilities held for trading *In thousands of PLN*	**31.12.2010**	**31.12.2009**
Short positions in financial assets	279,344	10,412
Derivative financial instruments	2,525,093	3,098,081
	2,,804,437	**3,108,493**

As at 31 December 2010 and 31 December 2009 the Bank did not hold any financial assets and liabilities designated for valuation at fair value through the profit and loss account at initial recognition.

As at 31 December 2010 financial assets from derivatives transactions including provisions concerning valuation adjustments resulted from contractor's credit risk for unsettled transactions of PLN 25,391 thousand (31 December 2009: PLN 47,239 thousand).

Derivative financial instruments as at 31 December 2010

In thousands of PLN	Notional amount with remaining life of					Fair values	
	less than three months	**between three months and one year**	**between one year to five years**	**more than five years**	**Total**	**Assets**	**Liabilities**
Interest rate instruments	**41,433,445**	**70,278,983**	**59,349,977**	**16,361,845**	**187,424,250**	**2,001,557**	**2,142,072**
FRA-purchase	19,079,500	22,150,000	1,650,000	-	42,879,500	2,129	11,421
FRA-sale	16,250,000	22,150,000	1,650,000	-	40,050,000	11,011	1,826
Interest rate swaps (IRS)	5,162,459	21,614,707	48,607,127	14,504,988	89,889,281	1,733,129	1,869,777
Currency- interest rate swaps (CIRS)	847,391	1,133,845	5,810,840	1,856,857	9,648,933	252,624	256,330
Interest rate options purchased	-	-	816,005	-	816,005	2,152	-
Interest rate options sold	-	-	816,005	-	816,005	-	2,152
Future contracts-purchase*	94,095	1,174,800	-	-	1,268,895	379	198
Future contracts-sale*	-	2,055,631	-	-	2,055,631	133	368
Currency instruments	**9,998,641**	**9,698,311**	**1,843,113**	**17,156**	**21,557,221**	**374,947**	**360,340**
FX forward	1,691,918	1,403,638	816,314	17,156	3,929,026	69,382	98,878
FX swap	6,527,372	4,765,592	612,453	-	11,905,417	140,204	95,768
Foreign exchange options purchased	855,241	1,690,132	197,971	-	2,743,344	165,324	37
Foreign exchange options sold	924,110	1,838,949	216,375	-	2,979,434	37	165,657
Securities transactions	**642,122**	**22,516**	**33,386**	-	**698,024**	**4,554**	**4,807**
Share options (purchase)	3,040	11,258	16,693	-	30,991	3,416	640
Share options (sale)	3,040	11,258	16,693	-	30,991	640	3,416
Securities purchased pending delivery	194,702	-	-	-	194,702	70	278
Securities sold pending delivery	441,340	-	-	-	441,340	428	473
Commodity transactions	**1,023,475**	**842,383**	**-**	-	**1,865,858**	**17,874**	**17,874**
Swap	376,175	221,747	-	-	597,922	15,424	15,424
Purchase options	323,650	310,318	-	-	633,968	2,450	-
Sold options	323,650	310,318	-	-	633,968	-	2,450
Derivative instruments total	**53,097,683**	**80,842,193**	**61,226,476**	**16,379,001**	**211,545,353**	**2,398,932**	**2,525,093**

**Exchange-traded products*

Derivative financial instruments as at 31 December 2009

In thousands of PLN	**Notional amount with remaining life of**					**Fair values**	
	less than three months	**between three months and one year**	**between one year to five years**	**more than five years**	**Total**	**Assets**	**Liabilities**
Interest rate instruments	**11,356,209**	**45,804,651**	**51,760,004**	**23,799,938**	**132,720,802**	**2,320,878**	**2,418,582**
FRA-purchase	250,000	10,919,000	2,750,000	-	13,919,000	1,522	12,251
FRA-sale	250,000	11,219,000	2,250,000	-	13,719,000	21,995	1,253
Interest rate swaps	10,544,158	21,720,494	41,436,942	21,509,491	95,211,085	1,910,645	2,031,785
Currency- interest rate swaps	273,585	1,180,977	3,667,864	2,290,447	7,412,873	380,888	367,735
Interest rate options purchased	-	-	827,599	-	827,599	5,237	-
Interest rate options sold	-	-	827,599	-	827,599	-	5,237
Future contracts-purchase*	25,172	-	-	-	25,172	-	278
Future contracts-sale*	13,294	765,180	-	-	778,474	591	43
Currency instruments	**9,204,422**	**4,772,425**	**3,611,725**	**732,273**	**18,320,845**	**769,890**	**673,672**
FX forward	1,935,529	1,474,572	589,667	374,937	4,374,705	223,123	58,684
FX swap	5,089,683	804,332	201,325	-	6,095,340	105,279	142,806
Foreign exchange options purchased	1,088,061	1,265,370	1,460,024	169,122	3,982,577	441,429	59
Foreign exchange options sold	1,091,149	1,228,151	1,360,709	188,214	3,868,223	59	472,123
Securities transactions	**97,225**	**12,000**	**51,640**	**-**	**160,865**	**5,751**	**5,521**
Share options (purchase)	-	6,000	25,820	-	31,820	4,848	657
Share options (sale)	-	6,000	25,820	-	31,820	657	4,848
Securities purchased pending delivery	17,404	-	-	-	17,404	120	14
Securities sold pending delivery	79,821	-	-	-	79,821	126	2
Commodity transactions	**-**	**13,176**	**-**	**-**	**13,176**	**306**	**306**
Purchase options	-	6,588	-	-	6,588	228	78
Sold options	-	6,588	-	-	6,588	78	228
Derivative instruments subtotal	**20,657,856**	**50,602,252**	**55,423,369**	**24,532,211**	**151,215,688**	**3,096,825**	**3,098,081**

**Exchange-traded products*

20. Debt securities available-for-sale

In thousands of PLN	**31.12.2010**	**31.12.2009**
Bonds and notes issued by:		
Central bank	5,994,140	-
Other banks	535,180	-
Non-financial sector	165,075	34,230
Government	6,334,859	8,236,979
Self-governed institutions	-	19,016
	13,029,254	**8,290,225**
Including:		
Listed instruments	*5,874,033*	*7,911,470*
Unlisted instruments	*7,155,221*	*378,755*

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

In thousands of PLN	**2010**	**2009**
As at 1 January	**8,290,225**	**10,814,828**
Increases (in respect of)		
Purchases	309,015,102	135,224,724
Revaluation	52,252	78,825
Amortisation of discount, premium and interest	395,326	170,712
Decreases (in respect of)		
Purchases	(304,613,366)	(137,824,808)
FX differences	(61,060)	(29,088)
Amortisation of discount, premium and interest	(49,225)	(144,968)
As at 31 December	**13,029,254**	**8,290,225**

21. Equity investments

In thousands of PLN	**31.12.2010**	**31.12.2009**
Stocks and shares in subordinated entities	338,580	341,205
Stocks and shares in other entities	66,453	52,184
Impairment	(101,868)	(88,373)
	303,165	**305,016**
Including:		
Listed instruments	*14*	*3,803*
Unlisted instruments	*303,151*	*301,213*

The movement in equity investments is as follows:

In thousands of PLN	**Subordinated entities**	**Other entities**	**Total**
As at 1 January 2010	**280,886**	**24,130**	**305,016**
Increases (in respect of):			
Revaluation	965	-	965
Take-over for receivables*	-	18,074	18,074
Decreases (in respect of):			
Disposals	-	(3,803)	(3,803)
Revaluation	-	(14,462)	(14,462)
Settlement due to payments	(1,227)	-	(1,227)
FX differences	(1,398)	-	(1,398)
As at 31 December 2010	**279,226**	**23,939**	**303,165**

In thousands of PLN	**Subordinated entities**	**Other entities**	**Total**
As at 1 January 2009	**280,300**	**11,085**	**291,385**
Increases (in respect of):			
Revaluation	1,193	-	1,193
Increase of share capital (issue of shares)	1	-	1
Take-over for receivables**	-	14,259	14,259
Decreases (in respect of):			
Disposals	-	(1,214)	(1,214)
FX differences	(608)	-	(608)
As at 31 December 2009	**280,886**	**24,130**	**305,016**

* On 26 May 2010 as a result of the validation of court order concerning to approving the restructuring plan for systemic debt of Odlewnie Polskie S.A. (“ODLEWNIE”), there was conversion of afforded to Bank Handlowy w Warszawie S.A. debt of ODLEWNIE for futures/derivatives contracts for 3,495,248 shares of ODLEWNIE giving 16.9% in the ODLEWNIE share capital and 16.9% in votes on the General Meeting of Shareholders.

* In November 2010 as a result of an arrangement, there was conversion of afforded to the Bank Handlowy w Warszawie S.A. debt of Kuźnia Polska S.A. (“KUŹNIA”) for contained futures/derivatives contracts for 1,122,996 shares of KUŹNIA giving 5.2% in the KUŹNIA share capital and 5.2% in votes on the General Meeting of Shareholders.

** On 23 September 2009 r., as a result of the validation of bankruptcy court decision regarding the approval of settlement in the restructuring proceedings of Polski Koncern Mięsny DUDA S.A. (“DUDA”) with creditors, the receivables due to Bank Handlowy w Warszawie S.A. in respect of future transactions/derivatives agreements, were converted into 20,369,538 shares of DUDA, giving 9.0% in the DUDA share capital and 9.0% in votes on the General Meeting of Shareholders.

Financial information on subordinated entities
31.12.2010

In thousands of PLN

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	97.47	120,000	908,223	760,756	147,467	53,854	(10,720)
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary undertaking	100.00	70,950	535,042	428,192	106,850	115,643	23,443
PPH SPOMASZ Sp. z o.o. w likwidacji	Warsaw	-	Subsidiary undertaking	100.00	9,442	Entity under liquidation				
BANK ROZWOJU CUKROWNICTWA S.A. w likwidacji *	Poznań	Banking	Subsidiary undertaking	100.00	40,255	Entity under liquidation				
HANDLOWY- INVESTMENTS S.A. 1/	Luxembourg	Investment activity	Subsidiary undertaking	100.00	28,764	29,574	127	29,447	1,859	1,516
HANDLOWY - INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	80.97	7,134	7,151	192	6,959	433	308
HANDLOWY INWESTYCJE Sp. z o.o. 2/	Warsaw	Investment activity	Subsidiary undertaking	100.00	2,681	15,860	4,922	10,938	2,299	103
					279,226					

The financial data of individual entities available at the time of preparation of these statements and originating from non-audited financial statements of the respective entities were presented.

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 shares	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY - INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	19.03	32	7,151	192	6,959	433	308

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

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY - LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	2.53	3,125	908,223	760,756	147,467	53,854	(10,720)

The financial data of individual entities available at the time of preparation of these statements and originating from non-audited financial statements of the respective entities were presented.

Financial information on subordinated entities
31.12.2009

In thousands of PLN

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY – LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	97.47	120,000	1,165,776	1,007,589	158,187	168,362	(15,730)
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary undertaking	100.00	70,950	652,791	562,543	90,248	62,736	7,542
PPH SPOMASZ Sp. z o.o. w likwidacji	Warsaw	-	Subsidiary undertaking	100.00	9,442	Entity under liquidation				
BANK ROZWOJU CUKROWNICTWA S.A. w likwidacji	Poznań	Banking	Subsidiary undertaking	100.00	40,255	Entity under liquidation				
HANDLOWY- INVESTMENTS S.A. [1/]	Luxembourg	Investment activity	Subsidiary undertaking	100.00	29,196	29,230	239	28,991	1,755	1,588
HANDLOWY - INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	80.97	7,135	7,138	211	6,927	290	104
HANDLOWY INWESTYCJE Sp. z o.o. [2/]	Warsaw	Investment activity	Subsidiary undertaking	100.00	3,908	16,830	5,650	11,180	512	345
					280,886					

On 2 March 2009 the Extraordinary General Meeting of Shareholders of Bank Rozwoju Cukrownictwa S.A. with headquarters in Poznań ("BRC") has taken the resolution concerning the company's dissolution and put it under voluntary liquidation. After approving of voluntary liquidation program of the Company by the Polish Financial Supervision Authority, the BRC liquidation process has started.

The above presented financial data which was available at the time of preparation of the Bank's financial statement come from the audited financial statements except for Handlowy-Investments S.A., Handlowy- Investments II S.a.r.l., PPH Spomasz Sp. z o.o. w likwidacji and Bank Rozwoju Cukrownictwa S.A. w likwidacji.

The explanation of indirect relationships:

1/ Indirect relationship via Handlowy Investment S.A.

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY - INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	19.03	1,677	7,138	211	6,927	290	104

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

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY - LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	2.53	3,125	1,165,776	1,007,589	158,187	168,362	(15,730)

The above presented financial data which was available at the time of preparation of the Bank's financial statement come from the audited financial statements except for Handlowy- Investments S.A., Handlowy- Investments II S.a.r.l. PPH Spomasz Sp. z o.o. w likwidacji and Bank Rozwoju Cukrownictwa S.A. w likwidacji.

22. Loans and advances

Loans and advances (by category)

In thousands of PLN	**31.12.2010**	**31.12.2009**
Loans and advances to financial sector:		
Current accounts of banks	94,995	20,034
Loans, placements and advances, including:	2,758,081	4,036,776
placements in banks	*1,977,502*	*3,380,479*
Purchased receivables	15,522	14,774
Receivables subject to securities sale and repurchase agreements	316,086	992,911
Other receivables	2,205	1,323
Total gross value	**3,186,889**	**5,065,818**
Impairment write-offs	(22,071)	(22,423)
Total net value	**3,164,818**	**5,043,395**
Loans and advances to non-financial sector:		
Loans and advances	11,182,107	11,882,677
Unlisted debt securities	141,459	-
Purchased receivables	685,624	359,982
Realised guarantees	3,574	18,733
Other receivables	17,787	1,342
Total gross value	**12,030,551**	**12,262,734**
Impairment write-offs	(1,256,859)	(1,365,836)
Total net value	**10,773,692**	**10,896,898**
Loans and other receivables	**13,938,510**	**15,940,293**

The Bank does not act as a leaser under finance leases

23. Impairment of loans and advances

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

In thousands of PLN	**2010**	**2009**
As at 1 January	**1,388,259**	**1,419,034**
Related to:		
Receivables from banks	766	4,041
Receivables from other customers of financial and non-financial sector	1,387,493	1,414,993
Change of impairment write downs:	(109,329)	(30,775)
Creation of write-off for loans and advances	590,748	714,156
Creation of net write-off in the period for receivables in respect of matured derivative instrument transactions	(10,178)	104,163
Write-off receivables	(187,807)	(93,966)
Amounts released for loans and advances	(345,900)	(358,034)
Sale of receivables	(167,053)	(425,596)
Transfer from other group of assets	1,236	32,280
Other	9,625	(3,778)
As at 31 December	**1,278,930**	**1,388,259**

In thousands of PLN	**2010**	**2009**
Related to:		
Receivables from banks	493	766
Receivables from other customers of financial, non-financial	1,278,437	1,387,493

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

In thousands of PLN	**31.12.2010**	**31.12.2009**
Portfolio impairment loss	689,023	510,771
Individual impairment loss	425,900	742,976
Incurred but not reported losses (IBNR)	164,007	134,512

24. Property and equipment

Land, buildings and equipment

In thousands of PLN	Land, and buildings	Vehicles	Other	Under construction	Total
Gross amount					
Balance as at 1 January 2009	**712,295**	**48,524**	**557,894**	**13,531**	**1,332,244**
Additions:					
Purchases	393	-	10,904	14,377	25,674
Reclassification	17,300	-	5,433	(22,733)	-
Other increases	-	-	333	-	333
Decreases:					
Disposals	(5,989)	(18,612)	(1,831)	-	(26,432)
Liquidation	(9,120)	-	(31,503)	-	(40,623)
Classified as fixed assets held-for-sale	(17,267)	-	(514)	-	(17,781)
Other decreases	(2,417)	(249)	(5,952)	(3,778)	(12,396)
Balance as at 31 December 2009	**695,195**	**29,663**	**534,764**	**1,397**	**1,261,019**
Balance as at 1 January 2010	**695,195**	**29,663**	**534,764**	**1,397**	**1,261,019**
Additions:					
Purchases	88	-	11,936	11,075	23,099
Reclassification	4,023	-	2,466	(6,489)	-
Other increases	-	-	-	-	-
Decreases:					
Disposals	(16,886)	(9,619)	(6,036)	-	(32,541)
Liquidation	(9,385)	-	(64,955)	-	(74,340)
Other decreases	(196)	-	(3,692)	(1,139)	(5,027)
Balance as at 31 December 2010	**672,839**	**20,044**	**474,483**	**4,844**	**1,172,210**
Depreciation and amortization					
Balance as at 1 January 2009	**290,832**	**20,425**	**499,095**	**-**	**810,352**
Increases:					
Depreciation charge for the year	27,306	5,390	27,706	-	60,402
Other increases	-	-	218	-	218
Decreases:					
Disposals	(2,210)	(13,563)	(1,731)	-	(17,504)
Liquidation	(8,084)	-	(30,975)	-	(39,059)
Classified as fixed assets held-for-sale	(5,271)	-	(454)	-	(5,725)
Other decreases	-	(120)	(340)	-	(460)
Balance at 31 December 2009	**302,573**	**12,132**	**493,519**	**-**	**808,224**

In thousands of PLN	Land, and buildings	Vehicles	Other	Under construction	Total
Balance as at 1 January 2010	**302,573**	**12,132**	**493,519**	**-**	**808,224**
Increases:					
Depreciation charge for the year	20,203	3,839	19,964	-	44,006
Other increases	-	-	183	-	183
Decreases:					
Disposals	(5,435)	(5,538)	(6,007)	-	(16,980)
Liquidation	(8,225)	-	(64,364)	-	(72,589)
Other decreases	-	-	(3,692)	-	(3,692)
Balance at 31 December 2010	**309,116**	**10,433**	**439,603**	**-**	**759,152**

In thousands of PLN	Land, and buildings	Vehicles	Other	Under construction	Total
Carrying amounts					
As at 1 January 2009	421,463	28,099	58,799	13,531	521,892
As at 31 December 2009	392,622	17,531	41,245	1,397	452,795
As at 1 January 2010	392,622	17,531	41,245	1,397	452,795
As at 31 December 2010	363,723	9,611	34,880	4,844	413,058

Investment properties

During 2009 and 2010 investment property and equipment remained unchanged and as at 31 December 2010 and 31 December 2009 amounted PLN 18,308 thousand.

25. Intangible assets

In thousands of PLN	Goodwill	Patents and trademarks	Software	Other intangible assets	Prepayments	Total
Gross amount						
Balance as at 1 January 2009	**1,245,976**	**740**	**247,943**	**18,242**	**3,635**	**1,516,536**
Additions:						
Purchases	-	-	5,388	-	9,219	14,607
Other increases	-	-	-	-	19	19
Disposals:						
Reclassification	-	-	6,474	-	(6,505)	(31)
Other decreases	-	-	(1,275)	-	-	(1,275)
Balance as at 31 December 2009	**1,245,976**	**740**	**258,530**	**18,242**	**6,368**	**1,529,856**
Balance as at 1 January 2010	**1,245,976**	**740**	**258,530**	**18,242**	**6,368**	**1,529,856**
Additions:						
Purchases	-	-	4,368	-	12,778	17,146
Other increases	-	-	-	-	-	-
Disposals:						
Reclassification	-	-	14,388	-	(14,436)	(48)
Other decreases	-	-	(8,412)	-	-	(8,412)
Balance as at 31 December 2009	**1,245,976**	**740**	**268,874**	**18,242**	**4,710**	**1,538,542**

In thousands of PLN	Goodwill	Patents and trademarks	Software	Other intangible assets	Prepayments	Total
Depreciation and amortization						
Balance as at 1 January 2009	**-**	**740**	**220,096**	**16,153**	**-**	**236,989**
Increases:						
Depreciation charge for the period	-	-	12,405	1,666	-	14,071
Other increases	-	-	4	-	-	4
Decreases:						
Other decreases	-	-	(1)	-	-	(1)
Balance as at 31 December 2009	**-**	**740**	**232,504**	**17,819**	**-**	**251,063**
Balance as at 1 January 2010	**-**	**740**	**232,504**	**17,819**	**-**	**251,063**
Increases:						
Depreciation charge for the period	-	-	12,333	423	-	12,756
Other increases	-					
Decreases:						
Other decreases	-	-	(8,411)	-	-	(8,411)
Balance as at 31 December 2010	**-**	**740**	**236,426**	**18,242**	**-**	**255,408**
Carrying amounts						
As at 1 January 2009	1,245,976	-	27,847	2,089	3,635	1,279,547
As at 31 December 2009	1,245,976	-	26,026	423	6,368	1,278,793
As at 1 January 2010	1,245,976	-	26,026	423	6,368	1,278,793
As at 31 December 2010	1,245,976	-	32,448	-	4,710	1,283,134

As at 31 December 2010, goodwill includes the amount of PLN 1,243,645 thousand arising from the merger of Bank Handlowy w Warszawie S.A. and Citibank (Poland) S.A. as at 28 February 2001 and the amount of PLN 2,331 thousand as a result of the purchase of an organized part of the enterprise from ABN AMRO Bank (Poland) S.A. as at 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 financial plan. 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, bonus for risk and Treasury bond yield curves. In 2010 the discount rate amounted to 12.9% (in 2009: 11.3%)

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 2010.
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	**31.12.2010**	**31.12.2009**
Income tax assets*		
Current tax	67,171	86,687
Deferred tax	238,082	372,726
	305,253	**459,413**

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

As at 31 December 2010 and 31 December 2009, Bank did not hold income tax liabilities.

Positive and negative taxable and deductible temporary differences are presented below

Deferred tax assets are attributable to the following:

In thousands of PLN	**31.12.2010**	**31.12.2009**
Interest accrued and other expense	8,742	8,634
Impairment	147,959	169,309
Unrealised premium	2,393	15,993
Unrealised financial instruments valuation expenses	384,377	445,371
Negative valuation of securities	1,435	25,541
Income collected in advance	17,198	20,931
Valuation of shares	8,849	6,101
Commissions	9,644	7,475
Debt securities available-for-sale	634	17,184
Cost related to asymmetric transaction	-	69,399
Staff expenses and other cost due to pay	47,523	48,530
Other	17,243	21,012
Deferred tax assets	**645,997**	**855,480**

Deferred tax liability is attributable to the following:

In thousands of PLN	**31.12.2010**	**31.12.2009**
Interest accrued (income)	29,825	36,644
Unrealised premium from options	263	490
Unrealised financial instruments valuation income	339,991	373,646
Unrealised securities discount	2,713	11,428
Incomes to receive	5,534	7,724

In thousands of PLN	**31.12.2010**	**31.12.2009**
Positive valuation of securities	376	29,339
Investment relief	17,796	18,646
Other	11,417	4,837
Deferred tax liability	**407,915**	**482,754**
Net assets from deferred tax liability	**238,082**	**372,726**

Movement in temporary differences during the year 2010

Changes in temporary differences relating to deferred tax assets:

In thousands of PLN	**Balance 01 January 2010**	**Adjustment of opening balance**	**Balance as at 01 January 2010 after adjustment of opening balance**	**Adjustments recognised in income**	**Adjustments recognised in equity**	**Balance 31 December 2010**
Interest accrued and other expense	8,634	-	8,634	108	-	8,742
Impairment	169,309	(49,298)	120,011	27,948	-	147,959
Unrealised premium	15,993	-	15,993	(13,600)	-	2,393
Unrealised financial instruments valuation expenses	445,371	-	445,371	(60,994)	-	384,377
Negative valuation of securities	25,541	-	25,541	(24,106)	-	1,435
Income collected in advance	20,931	-	20,931	(3,733)	-	17,198
Valuation of shares	6,101	-	6,101	2,748	-	8,849
Commission	7,475	-	7,475	2,169	-	9,644
Debt securities available-for-sale	17,184	-	17,184	-	(16,550)	634
Cost related to asymmetric transaction	69,399	(69,399)	-	-	-	-
Staff expenses and other cost due to pay	48,530	-	48,530	(1,007)	-	47,523
Other	21,012	-	21,012	(3,113)	(656)	17,243
	855,480	**(118,697)**	**736,783**	**(73,580)**	**(17,206)**	**645,997**

Changes in temporary differences relating to deferred tax liability:

In thousands of PLN	**Balance 01 January 2010**	**Adjustment of opening balance**	**Balance as at 01 January 2010 after adjustment of opening balance**	**Adjustments recognised in income**	**Adjustments recognised in equity**	**Balance 31 December 2010**
Interest accrued (income)	36,644	-	36,644	(6,819)	-	29,825
Unrealised premium from options	490	-	490	(227)	-	263
Unrealised financial instruments valuation income	373,646	-	373,646	(33,655)	-	339,991
Unrealised securities discount	11,428	-	11,428	(8,715)	-	2,713
Incomes to receive	7,724	-	7,724	(2,190)	-	5,534
Positive valuation of securities	29,339	-	29,339	(28,963)	-	376
Investment relief	18,646	-	18,646	(850)	-	17,796

In thousands of PLN	**Balance 01 January 2010**	**Adjustment of opening balance**	**Balance as at 01 January 2010 after adjustment of opening balance**	**Adjustments recognised in income**	**Adjustments recognised in equity**	**Balance 31 December 2010**
Other	4,837	-	4,837	6,580	-	11,417
	482,754	**-**	**482,754**	**(74,839)**	**-**	**407,915**
Change in net assets for deferred income tax	**372,726**	**(118,697)**	**254,029**	**1,259**	**(17,206)**	**238,082**

Movement in temporary differences during the year 2009

Changes in temporary differences relating to deferred tax assets:

In thousands of PLN	**Balance 01 January 2009**	**Adjustments recognised in income**	**Adjustments recognised in equity**	**Balance 31 December 2009**
Interest accrued and other expense	8,826	(192)	-	8,634
Impairment	103,215	66,094	-	169,309
Unrealised premium	19,258	(3,265)	-	15,993
Unrealised instruments valuation expenses	648,860	(203,489)	-	445,371
Negative valuation of securities	2,524	23,017	-	25,541
Income collected in advance	23,394	(2,463)	-	20,931
Valuation of shares	7,444	(1,343)	-	6,101
Commission	5,878	1,597	-	7,475
Debt securities available-for-sale	33,721	-	(16,537)	17,184
Cost related to asymmetric transactions	69,399	-	-	69,399
Staff expenses and other cost due to pay	48,657	(127)	-	48,530
Other	18,328	2,684	-	21,012
	989,504	**(117,487)**	**(16,537)**	**855,480**

Changes in temporary differences relating to deferred tax liability:

In thousands of PLN	**Balance 1 January 2009**	**Adjustments recognised in income**	**Adjustments recognised in equity**	**Balance 31 December 2009**
Interest accrued (income)	64,080	(27,436)	-	36,644
Unrealised premium from options	212	278	-	490
Unrealised instruments valuation income	554,045	(180,399)	-	373,646
Unrealised securities discount	2,940	8,488	-	11,428
Incomes to receive	9,046	(1,322)	-	7,724
Positive valuation of securities	6,005	23,334	-	29,339
Investment relief	19,835	(1,189)	-	18,646
Other	8,433	(3,596)	-	4,837
	664,596	**(181,842)**	**-**	**482,754**
Change in net assets for deferred income tax	**324,908**	**64,355**	**(16,537)**	**372,726**

On the basis of obtained individual interpretation of tax law and verdict of the Administrative Court in Warsaw, the Bank has changed approach to taxation of IRS / CIRS contracts and unsettled derivative transactions, as a result the Bank has made adjustments to tax returns CIT-8 for the past years.

28. Other assets

In thousands of PLN	**31.12.2010**	**31.12.2009**
Interbank settlements	879	600
Interbranch settlements	1,710	-
Accounts receivable	55,415	64,452
Staff loans out of the Social Fund	25,452	24,545
Sundry debtors	103,687	102,700
Prepayments	12,149	12,752
Other assets	27	28
	199,319	**205,077**

29. Non-current assets held-for-sale

As at 31 December 2010 non-current assets held-for-sale include Bank's own property with the total value of PLN 9,901 thousand (31 December 2009: PLN 19,546 thousand), that fulfils the requirements of IFRS 5 and therefore was reclassified to this group from fixed tangible assets.

The changes in non-current assets held-for-sale has been presented below:

In thousands of PLN	**2010**	**2009**
Balance as at 1 January	**19,546**	**35,267**
Increases:		
Reclassify from banking properties	-	12,057
Decreases:		
Valuation updating	-	(12,945)
Sales	(9,645)	(14,833)
Balance as at 31 December	**9,901**	**19,546**

30. Liabilities due to Central Bank

In thousands of PLN	**31.12.2010**	**31.12.2009**
Liabilities In respect of sale and repurchase transaction	-	973,057
Accrued interest	-	7,389
	-	**980,446**

31. Financial liabilities valued at amortized cost

Financial liabilities valued at amortized cost (by category)

In thousands of PLN	**31.12.2010**	**31.12.2009**
Deposits from financial sector		
Current accounts, including:	1,461,817	2,211,344
current accounts of banks	*755,099*	*1,473,433*
Term deposits, including:	4,674,304	2,645,898
term deposits of banks	*2,089,107*	*157,734*
Accrued interest	2,682	3,904
	6,138,803	**4,861,146**
Deposits from non-financial sector		
Current accounts, including:	11,899,958	10,590,802
corporate customers	*5,616,893*	*3,515,976*
individual customers	*4,309,255*	*4,532,587*
budgetary units	*1,973,811*	*1,957,516*

In thousands of PLN	**31.12.2010**	**31.12.2009**
Term deposits, including:	8,488,451	9,935,850
corporate customers	*6,424,140*	*7,050,157*
individual customers	*1,395,785*	*1,789,722*
budgetary units	*668,526*	*690,391*
Accrued interest	16,978	20,708
	20,405,387	**20,547,360**
Total Deposits	**26,544,190**	**25,408,506**
Liabilities due to own issuance*	**11,533**	**-**
Other liabilities		
Loans and advances received	95,714	128,962
Securities sold under repurchase agreements	113,534	-
Other liabilities, including:	176,054	221,452
cash collateral	*96,716*	*150,976*
Accrued interest	2,210	2,419
	387,512	**352,833**
	26,943,235	**25,761,339**

***Liabilities due to own issuance**

In thousands of PLN

Type of inssued owned financial instruments	**Nominal Value**	**Date of issuance**	**Date of purchase**
Certificates of deposit	673	02.07.2010	06.01.2012
Certificates of deposit	6,512	26.10.2010	28.04.2011
Certificates of deposit	4,344	30.11.2010	30.05.2011
	11,529		

In 2010, within the Emisja Bankowych Papierów Wartościowych (Debt Security of the Bank Issue) Program, the Bank effected the issue of certificates of deposit ("BPW") in the total amount of PLN 11,533 thousands as at 31 December 2010.

Provided that BPW are held until maturity, at redemption the issuer is obliged to pay the principal, guaranteed interest and premium interest.

32. Provisions

In thousands of PLN	**31.12.2010**	**31.12.2009**
For disputes	21,648	11,963
For off-balance sheet commitments	10,579	37,564
	32,227	**49,527**

The movement in provisions is as follows:

In thousands of PLN	**2010**	**2009**
Balance as at 1 January	**49,527**	**24,552**
Provisions for:		
Disputes	11,963	5,413
Restructuring	-	10,619

In thousands of PLN	**2010**	**2009**
Off-balance sheet commitments	37,564	8,520
Increases		
Charges to provisions:	66,054	96,028
for litigations	12,425	12,568
for off-balance sheet liabilities	53,629	83,460
Decreases		
Use of provisions for restructuring	-	(10,619)
Release of provisions	(82,252)	(60,434)
for litigations	(2,740)	(6,018)
for off-balance sheet liabilities	(79,512)	(54,416)
Transfer to another group of assets – off-balance sheet liabilities	(1,102)	-
Balance as at 31 December	**32,227**	**49,527**

33. Other liabilities

In thousands of PLN	**31.12.2010**	**31.12.2009**
Staff benefits	57,775	62,293
Interbank settlements	42,667	26,047
Interbranch settlements	-	735
Settlements with Tax Office and National Insurance (ZUS)	22,764	3,679
Sundry creditors	102,748	47,205
Accruals:	239,507	240,935
Provision for employee payments	*70,099*	*61,379*
Provision for employees retirement and jubilee payments	*37,691*	*43,498*
IT services and bank operations support	*45,242*	*40,726*
Consultancy services and business support	*33,061*	*23,292*
Other	*53,414*	*72,040*
Deferred income	34,221	40,117
	499,682	**421,011**

34. Assets and liabilities according to expire date

As at 31 December 2010

In thousand of PLN	Note	Total	Less than 1 month	Between 1 and 3 moths	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
Financial assets held for trading							
Debt securities available-for-sale	*19*	1,596,285	-	-	567,994	882,220	146,071
Financial assets available-for-sale							
Debt securities available-for-sale	*20*	13,029,254	6,159,215	-	-	5,117,820	1,752,219
Loans and advances (Gross)							
Loans, placements and advances from financial sector, including:	*22*	3,186,889	2,916,608	6,928	3,532	245,000	14,821
from banks and other monetary financial institutions	*22*	*2,272,155*	*2,261,695*	*6,928*	*3,532*	-	-
from other financial institutions	*22*	*914,734*	*654,913*	-	-	*245,000*	*14,821*
Loans, placements and advances from non-financial sector	*22*	12,030,551	6,878,579	473,777	1 483,963	2,769,175	425,057
Financial liabilities valued at amortized cost							
Financial sector, including:	*31*	6,354,188	6,016,846	198,492	40,847	65,544	32,459
from banks and other monetary financial institutions	*31*	*2,958,212*	*2,632,351*	*190,000*	*40,147*	*63,849*	*31,865*
from other financial institutions	*31*	*3,395,976*	*3,384,495*	*8,492*	*700*	*1,695*	*594*
Non-financial sector	*31*	20,589,047	19,362,927	708,134	467,069	50,906	11

As at 31 December 2009

In thousand of PLN	Note	Total	Less than 1 month	Between 1 and 3 moths	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
Financial assets held for trading							
Debt securities available-for-sale	*19*	2,275,793	10,743	1,344,611	73,092	791,478	55,869
Financial assets available-for-sale							
Debt securities available-for-sale	*20*	8,290,225	-	-	1,542,926	3,941,319	2,805,980
Loans and advances (Gross)							
Loans, placements and advances from financial sector, including:	*22*	5,065,818	3,758,260	61,481	1,231,825	-	14,252
from banks and other monetary financial institutions	*22*	*3,481,972*	*3,414,495*	*61,481*	*5,996*	-	-
from other financial institutions	*22*	*1,583,846*	*343,765*	-	*1,225,829*	-	*14,252*
Loans, placements and advances from non-financial sector	*22*	12,262,734	6,928,683	697,475	1,060,168	3,135,739	440,669
Financial liabilities valued at amortized cost							
Financial sector, including:	*31*	4,993,670	4,752,992	69,947	66,547	6,478	97,706
from banks and other monetary financial institutions	*31*	*1,773,071*	*1,615,736*	*3,616*	*54,101*	*1,912*	*97,706*
from other financial institutions	*31*	*3,220,599*	*3,137,256*	*66,331*	*12,446*	*4,566*	-
Non-financial sector	*31*	20,767,669	19,055,652	1,193,358	490,891	27,709	59

35. Capital and reserves

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	-	65,000,000	260,000	paid in	27.03.97	01.01.97
B	bearer	none	-	1,120,000	4,480	paid in	27.10.98	01.01.97
B	bearer	none	-	1,557,500	6,230	paid in	25.06.99	01.01.97
B	bearer	none	-	2,240,000	8,960	paid in	16.11.99	01.01.97
B	bearer	none	-	17,648,500	70,594	paid in	24.05.02	01.01.97
B	bearer	none	-	5,434,000	21,736	paid in	16.06.03	01.01.97
C	bearer	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 2010, 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 that has not changed since 31 December 2009.

The Bank has not issued preference shares.

Principal shareholders

The following table presents the shareholders who, as at 31 December 2010 and 31 December 2009, held at least 5% of the total number of votes in the General Assembly or at least 5% of Bank’s share capital:

	Value of stocks (PLN‘000)	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 stockholders	130,659	32,664,900	25.0	32,664,900	25.0
	522,638	**130,659,600**	**100.0**	**130,659,600**	**100.0**

During 2010 and during the period from passing previous interim quarterly report for third quarter 2010 till the day of passing current report for 2010 the structure of major shareholdings has not changed.

In 2010 the structure of major shareholdings underwent following changes:

– according to notification placed on 20 February 2009 by Pioneer Pekao Investment Management S.A. („PPIM”) the total shareholding of PPIM clients reached the level of 5.01% of the total number of votes at the General Meeting of the Bank,

– according to notification received on 17 April 2009 from PPIM the total shareholding of PPIM clients fell below 5% of the total number of votes at the General Meeting of the Bank and has reached the level of 4.55%.

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	**31.12.2010**	**31.12.2009**
Revaluation of financial assets available-for-sale	**(44,848)**	**(81,026)**

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

Other reserves

In thousands of PLN	**31.12.2010**	**31.12.2009**
Reserve capital	1,751,402	1,751,337
General risk reserve	497,500	465,000
Capital from valuation of employee equity benefits	2,789	6,937
	2,251,691	**2,223,274**

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 Bank'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 reserve

The general risk reserve is recorded out of net profit, against unidentified risk arising from banking activities. The General Shareholders' Meeting makes decisions on utilization of the general risk reserve, with reservation of obligatory regulations.

Dividends

Dividends paid for2009

In accordance with Resolution No. 29/2010 of the Ordinary General Meeting of the Bank of 28 June 2010 the profit for 2009 was distributed, 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 492,586,692.00 as dividend. This means that the dividend per one ordinary share amounts to PLN 3.77. The number of ordinary shares covered by the dividend was 130,659,600.

The date of determination of the right to the dividend was designated as 5 July 2010. The date of dividend payment was 30 August 2010.

Declared dividends

On 8 March 2011, Bank's Management Board adopted a resolution on the proposed distribution of profit for 2010. Bank's Management Board has proposed to allocate the amount of PLN 747,372,912.00 for dividend payment. This means that the dividend per one ordinary share amounts to PLN 5.72.

The date of determination of the right to the dividend was designated as 16 July 2011 and the date of payyment was designated as 29 July 2011. This proposal will be submitted to the Management Board, Supervisory Board for an opinion, then the General Assembly for approval.

36. Repurchase and reverse repurchase agreements

The Bank 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 2010 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	113,558	113,544	To 1 month	113,675

** including interest*

As at 31 December 2009 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	1,086,167	980,446	>3 to 6 months	991,997

** including interest*

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

As at 31 December 2010 and 31 December 2009 assets sold through repo cannot be further traded.

In 2010 the total interest expense on repurchase agreements was PLN 19,409 thousand (In 2009: PLN 32,585 thousand).

The Bank also purchases financial instruments under agreements to resell them at future dates ("reverse repurchase agreements"). 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 to customers.

As at 31 December 2010 assets purchased subject to agreements to resell were as follows:

In thousands of PLN	**Carrying amount of receivable***	**Fair value of assets held as collateral**	**Resale dates**	**Resale price**
Loans and other receivables:				
from financial sector	316,086	315,511	To 1 month	316,271

* *including interest*

As at 31 December 2009 assets purchased subject to agreements to resell were as fallows:

In thousands of PLN	**Carrying amount of receivable***	**Fair value of assets held as collateral**	**Resale dates**	**Resale price**
Loans and other receivables:				
from financial sector	980,830	1,086,167	>3 to 6 months	992,981
from financial sector	12,081	12,060	to one month	12,084

* *including interest*

As at 31 December 2010 and 31 December 2009, the Bank held the option to pledge or sell the assets acquired through reverse repo.

In 2010 the total interest income on reverse repurchase agreements was PLN 14,158 thousand (in 2009: PLN 7,328 thousand).

37. 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 in a direct transaction other than a force sale or liquidation – the market price (if available) is its best equivalent.

The summary below provides balance sheet (by category) and fair value information for each asset and liabilities.

As at 31 December 2010

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	*18*	-	-	-	3,206,554	3,206,554	3,206,554
Financial assets held for trading	*19*	3,995,217	-	-	-	3,995,217	3,995,217
Debt securities available for sale	*20*	-	-	13,029,254	-	13,029,254	13,029,254
Capital investment	*21*	-	-	303,165	-	303,165	376,820
Credit, loans and other receivables	*22*	-	13,938,510	-	-	13,938,510	13,969,279
		3,995,517	**13,938,510**	**13,332,419**	**3,206,554**	**34,472,700**	**34,577,124**
Liabilities							
Financial liabilities held for trading	*19*	2,804,437	-	-	-	2,804,437	2,804,437

Financial liabilities valued at amortized cost	*31*	-	-	-	26,943,235	26,943,235	26,944,997
		2,804,437	**-**	**-**	**26,943,235**	**29,747,672**	**29,749,434**

As at 31 December 2009

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	*18*	-	-	-	4,113,355	4,113,355	4,113,355
Financial assets held for trading	*19*	5,372,618	-	-	-	5,372,618	5,372,618
Debt securities available for sale	*20*	-	-	8,290,225	-	8,290,225	8,290,225
Capital investment	*21*	-	-	305,016	-	305,016	378,369
Credit, loans and other receivables	*22*	-	15,940,293	-	-	15,940,293	15,933,904
		5,372,618	**15,940,293**	**8,595,241**	**4,113,355**	**34,021,507**	**34,088,471**
Liabilities							
Liabilities due to Central Bank	*30*	-	-	-	980,446	980,446	980,446
Financial liabilities held for trading	*19*	3,108,493	-	-	-	3,108,493	3,108,493
Financial liabilities valued at amortized cost	*31*	-	-	-	25,761,339	25,761,339	25,759,892
		3,108,493	**-**	**-**	**26,741,785**	**29,850,278**	**29 848 831**

Depending on the method of determining fair value, individual assets or financial liabilities are classified into the following categories:

- Level I: financial assets / liabilities valued directly on the basis of prices quoted in an active market;

- Level II: financial assets / liabilities valued on the basis of a valuation technique based on assumptions, using information from an active market or market-based observations;

- Level III: financial assets / liabilities valued on the basis of valuation techniques using relevant parameters not market-based (credit risk of contractor). For derivatives Bank changed the classification for level III. At 31 December 2010 were presented these transactions, for which the Bank created provision for counterparty credit risk based on the individual analysis At 31 December 2009, the Bank classify level III in addition to derivative transactions for which the provision was created in the collective basis. Accordingly, comparative figures have been converted to appropriate.

The table below presents balance sheet values of instruments measured at fair value, arranged according to above categories:

As at 31 December 2010

In thousand of PLN	*Note*	Level I	Level II	Level III
Assets				
Financial assets held for trading	*19*			
- derivatives		1,313	2,343,019	54,600
- debt securities		1,533,174	63,111	-

In thousand of PLN	*Note*	**Level I**	**Level II**	**Level III**
Debt securities held for trading	*20*	6,870,039	5,994,140	165,075
Liabilities				
Financial liabilities held for trading	*19*			
- short sale of valuable paper		279,344	-	-
- derivatives		1,486	2,523,579	28

As at 31 December 2009

In thousand of PLN	*Note*	**Level I**	**Level II**	**Level III**
Assets				
Financial assets held for trading	*19*			
- derivatives		2,507	2,934,249	160,069
- debt securities		2,275,793	-	-
Debt securities held for trading	*20*	8,236,979	-	53,246
Liabilities				
Financial liabilities held for trading	*19*			
- short sale of valuable paper		10,412	-	-
- derivatives		3,749	3,020,236	74,096

Changes, in 2010, of financial assets and liabilities valuated at fair value using significantinput outside of the market are presented below:

	Financial assets held for trading			Financial assets available-for-sale	**Financial assets in total**	Financial liabilities held for trading
In thousand of PLN	Derivatives	Debt securities	Capital instruments	Debt securities		Derivatives
As at 1 January 2010	**160,069**	**-**	**-**	**53,246**	**213,315**	**74,096**
Increases and decreases in total:						
in income statement	(72,739)	-	-	5,991	(66,748)	(68,618)
in other comprehensive income	-	-	-	338	338	-
Acquisition	-	-	-	457,665	457,665	-
Clearance	(20,291)	-	-	(352,165)	(372,456)	(1,494)
Transfer to receivables	(12,439)	-	-	-	(12,439)	(3,956)
As at 31 December 2010	**54,600**	**-**	**-**	**165,075**	**219,675**	**28**
Increases and decreases in total in the period in the income statement for assets/liabilities held at the end of the period	(11,843)	-	-	921	(10,922)	(1,373)

Increases and decreases in Income statement for period from 1 January 2010 till 31 December 2010 are included in Net income on financial instruments and revaluation in the following manner:

Increases and decreases in total in Income statement for the period	(66,748)	(68,618)
Increases and decreases in total in the period in the income statement for assets/liabilities held at the end of the period	(10,922)	(1,373)

Changes, in 2009, of financial assets and liabilities valuated at fair value using significant input from outside of the market are presented below:

	Financial assets held for trading			Financial assets available-for-sale	**Financial assets in total**	Financial liabilities held for trading
In thousand of PLN	Derivatives	Debt securities	Capital instruments	Debt securities		Derivatives
As at 1 January 2009	**248,909**	**29,250**	**28,000**	**21,929**	**364,088**	**45,417**
Increases and decreases in total:						
in income statement	164,710	7,429	-	4,372	176,511	46,368
in other comprehensive income	-	-	-	(183)	(183)	-
Acquisition	-	36,551,802	-	362,515	36,914,317	-
Clearance	(510,635)	(36,588,481)	(28,000)	(335,387)	(37,462,503)	(25,959)
Transfer to receivables	221,085	-	-	-	221,085	8,270
As at 31 December 2009	**160,069**	**-**	**-**	**53,246**	**213,315**	**74,096**
Increases and decreases in total in the period in the income statement for assets/liabilities possessed at the end of the period	(62,774)	-	-	2,548	(60,226)	73,436

Increases and decreases in Income statement for period from 1 January 2009 till 31 December 2009 are included in Net income on financial instruments and revaluation in the following manner:

Increases and decreases in total in Income statement for the period	176,511	46,368
Increases and decreases in total in the period in the income statement for assets/liabilities possessed at the end of the period	(60,226)	73,436

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 investment

In the case of financial assets in subsidiaries the fair value was presented as the percentage of net assets of an entity that is attributable to the Bank's interests in a given entity. The Bank's Management believes that this is the best available approximation of fair value of such instruments.

The non-controlling shares in the fair value of the items presented adjusted purchase price sheet valuation losses for both unlisted investments and for investments in listed, due to the contractual time limit the possibility of their disposal.

According to Bank's strategy, presented commitment will be gradually reduced, except of selected strategic commitments in infrastructural companies that provide an activity for financial sector. Particular entities will be sold in the most suitable moment that will be a result of market conditions.

In 2010, the Bank has not made a sale of equity investments, whose fair value previously could not be reliably measured.

In 2009 the Bank disposed it's non-controlling shareholding in MTS-CeTO S.A., which in prior periods, the fair value of investment could not be reliably measured. The balance value of sold MTS-CeTO S.A shares amounted PLN 31 thousand and profit on sale amounted PLN 1,440 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 as well as the changes in the Bank’s margins during the financial period.

In particular , these changes in the Bank’s margins on the loans are based on the concluded transactions. Exceptions are retail cash loans, where the maturity profile is determined on the basis of historical analysis of actual repayments of these loans.

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 taking into account current margins.

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 taking into account the Bank’s current margins , in a similar way adopted for the valuation of loans

In the case of outstanding debt instruments (certificates of deposit), the fair value of individual securities is determined as the sum of the current price options (retail purchase price) and the current valuation of the deposit (retail purchase price).

38. Contingent liabilities

Information on pending proceedings

As at 31 December 2010, 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.
The total value of all pending court proceedings involving the Bank or its subsidiaries and related to their receivables exceeded 10% of the Bank’s shareholders’ equity and amounted to PLN 628,108 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.	74,024	In April 2009 – the Court has declared the debtor’s bankruptcy with option of liquidation.	In January 2010 the Bank submitted the receivable of the credit agreements. Case pending.
Creditor: Bank Handlowy w Warszawie S.A.	65,431	On 30 June 2009, the court has declared the debtor’s secondary bankruptcy including liquidation of debtor’s property and has appointed syndic	Court has called creditors for reporting receivables. The Bank’s receivable concerns future transactions. Case pending.

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

As at 31 December 2010 cumulative amount of the Bank's liabilities, from legal proceedings was lower than 10% of the Bank's shareholders' equity.

As at 31 December 2010, the Bank was a party to 26 proceedings regarding derivative transactions where in the 21 proceedings it acted as a defendant and in the 5 as a plaintiff. The claims and allegations in the individual cases against the Bank are based on various legal bases. The subject of the disputes refers mainly to the validity of the derivative transactions and demands for payments by clients with respect to such derivative transactions as well as potential claims regarding invalidation of such demands by means of court decisions. Clients try to prevent the Bank from seeking claims resulting from derivative transactions, they question the validity of the agreements concluded with the Bank, and, in some cases, demand payments from the Bank. As at the day of preparing the financial statements, no final settlements were made before court regarding the derivative transactions proceedings to which the Bank is a party.

The Bank is a party to proceedings initiated by the President of UOKiK against the operators of payment systems Visa Europay, and banks - issuers of Visa and Europay/Eurocard/Mastercard.
This procedure applies to restrictive practices in the payments market by using payment cards in Poland, having to rely on the joint determination of fees "interchange" for transactions made cards of Visa and Europay/Eurocard/Mastercard, as well as limiting access market, operators do not belong to the union card issuers provider against whom proceedings have been initiated in question. On 22 April 2010 Court of Appeals overturned the verdict of SOKiK, sending the case back to the court of first instance. The Bank expects to set a deadline for the session.

The Bank 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	**31.12.2010**	**31.12.2009**
Off-balance sheet commitments granted		
Letters of credit	147,312	136,476
Guarantees granted	1,771,282	1,902,396
Credit lines granted	10,538,673	11,604,890
Guarantees of emissions of valuable papers given to other emitters	359,650	300,000
	12,816,917	**13,943,762**
Letters of credit by categories		
Import letters of credit issued	145,665	128,453
Export letters of credit confirmed	1,647	8,023
	147,312	**136,476**

The Bank makes specific provisions for off-balance sheet commitments. As at 31 December 2010, the specific provisions created for off balance sheet commitments amounted to PLN 10,579 thousand, (31 December 2009: PLN 37,564 thousand).

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	**31.12.2010**	**31.12.2009**
Contingent liabilities received		
Finance	318,701	-
Guarantees	2,769,825	3,231,817
	3,088,526	**3,231,817**

39. Assets pledged as collateral

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

In thousands of PLN	**31.12.2010**	**31.12.2009**
Assets pledged		
Debt securities available-for-sale	111,385	108,763
Credits, loans and other liabilities		
Deposit guarantee operations on derivative instruments	58,962	5,164
	170,347	**113,927**

As at 31 December 2010 and 31 December 2009, the debt securities available for sale presented in the table constituted a reserve against the funds guaranteed to the Bank Guarantee Fund. 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.

40. Trust activities

The Bank is the leader on the market of depositories 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 2010 the Bank maintained 13,602 securities accounts (31 December 2009: 13,401 accounts).

41. Operating leases

Leases where the Bank is the lessee

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

In thousands of PLN	**31.12.2010**	**31.12.2009**
Less than 1 year	48,529	43,626
Between 1 and 5 years	109,915	108,998
More than 5 years	8,330	6,445
	166,774	**159,069**
Total operating leasing rentals for unspecified period of time	**1,583**	**1,596**

The Bank uses cars and office space under operating lease contracts. The most significant lease contracts relate to office space situated in Krakow, street: Grzegórzecka 21 and in Częstochowa, street: Najświętszej Marii Panny 26. Generally the contracts have been signed for 5 years and there is an ability to extend them over the next three years, however some contracts have been signed for period up to 1 year and some for more than 10 years. Lease payments are under one year indexation. The total amount of lease payments in 2010 amounted to PLN 41,316 thousand (in 2009: PLN 47,935 thousand).

The Bank uses cars under operating lease contracts, which were signed with its subsidiary. The contracts have been signed for 4 years. Lease payments are determined at a fixed interest rate for the entire lease period. In 2010 the Bank incurred payments amounting to PLN 6,929 thousand (in 2009: PLN 2,274 thousand).

These payments are presented in the income statement in “General expenses”.

Leases where the Bank is the lessor

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

In thousands of PLN	**31.12.2010**	**31.12.2009**
Less than 1 year	1,387	1,250
Between 1 and 5 years	6,062	3,512
More than 5 years	83	477
	7,532	**5,239**
Total operating leasing rentals for unprescribed time	**1,788**	**1,032**

Part of the Bank's office space and cars is leased operating lease contracts.

Most of the office space lease agreements are signed for an unspecified period of time. Other agreements are signed for a period of between 2 and 10 year. Lease payments are under one year indexation. The income related to these contracts amounted in 2010 to PLN 3,256 thousands (in 2009: PLN 3,992 thousands).

The Bank leases cars under contracts with subordinate entities. Agreements are signed for two years. Lease payments are determined at a fixed interest rate for the entire lease period. The total amount of lease payments in 2010 amounted to PLN 19 thousand (in 2009: PLN 101 thousand).
These payment are presented in income statement in the item "Other operating income"

42. Cash flow statement

Additional information:

In thousands of PLN	**31.12.2010**	**31.12.2009**
Cash related items		
Cash at hand	475,227	478,114
Nostro current account in central bank	2,731,327	3,635,241
Current accounts in other banks (nostro, overdrafts on loro accounts)	94,995	20,034
	3,301,549	**4,133,389**

43. Related parties

Transactions with related parties

Within its normal course of business activities the Bank enters into transactions with related entities, in particular with entities of Citigroup Inc., subsidiaries (see Note No. 21) 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 of the Bank with related parties are concluded at market terms.

Transactions with entities of Citigroup Inc.

The balance sheet and off balance sheet receivables and commitments towards Citigroup Inc. companies are as follows:

In thousands of PLN	**31.12.2010**	**31.12.2009**
Receivables, including:	1,818,554	1,193,713
Placements	*1,721,961*	*1,163,617*
Liabilities, including:	1,666,411	1,030,762
Deposits	*1,379,962*	*11,403*
Balance valuation of derivative transactions		
Trading assets	1,858,531	2,081,387
Trading liabilities	2,121,780	2,619,218
Off-balance sheet guarantee liabilities granted	312,795	226,595
Off-balance sheet guarantee liabilities received	24,524	19,007
Off-balance sheet liabilities in respect of derivative instruments including:	121,339,749	100,091,111
Interest rate instruments	108,855,418	90,797,786
FRA	*40,929,500*	*13,919,000*
Interest rate swaps (IRS)	*56,358,641*	*70,334,884*
Currency – interest rate swaps (CIRS)	*7,426,746*	*4,912,657*
Interest rate options	*816,005*	*827,599*
Future contracts	*3,324,526*	*803,646*
Currency instruments	11,387,763	9,174,229
FX forward	*1,586,634*	*1,879,276*
FX swap	*6,948,605*	*3,600,661*
Foreign exchange options	*2,852,524*	*3,694,292*
Securities transactions	163,639	112,508
Share options	*28,791*	*29,620*
Securities purchased pending delivery	*10,426*	*7,919*
Securities sold pending delivery	*124,422*	*74,969*
Commodity transactions	932,929	6,588
Swaps	*298,961*	-
Options	*633,968*	*6,588*
Interest and commission income in 2010/2009	21,307	38,136
Interest and commission expense in 2010/2009	6,167	15,809

The Bank incurs costs and receives income on derivative transactions with Citigroup Inc's entities to hedge Bank's position in market risk. These derivative transactions are opposite (back to back) to derivative transactions with other Bank's clients to close current FX position of the Bank.
Net balance sheet value of financial derivative transactions as at 31 December 2010 amounted to PLN -263,249 thousand (as at 31 December 2009: PLN -537,831 thousand).

Furthermore the Bank incurs costs and receives income of an operational nature from agreements concluded between Citigroup Inc. entities and the Bank for the provision of mutual services.

The costs arising and accrued in 2010 from concluded agreements amounted in total to PLN 100,727 thousand (in 2009: PLN 121,443 thousand) and related operating expenses of the Bank in particular to the services related to the maintenance of the Bank's information systems and advisory support for the Bank; income in the amount of PLN 54,085 thousand (in 2009: 62,446 thousand) concerning to operating incomes from data processing and other services provided by the Bank.

Transactions with subordinated entities

In thousands of PLN	**31.12.2010**	**31.12.2009**
Loans, advances and other receivables		
Current accounts	**252,157**	**267,100**
Loans, advances and other receivables		
Opening balance	267,100	220,096
Closing balance	252,157	267,100
Deposits		
Current accounts	18,746	13,866
Term deposits	206,089	198,319
	224,835	**212,185**
Deposits		
Opening balance	212,185	231,488
Closing balance	224,835	212,185
Off-balance sheet commitments granted		
Credit lines granted	**204,699**	**176,192**
Interest and commission income in 2010/2009	10,198	9,504
Interest and commission expenses in 2010/2009	7,231	6,816

As at 31 December 2010 and 31 December 2009 any receivables or contingent liabilities of subsidiaries have not been subject to impairment write-offs.

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

In thousands of PLN	**31.12.2010**			**31.12.2009**		
	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	58,236	59	-	72,416	52	-
Staff benefits	25,452	-	-	24,545	-	-
Prepayments	27	-	-	9	-	-
	83,715	**59**	**-**	**96,970**	**52**	**-**
Deposits						
Current accounts	101,323	2,686	4,184	116,803	231	3,689
Term deposits	28,357	500	146	37,583	2,152	1,192
	129,679	**3,186**	**4,331**	**154,386**	**2,383**	**4,881**

At 31 December 2010 and 31 December 2009 transactions with employees, management and supervisory of the Bank did not include guarantees.

44. 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 which equals the expected undiscounted value of short-term benefits for that period, the Bank 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 Bank 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 cyclically verifies the provision.

  The Bank's pension plan is a pre-determined-premium program in accordance with IAS 19. The Bank 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 takes 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.

  The agreement is concluded with an investment fund Legg Mason Senior SFIO which management authority is Legg Mason Towarzystw i Funduszy Inwestycyjnych S.A. Managing investment fund is Legg Mason Zarządzanie Aktywami S.A. (stock part) and Western Asset Management (indebted part) for fund: Bank Handlowy W Warszawie S.A . The transfer agent ie. the entity operating the registry is EPP Participants is Pekao Financial Services Sp. z o.o.

  The basic premium for Plan participants is paid out of the Bank'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 an independent actuary in accordance with IAS 19.

- 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	**31.12.2010**	**31.12.2009**
Provision for remuneration	60,179	57,083
Provision for employees' retirement and jubilee payments	37,691	43,498
Provision for employees' equity compensation	9,920	4,296
	107,790	**104,877**

In 2010, the Bank's expenses in respect of premiums for the employee pension plan amounted to PLN 16,699 thousand (in 2009: PLN 15,121 thousand).

Employment At the Bank:

By vacant	**2010**	**2009**
Mid employment during a year	5,613	5,221
At the end of the year	5,928	5,152

In 2010, employment growth has been within the Bank over the previous year resulted from the expansion of the Bank for operational processes, previously performed by outside companies cooperating with the Bank, in order to further optimize and improve their customer satisfaction.

Description and principles of employee stock benefits

Under the employee stock benefit program, awards in the form of Citigroup stock (so-called Capital Accumulation Program, or CAP) or Citigroup stock options (so-called Stock Ownership Program, or SOP) are offered to selected employees of Citigroup.

Within the framework of the SOP, eligible employees received options to buy stock at the NYSE closing price as at day before 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 in 2009 are transferred partially in 33.33% every year for the next three years, starting from the first anniversary of option acquisition. Options granted in the previous years 2005-2008, were transferred partially in 25% every year, starting from the first anniversary of option acquisition. Employees loss the right to options at the moment of ceasing employment in Citigroup. Options may be exercised by purchase of stocks in the period from the acquisition date of the right to an option to the expiry date of the option.

Within the framework of the CAP, eligible employees receive so-called "deferred shares" of Citigroup. "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. Deferred shares granted during 2007 and 2010 will be transferred partially in 25% every year for the next four years, starting from the first anniversary of the option to 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	13.02.2002	42.11 or 41.90	206	76,147
2	18.01.2005	47.50	3	1,212
3	20.09.2005	45.36	1	1,500
4	17.01.2006	48.92	1	1,538
5	16.01.2007	54.38	1	436
6	22.01.2008	24.45	8	21,180
7	29.10.2009	4.08	207	1,073,676

CAP Program	Grant date	Exercise price/ stock price at grant date	Number of eligible employees	Number of options / shares
1	16.01.2007	40.84 or 54.46	139	19,405
2	20.11.2007	32.00	1	1,172
3	22.01.2008	19.75 or 26.33	174	114,297
4	20.01.2009	4.67	22	208,921
5	19.01.2010	3.52	17	510,575

	Program SOP	Program CAP
Period to acquire the title (in years)	(1) 20% after each of the following years (7) 33.33% after each of the following years (2)-(6) 25% after each of the following years	25% after each of the following years
Expected variances	38.61 %	38.61 %
Life cycle of the instrument	1 year from the moment of rights acquisition	In the moment of rights acquisition
Risk free interest rate (for USD)	1.08 %	1.08 %
Expected dividends (in USD per one share)	0.04	0.04
Probability of premature termination of employment (annual staff turnover for awarded employees)	7 %	7 %
Fair value of one instrument* (in USD)	0.00 – 1.45	4.73

** Varies depending on the date of exercise*

Options – volumes and weighted-average strike prices:

	31.12.2010		31.12.2009	
	Number	Weighted average strike price	Number	Weighted average strike price
At the beginning of the period	1,275,230	8.47	259,274	38.93
Allocated in the period	-	-	1,121,762	4.08
Redeemed in the period	8,354	4.08	-	-
Expired in the period	91,188	-	105,806	-
At the end of the period	1,175,688	7.08	1,275,230	8.47
Exercisable at the end of the period	440,334	11.60	159,693	43.50

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

31.12.2010			31.12.2009		
Striking price range (in USD)	Number (in thousand of pieces)	Weighted average period to the end of life cycle (in years)	Striking price range (in USD)	Number (in thousand of pieces)	Weighted average period to the end of life cycle (in years)
41.90	0.81	-	41.90	0.81	0.00
42.11	75.33	-	42.11	76.73	0.00
-	-	-	49.5	39.51	0.00
47.5	1.21	-	47.5	1.45	0.05
45.36	1.50	-	45.36	1.50	0.72
48.92	1.54	0.05	48.92	1.54	0.55
54.38	0.44	0.55	54.38	0.44	1.05
24.45	21.18	1.05	24.45	31.50	1.55
4.08	1,073.68	1.83	4.08	1,121.76	2.83

Number and weighted-average price of shares are presented below:

	31.12.2010		31.12.2009	
	Number	**Weighted average price of share**	**Number**	**Weighted average price of share**
At the beginning of the period	552,866	14.82	445,634	28.33
Allocated in the period	510,575	3.52	291,944	4.67
Redeemed in the period	209,070	-	184,712	-
At the end of the period	854,371	7.16	552,866	14.82

45. Subsequent events

After 31 December 2010 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 Bank.

46. Risk management

RISK MANAGEMENT STRUCTURE AND PROCESS

The Bank's activities involve analysis, assessment, approval and management of the broad set of risks associated with a business. Such risk management process is performed at different units and levels of the organization and involves among others: credit (including counterparty credit, residual and concentration risks), liquidity risk, market risk and operational risk.

In the risk management area the Supervisory Board of Bank resolves upon:

- approving a strategy of the Bank's activity and the rules of prudent and stable risk management of the Bank,
- approving a general level of the Bank's risk appetite,
- approving the fundamental organizational structure of the Bank, determined by the Bank's Management Board and harmonized with the size and the profile of incurred risk.

Management Board of the Bank by way of a resolution:

- approves the organizational structure of the Bank, which reflects the size and the profile of the risks taken and defines the roles and responsibilities in the area of risk management, that ensures that the functions of risk measurement, monitoring and controls are independent from risk taking activities,
- determines the principles of prudent and stable risk management of the Bank,
- sets general risk appetite levels accepted by the Bank's Supervisory Board.

Processes of credit, market and operational risk management are implemented in Bank based upon written strategies and principles of identification, measurement, mitigation, monitoring, reporting and risk control accepted by the Management Board or appropriately nominated Committees, including the Assets and Liabilities Management Committee (ALCO), the Risk Management Committee with Business Risk and Control and Compliance Commissions (BRCC). The appropriate policies, guidelines and controls are very necessary, but are no substitute for having an appropriate risk culture in Bank.
Management Board of Bank has nominated an independent Chief Risk Officer (CRO) reporting directly to President of Management Board and responsible for the management and control of credit, market and operational risks, and especially for:

- introducing in the Bank the principles of risk management organization, measurement methods as well as credit, market, liquidity and operational risk control systems,
- shaping the risk policy and developing systems for assessing and controlling credit risk, market risk, liquidity and operational risk,
- making credit decisions in compliance with the principles resulting from the credit procedures as

well as documents determining the Bank's credit policy,
- ensuring the proper security level of the credit portfolio,
- managing the problem loans portfolio (including collections and debt restructurings).

The Chief Risk Officer presents organization structure of the Sector to the Management Board of the Bank which takes into account the credit, market, liquidity and operational risk management in the respective customers segments. For this purpose, in the Risk Management Sector the organizational units have been distinguished responsible for:

- managing credit risk of Corporate Bank,
- managing credit risk of Commercial Bank,
- managing credit risk of Consumer Bank,
- managing impaired receivables,
- managing market and liquidity risks,
- managing operational risk,
- supporting risk management.

The independent risk managers are responsible for establishing and implementing risk management policies and practices in the respective businesses, for overseeing the risk in their business, and for responding to the needs and issues of these businesses.

Risk management in the Bank is supported by the IT systems in the following areas:
- obligor and facility credit risk assessment,
- measurement, reporting and monitoring of credit, market, liquidity and operational risk,
- monitoring and reporting of collateral,
- calculation and reporting of credit provisions,
- support of Basel II requirements realization.

Significant Risks

Credit risk including also counterparty credit risk results from the credit exposure or other related to concluding and settling below listed transactions, which is defined as the potential for financial loss resulting from the failure of a borrower or counterparty to honor its financial or contractual obligations either due to insolvency or another event of default. Credit exposure arises in many of the Bank's business activities, called further as "products", including:

- Credits and loans,
- FX and Derivatives transactions,
- Securities transactions,
- Financing and service of settlement transactions, including trade (domestic and foreign),
- Transactions in which the Bank acts as an intermediary on behalf of its clients or other third parties.

The framework set in Credit Risk section of this document covers different types of credit exposure, as defined in relevant Bank's Credit Policies.

Additionally within the risk management frame Bank manages also the **exposure's concentration risk** as well as applies the credit risk mitigation rules (including taking collaterals with limiting the residual risk related to that).

Market risk encompasses liquidity risk and price risk, both of which arise in the normal course of business of a financial intermediary. Liquidity risk is the risk that the Bank, or any of its risk-consolidated subsidiaries, may be unable to meet a financial commitment to a customer, creditor, or investor when due. Price risk is the earnings risk from changes in interest rates, foreign exchange rates, equity and commodity prices, and in their implied volatilities. Price risk arises in non-trading portfolios, as well as in trading portfolios. Market risks are measured in accordance with established standards to ensure consistency across businesses and the ability to aggregate risk.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, or technical systems, or from external events. It includes franchise risks associated with business practices or market conduct. It also includes the risk of failing to comply with applicable laws and internal Bank regulations.
Operational Risk does not cover reputation risk, strategic risks or the risk of loss resulting solely from authorized judgments made with respect to taking credit, market, liquidity or insurance risk.

Financial result risk is defined as variability of financial results that cannot be explicitly attributed to other risks identified by the Bank and covered in the calculation of capital requirements or internal capital..

CREDIT RISK

The main objective of the Bank's credit risk management is to ensure a high quality of credit portfolio and stability of activity by minimizing the risk of incurring credit losses. Credit risk is minimized through relevant Bank's regulations and implemented controls.

Principles of the Credit Risk Management Policy

Independent risk management is responsible for the establishing of the Credit Policy for the Corporate Bank and the Credit Policy for the Commercial Bank, approving other policies and procedures, monitoring business risk management performance, providing ongoing assessment of the credit portfolio and approving of new risk. The rules for approving risk are adjusted based on risk portfolio performance and internal audit results.

For corporate and commercial clients as well as investment banking activities across the organization, the credit process is grounded in a series of fundamental policies, including:

- Joint business and independent risk management responsibility for the quality of credit portfolio and process as well as for costs of credit;
- Adherence to portfolio guidelines to ensure diversification and maintain risk/capital alignment;
- A minimum of two authorized credit approvers with delegated credit authority required on extensions of credit;
- Dependence of approval level from the risk taken - exposures with the higher risk (including size and risk assessment) require approval on the higher decision level;
- Risk rating standards, applicable to every obligor and facility; and consistent standards for credit origination documentation and remedial management;
- Risk ratings derived through using risk rating models and scorecards (scoring);
- Periodic monitoring of customers' results from their activities, and identification of negative changes in their standing which require immediate communication to upper level management;
- Exceptions to policies are approved at higher levels within the organization to ensure control over risk policy implementation by Division and Sector Heads.

Risk management procedures for retail exposures are organized based on the products offered. The policies set the following key elements of risk management:

- Credit policies define customer minimum acceptance criteria (minimum net income, permitted income source, exposure etc), method of evaluation of creditworthiness (multipliers, debt burden, maximum exposure limits etc.), personnel authorized to make credit decisions and limits assigned to personnel, cutoff score used, application verification process, documents required and other criteria;
- The credit policy defines principles for single product unsecured exposure as well as aggregated maximum unsecured exposure by customer. In range of internal limits, admitted are:
  - Credit authority can be given to authorized, trained and experienced staff based upon their professional experience and tested qualifications concerning the risk assessment and making

credit decisions. Credit competences are subject to periodic verification. Results of credit decisions taken by credit analysts are analyzed and relevant revisions of the limits assigned are executed;

- Effectiveness of scorecards used in risk assessment process is monitored on a regular basis by Score Unit with use of population stability reports, KS reports, performance reports by scoreband (delinquencies and losses ratios). Each scorecard has an annual validation process;
- Bank maintains written procedures for each product covering all aspects related to product: legal documentation, pricing, terms and conditions, operational procedures (risk assessment, disbursal, maintenance), accounting, collection process, credit policy rules, identification of impaired exposures and methods for calculation of credit losses, etc.

Each portfolio has annual stress testing performed.

Credit assessment and Risk Rating

The Bank maintains accurate and consistent risk ratings across the corporate credit portfolio facilitates the comparison of credit exposure across all lines of business, geographic regions and products.

Obligor Risk Rating and Obligor Limit Rating are elements of the assessment of credit risk associated with granted products. Obligor Risk Ratings reflect an estimated probability of default for an obligor within 1 year, and are derived primarily through the use of statistical models, external rating agencies, or scoring methodologies. Obligor Limit Rating (OLR) as a measure of medium to long-term risk of the obligor is subject to assessment in terms of qualitative factors including: cyclicality, management, strategy, sustainability, vulnerability to regulatory environment, transparency and quality of control processes.

Facility Risk Ratings are assigned, using the obligor risk rating and facility-level characteristics such as support or collateral, decreasing the potential loss on a facility in case of default. This way Facility Risk Rating reflects a potential expected loss given-default.

Credit Risk is measured at a number of levels, including:
- At a facility level, which may include one or more contracts, disposals or transactions,
- At an obligor level, if there are multiple facilities approved for an obligor where the risk associated with an obligor default can be assessed,
- At a group level, considering the group structure of multiple obligors with common ownership and/or organization,
- At portfolio level where Portfolio Risk Rating is calculated as average rating of individual facility exposure ratings weighted with the size of exposure.

In case of the amount of exposure the measurements method vary from the most simple, such as the value of the asset, to complex, such as estimating potential replacement cost on a derivative contract. The processes required for these measurements also vary considerably, from a simple feed of balances to a complex, multiple simulation engine. With reference to exposures resulting from counterparty credit risk (pre-settlement) for the purpose of risk management the Bank uses PSE measure (Pre-Settlement Exposure), reflecting future potential exposure of the counterparty. PSE reflects maximum expected exposure of the counterparty during the life of the transaction (or transaction portfolio) at the specified confidence level. Mark-to-market distribution and PSE amount are dependent on market factors determining the values for particular transaction in the customer portfolio. In case of lack of sufficient data for simulation of transaction portfolio value, more simplified methods are used, as well as for measurement of exposure for internal capital purposes.

For retail exposures (individuals as well as small and medium enterprises managed on a portfolio/delinquency basis) risk measurement is done by the statistical analysis of the behavior of the whole portfolio or selected group of customers (for instance divided by geographic location, revenues range, score range, job, etc.).

Credit Risk Monitoring

Obligor probability of default is monitored by risk analysts and/or business managers aligned to the obligor.

Credit risk exposure is monitored and managed at two levels: (a) customer or obligor level and (b) portfolio level.

In addition to the various credit reporting processes provided above, risk managers and business representative conduct regular round tables regarding the portolio to review business pipelines and discuss the credit issues.

Dedicated MIS systems allow for detailed analysis credit risk elements (e.g. exposure level, DPD or credit losses level) in various profiles (e.g. customer, credit portfolio, customer segment, product) as per internal reporting.

Risk mitigation

Risk mitigation is constant and key element of Bank credit risk management processes. It is achieved at several levels as described below:

- Target market and customer selection criteria are determined,
- Define the maximum credit exposure against obligor through obligor limits related to customer risk ratings and/or through risk acceptance criteria,
- Robust credit due diligence standards (initial and annual reviews),
- Implement documentation standards,
- Use collateral to minimize the risk and residual risk management,
- Determine expected collateral structure and credit value relation to collateral value,
- Credit monitoring and early warning system,
- Establishment and monitoring of respective limits in order to mitigate exposure concentration risk,
- Active portfolio management by implementation of proper changes in the credit strategy base on portfolio reviews or stress testing.

In case of individual customers the following means to mitigate the risk are used:

- Customers verification in Credit Bureau (BIK),
- Exposure limits on product and customer level,
- Assessment of a customer creditworthiness on a systematic basis with a scorecard,
- Verification of income and employment,
- Controls mitigating frauds,
- Monthly monitoring of the portfolio quality.

Periodic stress tests make possible to identify of susceptibility of portfolios to certain external factors.

MANAGEMENT OF THE IMPAIRED EXPOSURES

The Bank follows a uniform, intrinsic system for classification of accounts receivable against preset criteria. Active management process of portfolio quality includes both assigning proper risk rating and classification to facilities and also adaptation of remedial and vindication actions to facility classification. Assigning the facility risk ratings and classification system are crucial when defining the level of provisions due to impairment.

The Bank used two separate approaches for impaired loans. There is portfolio of loans managed on a

basis of classification (individually assessed) and portfolio managed on a basis of days past due of a loan. The selection depends on the amount of aggregated exposure towards the customer.
For individually assessed accounts, managed on a basis of classification, loans are treated as impaired when there is factual confirmation that an impairment loss has been made. The criteria used by the Group to determine that there is, in a specific case, such evidence include, among others:

- Known solvency difficulties experienced by the borrower,
- Overdue contractual payments,
- Violation of loan covenants,
- The probability that the borrower will enter bankuptcy proceedings.

For delinquency-assessed accounts, loans are considered impaired as soon as specified benchmark of days past due is met.

Risk Management regularly evaluates the adequacy of the established allowance for write-offs on impaired loans.

Classifiably managed Accounts managed on case-by-case analysis

Loss value is determined by the exposure loss, case by case and the following factors are considered:

- Aggregated exposure to the customer,
- The viability of the customer's business model and the capacity to successfully work out their financial difficulties,
- Generating sufficient cash flow to service debt obligations,
- The amount and timing of expected payments,
- The realizable value of security and probability of successful repossession considering all legal risks,
- The expected payments available on bankruptcy or liquidation,
- The possible assumption of any expenses concerned in recovering outstanding amounts,
- When suitable, the market price of the debt.

Bank's policy requires the level of impairment allowances on classifiably managed facilities that are above materiality thresholds to be reviewed at least quarterly. The review includes collateral held and an assessment of actual and anticipated payments.

For loans that are not considered individually significant impairment is calculated on a collective basis, essentially when specified benchmark of days past due is met. A formulaic approach is used which allocates progressively higher percentage loss rates the longer a customer's loan is overdue.

The tables below present direct exposure of the Bank to credit risk, whereas the accounts payable to customers, with established value loss, have been grouped for presentation purposes into risk categories using classification and without impairment has been presented using the internal risk ratings, and the accounts payable. There are also presented the details of provisions made for impaired receivables. The receivables are coordinate with risk categories from I to IV, where I and IA means receivables without impairment, III and IV means receivables with impairment, while receivables with risk category II may be characterized as impaired, however part of them may be treated as receivables without impairment. Exposure without impairment are classified based on risk ratings with value form 1 to 7, where risk category 1 is the best category. In order to define the maximum exposure of the Bank to the credit risk, it is necessary to account also for the off-balance sheet exposure (discussed in Note 38), the debt securities available for sale (discussed in Note 20), the financial assets provided for trading (discussed in Note 19) and other assets (discussed in Note 28).

In thousand PLN	**31.12.2010**		**31.12.2009**	
	Receivables from customers	**Receivables from banks**	**Receivables from customers**	**Receivables from banks**
Receivables with established value loss				
Individually Assessed receivables				
Risk category II	50,800	-	334,164	-
Risk category III	384,170	-	291,340	-
Risk category IV	401,749	-	590,221	-
Gross value	**836,719**	**-**	**1,215,725**	**-**
Impairment	425,900	-	742,976	-
Net value	**410,819**	**-**	**472,749**	**-**
Collectively Assessed receivables				
Risk category II	1,918	-	6,763	-
Risk category III	807	-	4,490	-
Risk category IV, including:	940,479	-	722,841	-
receivables from individuals	*879,030*		*634,356*	
Gross value	**943,204**	**-**	**734,094**	**-**
Impairment	689,023	-	510,771	-
Net value	**254,181**	**-**	**223,323**	**-**
Not impaired receivables				
from corporate clients and banks (exlc. individuals), by risk rating				
Risk rating 1-4	4,425,661	2,179,915	4,917,969	3,330,097
Risk rating 5-6	1,285,158	93,477	1,092,638	148,396
Risk rating 7	216,201	-	349,648	-
Receivables from individuals by delinquency				
0-30 days	5,107,052	-	5,448,834	-
31-90 days	130,053	-	91,151	-
Gross value	**11,164,125**	**2,273,392**	**11,900,240**	**3,478,493**
Impairment	163,514	493	133,746	766
Net value	**11,000,611**	**2,272,899**	**11,766,494**	**3,477,727**
Total net value	**11,665,611**	**2,272,899**	**12,462,566**	**3,477,727**

In thousand PLN	**31.12.2010**		**31.12.2009**	
	Receivables from customers	**Receivables from banks**	**Receivables from customers**	**Receivables from banks**
Impairment value for receivables with established value loss				
Impairment value for receivables assessed individually				
Risk category II	17,916	-	49,537	-
Risk category III	64,192	-	140,301	-
Risk category IV	343,792	-	553,138	-
	425,900	**-**	**742,976**	**-**
Impairment value for receivables assessed collectively				
Risk category II	483	-	939	-
Risk category III	282	-	1,572	-
Risk category IV, including:	688,258	-	508,260	-
receivables from individuals	*649,669*		*446,519*	
	689,023	**-**	**510,771**	**-**

In thousand PLN	**31.12.2010**		**31.12.2009**	
	Receivables from customers	**Receivables from banks**	**Receivables from customers**	**Receivables from banks**
IBNR provisions				
from corporate clients and banks (exlc. individuals), by risk rating				
Risk rating 1-4	1,377	183	1,065	523
Risk rating 5-6	6,171	310	4,857	243
Risk rating 7	8,422	-	11,057	-
receivables from individuals by delinquency				
0-30 days	73,939	-	71,158	-
31-90 days	73,605	-	45,609	-
	163,514	**493**	**133,746**	**766**
Total net value	**1,278,437**	**493**	**1,387,493**	**766**

In thousand PLN	**31.12.2010**	**31.12.2009**
Receivables with incurred but not recognized (IBNR) losses		
Regular receivables		
0-30 days	13,279,467	15,270,303
Overdue receivables		
31-90 days	137,183	92,309
91-180 days	2,169	307
181-365 days	1,228	15,344
Over 366	17,470	470
Gross value	**13,437,517**	**15,378,733**

Reserve cover ratio for Bank's receivables are presented below:

	31.12.2010	**31.12.2009**
Gross value		
Receivables with recognized impairment, including:	1,779,923	1,949,819
Individually estimated receivables	*836,719*	*1,215,725*
Portfolio estimated receivables	*943,204*	*734,094*
Receivables without recognized impairment	13,437,517	15,378,733
Gross value in total	**15,217,440**	**17,328,552**
Impairment		
Receivables with recognized impairment, including:	1,114,923	1,253,747
Individually estimated receivables	*425,900*	*742,976*
Portfolio estimated receivables	*689,023*	*510,771*
Receivables without recognized impairment	164,007	134,512
Impairment in total	**1,278,930**	**1,388,259**
Net value		
Receivables with recognized impairment, including:	665,000	696,072
Individually estimated receivables	*410,819*	*472,749*
Portfolio estimated receivables	*254,181*	*223,323*
Receivables without recognized impairment	13,273,510	15,244,221
Net value in total	**13,938,510**	**15,940,293**
Reserve cover ratio for receivables with recognized impairment	**62.6%**	**64.3%**

At 31 December 2010 without losing the value of receivables include cash loans in the gross amount of PLN 158,743 thousand granted to individuals with up to three months' extension in the repayment of credit (December 31, 2009: PLN 133,842 thousand).

THE POLICIES FOR COLLATERAL AND OTHER RISK MITIGATION ACCEPTANCE

Apart from general rules of risk mitigation, the Bank has defined specific Corporate and Consumer rules of various collateral types, including parent and third party guarantees and similar forms of support (jointly called: collateral). These rules serve to minimize the residual risk associated with collateral.

The additional element limiting this risk is that with reference to financing of companies and individuals, revenues from the customer ongoing business activities being a key element of creditworthiness assessment are the primary repayment source of debt.

In order to diversify risk associated with collateral, the Bank accepts various types and forms from its clients:

- For individual clients the most common type of collateral is residential real estate,
- For companies from corporate and commercial banking the following types of collateral are mainly accepted:

    - Bank/personal/company guarantees,
    - Cash,
    - Various types of Securities,
    - Receivables,
    - Inventory,
    - Real estate,
    - Equipment and machines (including vehicles).

The detailed procedures outlining the types of collateral acceptable to the Bank rules of their establishment and determining their value and risk of separation of a specialist unit responsible for security management process allows for the development of appropriate standards for this process, including e.g.:

- criteria for acceptance and valuation of collateral,
- documentation standards,
- Rules of collateral monitoring process (including inspections)

In addition, Corporate Banking Credit regulations are set such parameters as:

- the structure of the security required for different types of credit claims,
- relationship of the loan to collateral value for each type of security,
- desirable structure of the different types of securities in the portfolio of credit claims.

The Bank periodically checks whether the current structure of the portfolio securities of Corporate Banking is compatible with the objectives and whether the value of the collateral is sufficient.
Within the Corporate Banking the expected value of the loan to collateral value shall be determined in each case by the credit decision. This relationship is also subject to periodic inspection / monitoring.

CONCENTRATION OF EXPOSURE

Bank sets the limits and manages exposures in the way to ensure proper risk diversification in the portfolio. In the frame of credit risk management Bank defines the exposure concentration limits related to the maximum exposure (as per internal reporting):

- against one obligor or capital group of customers,

- against particular industries (based on the US GAAP industry classification),
- in specific foreign currency,
- resulting from transactions generating counterparty credit risk (pre-settlement),
- against capital group of Bank's majority shareholders.

The first two concentrations (against obligor and industries), regarding in particular Corporate and Commercial Bank portfolios, are assessed as the most significant from the risk management point of view.

Bank level concentration limits are approved and monitored on the Bank level according to relevant Policy rules, primarily by the Risk and Capital Management Committee. Credit Risk's and Business's managers define (if it is adequate) detailed, internal concentration limits, control, reporting frequency and rules of approval for excesses and corrective action plans. All excesses of these limits together with the corrective action plan also need to be approved by relevant approver and/or the Committee.

In the process of Bank's exposure management the Bank also monitors the limits defined by the act „Banking Law" and others supervisor resolutions to ensure compliance with these regulations, including determining of additional capital requirement due to these exposures when needed.

Obligor concentration risk

The Bank sets out to limit its exposure to a single customers or capital group of customers. As at 31 December 2010, the Bank's exposure in banking portfolio transactions with the group of customers, which all-in exceeded 10 % of the Bank's equity (defined in next part of the statement), amounted to PLN 1,848,745 thousand i.e. 44.6% of these funds (31 December 2009: PLN 2,885,442 thousand i.e. 71.2%).

Concentration of exposure of 10 biggest non banking customers of the Bank:

In thousand PLN	**31.12.2010**			**31.12.2009**		
	Balance sheet Outstanding*	**Off-Balance sheet Outstanding**	**Total Outstanding**	**Balance sheet Outstanding***	**Off-Balance sheet Outstanding**	**Total Outstanding**
Group 1	572,962	228,113	801,074	284,984	351,906	636,890
Group 2	232,922	336,395	569,318	251,321	312,657	563,978
Group 3	253,504	224,849	478,353	252,989	226,951	479,940
Group 4	251,502	154,190	405,692	266,339	125,780	392,119
Client 5	15,413	348,278	363,691	4,515	144,917	149,432
Client 6	6	327,527	327,533	211,117	102,983	314,100
Client 7	60,903	239,097	300,000	229,803	20,197	250,000
Group 8	250,000	-	250,000	79,523	-	79,523
Group 9	109,611	139,034	248,645	8,590	69,908	78,498
Group 10	30,123	215,746	245,869	53,371	171,922	225,293
Total	**1,776,946**	**2,213,229**	**3,990,175**	**1,642,552**	**1,527,221**	**3,169,773**

**Excluding outstanding on commercial papers and subsidiaries.*

The Banking Act of 29 August 1997 and its executive regulations issued by the Commission for Banking Supervision define maximum exposure limits for a Bank. 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 Bank's equity when one of the entities is a parent entity or subsidiary undertaking of the Bank 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. 382/2008 of the Polish Financial Supervision Authority dated 17 December 2008 regarding specific rules for calculating capital requirements for banking risk categories (…) the Bank 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. 381/2008 of the Polish Financial Supervision Authority dated 17 December 2008 regarding specific rules for other reductions for calculating Bank's primary funds (…).

As at 31 December 2010, the Bank 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 Bank's capital adequacy ratio as at 31 December 2010.

Concentration of exposure in individual industries

To avoid excessive concentration of credit risk, the Bank monitors its exposure in individual industry sectors, defining the areas where the Bank's exposure should grow and the areas where opportunities for development are poor, and where the exposure should be reduced. For this purpose Bank established and monitors the proper industry exposure limits.

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

Sector of the economy according to Polish Classification of Economic Activity (PKD)	**31.12.2010**	**31.12.2009**
	in %	in %
Wholesale and sale on commission basis, except for trade with vehicles and motorcycles	21.6	18.4
Financial intermediation, except for insurance and retirement fund business	11.0	8.4
Production of food and beverages	6.9	6.9
Retail trade, except for trade with vehicles	6.0	7.4
Manufacture and supply of electricity, gas, steam, hot water and air conditioning	5.2	7.7
Wholesale and retail trade of motor vehicles, repair of motor vehicles	4.4	3.6
Production, sale and service of vehicles and motorcycles; retail sale of fuel for car	4.3	1.8
Fabricating of coke, petroleum products and nuclear fuels	3.7	3.5
Telecommunication	3.6	3.5
Construction of buildings	2.4	2.6
Top 10 business sectors	**69.1**	**63.8**
Manufacture of chemicals and chemical products	2.3	3.9
Public administration; Compulsory social insurances and general health insurances	2.2	1.9
Production of metallic goods, except for machines and equipment	2.0	2.4
Manufacture of electric goods	1.9	3.6
Production of goods out of other non-metallic resources	1.8	1.6
Manufacture of rubber and plastic products	1.7	3.5
Activities of head offices, management consultancy activities	1.5	2.8
Organizations and extraterritorial groups	1.1	1.5
Manufacture of computer, electronic and optical	1.1	0.3
Manufacture of basic metal	1.0	0.9
Top 20 business sectors	**85.7**	**86.2**
Other sectors	**14.3**	**13.8**
Total	**100.0**	**100.0**

Although concentration in some industries has changed in comparison with the end of 2009, the overall portfolio concentration remains on similar level.

In thousand PLN		**31.12.2010**	31.12.2009
Gross receivables from customers and banks (by type of activity)			
Gross receivables from economic entity and banks			
Financial		3,099,331	4,938,323
Production		2,271,398	5,454,632
Services		353,334	553,741
Other		3,373,098	3,204,188
		9,097,161	**11,150,884**
Gross receivables from individuals		**6,120,280**	**6,177,668**
	(see note 22)	**15,217,441**	**17,328,552**

Apart from monitoring of current concentration levels against established limits, the Bank monitors also other potential concentrations – geographic and collateral – but due to Bank's portfolio characteristic account there are no limits set for these kinds of concentration.

MARKET RISK

The processes and organization of market risk management

Market risk management encompasses two principal risk areas: liquidity risk and price risk.

Liquidity risk is defined as the risk that the bank may not be able to meet its financial commitments to customers or counterparties when due.

Price risk is the risk of negative impact on the bank's earnings or value of the capital resulting from the changes in market interest rates, foreign exchange rates, and equity prices as well all volatilities of these rates and prices.

The objective of market risk management is to ensure that the extent of price risk accepted within the scope of Bank corresponds to the level acceptable to shareholders and banking supervision authorities, as well as to ensure that all exposures to market risk are properly reflected in the calculated risk measures, communicated to relevant persons and bodies responsible for the management of the Bank.

Market risk management processes performed in the Bank are based on:

- Requirements of Polish regulatory institutions and especially resolutions of thePolish Financial Supervision Authority,
- Rules of prudent and stable management of the Capital Group of Bank Handlowy in Warsaw SA., as well general risk levels approved by Supervisory Board of the Bank,

with the consideration of the best practices used in Citigroup a parent company of the Bank.

The ultimate responsibility for ensuring that the Bank operates under approved market risk exposure limits lies within Management Board of the Bank., and ongoing market risk management is performed by:

- Member of the Management Board of the Bank - Head of the Risk Management Sector,
- Assets and Liabilities Management Committee (ALCO),
- Head of the Market Risk unit,
- Heads of risk taking business units.

Liquidity risk management

Liquidity risk management’s objective is to ensure that the Bank and its subsidiaries have adequate access to liquidity in order to meet all financial obligations as and when due, including under extreme but probable crisis conditions.

Bank analyses and manages the liquidity risk in several time horizons while distinguishing current, short-, medium- and long-term liquidity, for which the appropriate measurement methods and risk mitigants are being applied.

Long-term liquidity management is the responsibility of ALCO and as such it is reflected in the Bank’s strategy. It is based on the balance sheet structural ratios, the long term regulatory liquidity measurements and it embraces the analysis of liquidity gaps, ability to attract in the future sufficient funding sources as well funding costs in the light of the overall business profitability

Medium-term liquidity management, in the one-year time horizon, is the responsibility of ALCO and is based on the process of Annual Funding and Liquidity Plan defining the size of the liquidity limits taking into account the business plans for assets and liabilities changes prepared by business units as part of financial plans for the next budget year.

Short-term liquidity management, in the three-month time horizon, is the responsibility of Treasury Division and is performed based on the short-term regulatory liquidity measures and as well internal limits. In addition Bank analyses the liquidity in stress scenarios, assuming lack of the liquidity gaps in all tenors up to three months , as a necessary but nor sufficient condition.

Current liquidity management is the responsibility of Treasury Division and comprises the management of the balances on our (nostro) accounts with other banks and especially mandatory reserve account with NBP while applying the money market products and central bank facilitates.

Funding and Liquidity Plan

The Head of Bank’s Treasury is responsible for preparing a Funding and Liquidity Plan (the ‘Plan’) for the Bank and obtaining the Bank’s ALCO approval. Once approved by Bank’s ALCO it is then provided for opinions to the Regional Market Risk Manager and the Head of Corporate Finance and Treasury of the Bank. The Plan addresses any funding or liquidity issues resulting from businesses plans especially in the customer deposits and loan portfolios area as defined in annual budgets of particular business entities, as well any material changes in regulatory requirements and market dynamics.

Liquidity risk management tools

Bank measures and manages the liquidity risk by applying both external regulatory and additional internal, liquidity measures.

Internal liquidity risk management tools

In addition to the regulatory liquidity measures Banks applies a set of the following liquidity risk management tools:

- Gap analysis – Market Access Report (MAR),
- Stress scenarios,
- Liquidity ratios,
- Market Triggers,
- Significant Funding Sources,
- Contingency funding Plan.

Stress scenarios

Stress tests are intended to quantify the likely impact of an event on the balance sheet and the net potential cumulative gap over a 3-month period, and to ascertain what incremental funding may be required under any of the defined Stress Scenarios. These scenarios are proposed by Bank's Treasury and Market Risk and approved by Bank's ALCO.

Bank prepares the stress tests monthly. These scenarios assume material changes in the underlying funding parameters, i.e.:

- Concentration event,
- Long term rating downgrade,
- Short term rating downgrade,
- Local market event.

Contingency Funding Plan

Treasury is responsible for preparation and annual update of 'Contingency Funding Plan', which defines the bank's action plan in case of liquidity stress specifically in cases assumed within liquidity stress scenarios and described in annual "Funding and liquidity plan". Contingency funding plan shall be approved by the country ALCO.

Contingency Funding Plan defines:

- Circumstances / symptoms of contingency liquidity events,
- Roles and responsibilities for executing the action plan,
- Sources of liquidity, and in particular the principals of maintenance of liquid assets portfolio, do be used in the case of liquidity crisis,
- Rules for assets liquidation and balance sheet restructuring,
- Procedures for reassuming the customers confidence,

The levels of the modified gap in financial flows and the level of liquid assets as at 31 December 2010 and 31 December 2009 are shown in the tables below.

The liquidity gap as at 31 December 2010 in real terms:

In thousands of PLN	**Up to 1 month**	**More than 1 to 3 months**	**More than 3 months to 1 year**	**More than 1 year to 2 years**	**More than 2 years**
Assets	10,693,414	-	-	-	26,008,259
Liabilities	7,644,199	206,013	22,768	25,522	28,803,171
Balance sheet gap in the period	3,049,215	(206,013)	(22,768)	(25,522)	(2,794,912)
Off-balance sheet transactions – inflows	5,919,886	3,382,717	7,337,523	1,619,644	7,909,748
Off-balance sheet transactions – outflows	5,675,804	3,339,931	7,423,920	1,641,152	8,254,489
Off-balance sheet gap in the period	244,082	42,786	(86,397)	(21,508)	(344,741)
Cumulative gap	3,293,297	3,130,070	3,020,905	2,973,875	(165,778)

The liquidity gap as at 31 December 2009 in real terms:

In thousands of PLN	**Up to 1 month**	**More than 1 to 3 months**	**More than 3 months to 1 year**	**More than 1 year to 2 years**	**More than 2 years**
Assets	6,299,557	28,325	-	-	30,127,557
Liabilities	5,929,355	92,756	33,902	17,115	30,382,311
Balance sheet gap in the period	370,202	(64,431)	(33,902)	(17,115)	(254,754)
Off-balance sheet transactions – inflows	4,944,449	2,756,244	4,595,154	2,746,778	3,386,494
Off-balance sheet transactions – outflows	4,860,484	2,783,456	4,575,256	2,728,175	3,594,804
Off-balance sheet gap in the period	83,965	(27,212)	19,898	18,603	(208,310)
Cumulative gap	454,167	362,524	348,520	350,008	(113,056)

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

In thousands of PLN	**31.12.2010**	**31.12.2009**	**Change**
Liquid assets, including:	17,519,892	14,358,026	3,161,866
obligatory reserve in NBP and stable part of cash	2,894,352	3,792,008	(897,656)
debt securities held for trade	1,596,286	2,275,793	(679,508)
debt securities available for sale	13,029,254	8,290,225	4,739,029
Cumulative liquidity gap up to 1 year	3,020,905	348,520	2,672,385
Coverage of the gap with liquid assets	Positive gap	Positive gap	Not applicable

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

As at 31 December 2010:

In thousands of PLN	*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	*19*	279,344	279,344	-	-	-	-	-
Financial liabilities valued at amortized cost								
Deposits from financial sector	*31*	6,138,807	5,894,832	198,152	40,847	1,695	594	2,687
Including banks	*31*	*2,845,479*	*2,614,060*	*190,000*	*40,147*	-	-	*1,272*
Deposits from non-financial sector	*31*	20,405,392	19,235,833	680,665	423,775	48,127	11	16,981
Commitments arising from own debt issuance	*31*	11,533	-	-	10,856	673	-	4
Other liabilities	*31*	387,521	227,232	27,810	32,438	65,955	31,865	2,221
		26,943,253	25,357,897	906,627	507,916	116,450	32,470	21,893
Financial liabilities held for trading								
Derivative financial instruments	*19*	2,074,117	46,879	84,789	380,630	1,119,744	442,075	-
Unused credit lines liabilities	*38*	10,538,673	9,849,609	8,670	209,739	294,243	176,412	-
Guarantee lines	*38*	1,771,282	91,782	119,576	1,124,411	398,321	37,192	-
		41,606,669	**35,625,511**	**1,119,662**	**2,222,696**	**1,928,758**	**688,149**	**21,893**
Gross derivatives								
Inflows		25,230,851	5,640,606	3,426,075	7,303,075	6,987,082	1,874,013	
Outflows		25,208,109	5,634,407	3,400,832	7,309,500	6,995,023	1,868,347	
		22,742	**6,199**	**25,243**	**(6,425)**	**(7,941)**	**5,666**	

As at 31 December 2009:

In thousands of PLN	*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	*19*	10,412	10,412	-	-	-	-	-
Financial liabilities valued at amortized cost								
Deposits from financial sector	*31*	4,861,150	4,745,865	69,609	37,202	4,566	-	3,908
Including banks	*31*	*1,631,596*	*1,602,795*	*3,616*	*24,756*	-	-	*429*
Deposits from non-financial sector	*31*	20,547,363	18,859,501	1,164,520	474,948	27,625	58	20,711
Other liabilities	*31*	353,029	176,397	29,176	45,288	1,996	97,707	2,465
		25,761,542	23,781,763	1,263,305	557,438	34,187	97,765	27,084
Financial liabilities held for trading								
Derivative financial instruments	*19*	2,528,856	96,139	171,480	418,153	1,137,079	706,005	-
Unused credit lines liabilities	*38*	11,604,890	11,191,025	2,221	232,763	161,753	17,128	-
Guarantee lines	*38*	1,902,396	112,140	183,577	805,396	765,636	35,647	-
		41,808,096	**35,191,479**	**1,620,583**	**2,013,750**	**2,098,655**	**856,545**	**27,084**
Gross derivatives								
Inflows		17,630,393	4,521,371	2,777,426	3,459,881	4,206,332	2,665,383	
Outflows		17,454,368	4,502,375	2,804,959	3,366,167	4,131,948	2,648,919	
		176,025	**18,996**	**(27,533)**	**93,714**	**74,384**	**16,464**	

Pricing risk management

Scope of risk

The price 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 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 trading portfolio includes as well options, first of all foreign exchange and interest rate options. In this area Banks acts as intermediate i.e. concludes the transaction in a way which ensures concurrent (each time and immediate) conclusion of offsetting transaction with the same parameters, and as consequence the option portfolio is excluded from the computation and monitoring of price risk. The only item related to the conclusion of option transactions which is reflected in price risk measurement, and in particular in the foreign exchange risk, is the option premium being paid / received in a foreign currency.

The banking portfolios include all other balance sheet and off-balance sheet positions not assigned to any of the trading portfolios. The transactions are executed to realize 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 organizational units of the Bank. The mechanism of transfer of the interest rate risk positions is based on the funds transfer price system.

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 with fixed interest rate, 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 minimizing 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. Additionally 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 insensitive for changes of interest rates, included cash, fixed assets, capital, other assets/liabilities;
- 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.

Method of Interest Rate Exposure (IRE), serve for estimation of potential influence specific parallel shift in yield curves of interest rates on interest income from the banking portfolio before tax, which can be gotten in the specific period of time. 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 horizon 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 horizon.

Follow the IRE measures for the Bank valid on 31 December 2010 and 31 December 2009. The list has been broken down into the main currencies, i.e. PLN, USD and EUR, which jointly account for over 90% of the Bank's balance sheet.

In thousands of PLN	**31.12.2010**		**31.12.2009**	
	IRE 12M	IRE 5L	IRE 12M	IRE 5L
PLN	1,427	70,053	(25,017)	30,599
USD	2,206	5,602	4,196	13,497
EUR	4,289	11,073	5,709	9,752

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.

The operations relating to the securities available for sale within the Bank are run by the Asset and Liability Management Bureau, 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 organizational units of the Bank or Bank's entities,
- opening of own interest rate risk positions on the Bank's books by the Treasury Division.

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			Overall between 01.01.2010 and 31.12.2010		
	31.12.2010	**31.12.2009**	**Average**	**Maximum**	**Minimum**
PLN	(1,197)	(1,631)	(1,585)	(2,354)	(1,163)
USD	(72)	-	(107)	(391)	-
EUR	(277)	(180)	(276)	(359)	(171)

The Bank'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.

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 share 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.

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).

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.

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 the Bank runs 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 run records of exposures of the bank portfolios to the pricing risk in twenty one currencies alike for currency positions, and also 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 2010 have been listed in the table below:

in thousands of PLN			**Overall between 01.01.2010 and 31.12.2010**		
	31.12.2010	**31.12.2009**	**Average**	**Maximum**	**Minimum**
PLN	316	(192)	96	552	(281)
EUR	34	54	42	290	(50)
USD	(84)	1	(35)	74	(252)

The average exposure to the interest rates risk, in the year 2010, compared with the year 2009 has decreased by 55%, while the exposures in EUR and USD were higher than the average levels in 2009 and amounted respectively -35 thousand PLN and 42 thousand PLN comparing to -9 thousand PLN and -6 thousand PLN in 2009. What's regarding the maximum position taken by Treasury it was lower than in previous year for domestic currency (i.e. maximum position in PLN was 552 thousand PLN comparing to –655 thousand PLN in 2009) and was higher in other currencies (i.e. in EUR 290 thousand PLN comparing to –184 thousand PLN in 2009).

Over the period, the Treasury Division, which trades financial instruments within the Bank, has continue the strategy of very active managing exposures exposed to FX risk and interest rate 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 2010:

in thousands of PLN	**31.12.2010**	**31.12.2009**	**Overall between 1.01.2010 and 31.12.2010**		
			Average	**Maximum**	**Minimum**
FX risk	1,101	267	2,657	7,691	257
Interest rate risk	3,341	2,703	3,806	7,775	1,167
Overall risk	3,669	2,741	5,009	12,410	1,491

In the year 2010, the overall, average level of the pricing risk of the trading portfolios was much lower than medium level in year 2009 of about PLN 3.5 million, mainly as a result of exposures levels decreasing of FX exposure levels, interest risk position in LCY and lower variability of main market factor. Maximum price risk level gain amount of PLN 12.4 million, compared to amount of PLN 17,6 million in the same period of the year 2009.

Capital instruments risk

Bank in its trading activity is not exposed to price risk of capital instruments. Bank's capital investment portfolio has non-trading nature.

Currency structure

The table below presents currency structure according to base currencies:

31 December 2010

In thousand of PLN	**Balance transaction**		**Off balance transaction**		**Net item**
	Assets	**Liabilities**	**Assets**	**Liabilities**	
EUR	4,700,034	4,422,723	8,564,644	8,703,418	138,537
USD	1,907,368	3,815,166	7,132,875	5,246,971	(21,894)
GBP	625,237	653,454	31,217	3,058	(58)
CHF	313,613	231,692	264,884	355,770	(8,965)
Other currencies	471,789	387,702	826,979	879,375	31,691
	8,018,041	**9,510,737**	**16,820,599**	**15,188,592**	**139,311**

31 December 2009

In thousand of PLN	**Balance transaction**		**Off balance transaction**		**Net item**
	Assets	**Liabilities**	**Assets**	**Liabilities**	
EUR	3,283,498	3,940,901	8,122,778	7,431,004	34,371
USD	1,772,061	2,276,786	3,256,814	2,728,730	23,359
GBP	574,394	614,258	71,514	33,561	(1,911)
CHF	304,654	216,042	183,229	271,488	353
Other currencies	265,220	283,363	1,058,431	1,032,461	7,827
	6,199,827	**7,331,350**	**12,692,766**	**11,497,244**	**63,999**

OPERATIONAL RISK

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people, or technical systems, or from external events. It includes franchise risks associated with business practices or market conduct and reputation risk. It also includes legal and risk of non-compliance with legal and regulatory requirements.

Operational Risk does not cover strategic risks or the risk of loss resulting solely from authorized judgments made with respect to taking credit, market, liquidity or insurance risk.

The principals and approaches to operational risk management in the Bank (including its identification, measurement, minimization, control, monitoring and reporting) are regulated by the "Rules of Prudential and Stable Management of Risk in the Capital Group of Bank Handlowy w Warszawie S.A.", a document adopted and approved by the Bank Management Board and its Supervisory Board respectively.

The Bank's approach to operational risk is described in the Policy for the Operational Risk Management and the Self-assessment Procedure. The objective of this policy is to provide for a consistent and effective process of identification, control, assessment, monitoring, measurement and reporting of operational risk as well as for general effectiveness of the internal audit environment throughout the Bank. Each of the main business segments and every entity of the Group must implement and maintain operational risk management process that is consistent with requirements of the policy.

The risk self-assessment procedure (RCSA) is used for assessment whether the control environment operates effectively. Operational risk reports – presented regularly to appropriate Committees – include data required for monitoring of the Bank's operational risk profile, such as internal and external audit results, self-assessment results (RCSA), key risk indicators (KRIs), operational losses, information and problems relating to business continuity plans data security and capital requirements. Synthetic information on the operational risk profile is passed on to respective Bank Supervisory Board Committees. Due to limited appetite for residual operational risk, the family of operational risks (including the technological, legal, non-compliance, reputational and other risks) is managed through an effective control environment.

The operational risk management process in the Bank is organized in pursuance of the following principles and rules:

- the senior management of the Bank are responsible for management of operational risk in pursuance of the Policy for the Operational Risk Management;
- management of operational risk is based on the following six key elements:
  - risk identification;
  - risk limitation;
  - risk self-assessment (RCSA);
  - risk monitoring;
  - risk measurement; and
  - reporting of the areas exposed to operational risk;
- the processes of risk identification, self-assessment and reporting, in all principal aspects, are uniform and generally adopted by all of the Bank's organizational units;
- the processes of mitigation, monitoring and measurement of risk are set for each and every organizational unit and can differ across those units;
- the processes of calculation and reporting of the regulatory capital requirement on account of operational risk and the statutory reporting are regulated by an order entitled Procedure for Calculation of the Capital Requirement on Account of Operational Risk in accordance with the Standard Method and Reporting Data on Operational Risk.

The role of the Bank Supervisory Board and the Management Board in exercise of oversight in the operational risk area:

- Supervisory Board:
  - the Supervisory Board approves the Bank's strategy and the rules of prudential and stable risk management in the Group, prepared by the Management Board and covering operational risk arising in the course of the Bank's activity, and particularly the general rules of the operational risk management;
  - on the basis of synthetic reports submitted by the Management Board, which define the scale and the types of operational risk the Bank is exposed to, the probability of its occurrence, its consequences and methods of its management, as well as the operational risk profile, the Supervisory Board performs periodic assessments of implementation of the assumptions of the strategy by the Management Board;
  - the Supervisory Board exercises oversight over the control of the operational risk management system and assesses its adequacy and effectiveness. Supervisory Board is supported by Committees for Supervisory Board - Audit Committee and Risk and Capital Committee.
- Management Board
  - the Management Board is responsible for development and implementation of the risk management strategy, including organization and effective functioning of operational risk management process. Management Board sets the policy, rules and procedures of operational risk management, including the entire scope of the Bank's operations. With support of the relevant appointed Committees, the Bank Management Board adopts decisions relating to capital planning and monitoring of capital adequacy and to the adjustments necessary for the purpose of upgrading the systems and processes, in the case of material changes in the level of risk in the Bank's activity, in external economic factors or at identification of substantial irregularities;
  - the Management Board is responsible for the establishment of and changes to the Bank's organizational structures with the aim of adjusting them to the strategy, the risk profile, the market and the regulatory environment;
  - the Management Board is responsible for preparation and presentation to the Supervisory Board of synthetic reports on operational risk;
  - the Management Board ensures disclosure of information enabling assessment of the Bank's approach to operational risk management to the market environment.

Risk and Control Self Assessment process has been implemented for ongoing identification, control, assessment, monitoring, measurement and reporting of quality of the control environment and potential threats. Data on operational risk events' effects (losses) has been regularly collected and monitored for several years.

The Bank manages operational risk using a variety of tools and techniques including policies, procedures, check lists, limits, self-assessment process, , information security tools, contingency planning, automations and centralizations, insurance, and audits.

Risk measurement and control mechanisms

Risk identification, self-assessment and reporting processes, in main aspects, are standardized and generally accepted by all Bank's organizational units.
Risk mitigation, monitoring, and measurement processes are defined by each Business Unit and may differ between Business Units.

Control processes introduced in the Bank mitigate causes, reduce the probability of events' occurrence and minimize the severity of effects. Examples might include segregation of duties, Know Your Customer (KYC) diligence requirements, and employee personal trading policy pre-clearance requirements.

Each Business Unit must establish an appropriate system of controls that are commensurate with the level of operational risk and other risks being managed, including proper documentation of the control procedures and appropriate staff training. Also each Business Unit is required to evaluate the risks that are unacceptable or outside of the Business Unit's risk appetite and determine the appropriate actions for their mitigation or transfer. Each Business Unit must report all material operational risk transfers (e.g., insurance) to the Bank Operational Risk Coordinators, who will inform respective Committee and Commissions.

Additionally, there is periodic assessment of adequacy and effectiveness of controls, which covers testing of the adequacy and effectiveness of the Key Controls, at a frequency commensurate with the underlying risk and frequency of the control (self-assessment), and independent reviews by internal audit. In case of identification of deficiency or an area of uncontrolled risk, the management of the Business Unit is responsible for formulating a corrective action plan to resolve these deficiencies. Completion of corrective actions falls under independent monitoring and control.

Continuity of Business plans, aiming at reduction of operational risk exposure, are prepared according to international standards. Quality of those processes is confirmed with certificate of compliance with norm BS 25 999, issued by UKAS.

The Bank manages compliance risk, which is defined as all and any effects of non-compliance with laws, including international regulations or laws of other jurisdictions which are relevant to the Bank's operation, internal regulations and the Bank's code of conduct. Compliance with laws, internal regulations, corporate regulations, ethical standards and good practice standards is an integral element of professional duties of each employee of the Bank. It is the responsibility of the Bank's Management Board to effectively manage compliance risk, develop a compliance policy, ensure that it is followed and take corrective or disciplinary action, in the event of any irregularities in applying the Bank's compliance policy. Compliance is the Bank's unit, which supports the Bank's Management Board and business units, and monitors the Bank's subsidiaries, to ensure compliance of the Bank's operation with laws, internal standards, regulations and Citigroup policies. Compliance is an independent function, comprising compliance risk identification, assessment, monitoring, testing, reporting and consulting, and ensuring compliance with laws, internal regulations of the Bank, and its conduct and good practice standards. Compliance Department, as the unit accountable for coordination and monitoring of the compliance risk, reviews and assesses the Bank's compliance risk management process on an annual basis, as part of the Annual Compliance Plan, and submits relevant information to the Bank's Management and Supervisory Boards.

Pursuant to legal regulations, the Bank can entrust external entities with performance on behalf and for the benefit of the Bank of intermediation in banking activities on the basis of an agency agreement and of actual activities relating to banking operations (outsourcing). All decisions to entrust the activities relating to banking activity are in the sole discretion of the Bank Management Board. The use of external entities' services enables greater number of customers and clients access to information on the services and products the Bank offers, and provides access to new technological solutions. The Bank intends to use the possibility of entrusting activities relating to banking activity, particularly in the fields of information technology, and in cases where such entrustment is justified by business needs and at the same time does not endanger secure operation of the Bank. As outsourcing delivers not only benefits, but also increased risk, which the Bank can be exposed at, the Bank undertakes actions aimed at limiting that type of risk, particularly through ensuring compliance with legal requirements and internal regulations, effective system of internal control, monitoring of co-operation with external entities, security of processed information and of privileged banking information.

Staffing risk is monitored through indicators and the causes of staff rotation, opinions of the employees, market behavior in the scope of staff remuneration and benefits. The Talent Inventory Review conducted on annual basis constitutes an important part of the Bank's HR policy. The process enables identification of persons critical to respective processes together with their potential replacements, who are being prepared to take over relevant key positions through a cycle of training and development programs. By running of this process, the Bank is able to ensure continuity of staffing of the key positions.

Bank uses corporate insurance program, in order to reduce operational risk exposure. Losses exceeding defined limits are covered by the insurance.

Monitoring and Reporting

Risk and Capital Management Committee, supported by Commissions, is accountable for ongoing monitoring of operational risk. All detected issues, corrective actions, operational events and operational risk indicators are subject of regular reports, submitted to relevant committees. Quality and effectiveness of operational risk management processes (including the self-assessment process) in the respective organizational units of the Capital Group are subject of inspections carried out by the internal audit.

Operational Risk reporting, regularly presented to the respective Committees covers data allowing monitoring of the Bank's operational risk profile:

- Results of internal and external audits,
- RCSA Results,
- KRI – Key Risk Indicators,
- Operational Risk Events (operational losses), also Relation of Losses to Revenues,
- Information about Control Issues and CAPs,
- COB and Information Security – updates and issues,
- Capital requirements,
- Stress Tests.

Operational risk events data is collected through the system, allowing registration of information required for analysis, management and regulatory reporting.

Within the consolidated oversight over Bank's and subsidiaries, operational risk data is presented to Commissions and Committees, supporting Management and Supervisory Board in operational risk management process.

Stress tests

Operational risk stress test are conducted annually, with assumption that frequency could be changed, depending on the results of regular operational risk monitoring.

FINANCIAL RESULT RISK

The risk of financial result is defined as the volatility of financial results, which can not be conclusively attributed to the other risks identified by the Bank and covered in the calculation of capital requirements and internal capital.

The risk is managed by the proper planning including negative political-economic scenarios for the country as well.

The Bank conducts stress tests for the budget, which include impact of stress tests' results for all risks (credit losses, operational losses, etc.) and stress tests' results for the Bank's revenue.

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 6.4 bn. as at 31 December 2010 (as at 31 December 2009 – PLN 6.1 bn.). Regulatory capital, which included increases and decreases set by the Polish Financial Supervision Authority (KNF), amounted to PLN 4.1 bn. (as at 31 December 2009 – PLN 4.1 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.

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.

47. Statement of the Bank's Management Board

Accuracy and fairness of the statements presented

To the best knowledge of the Bank's Management Board, which members are: Mr. Sławomir S. Sikora - President of the Management Board, Mr. Robert Daniel Massem JR - Vice-President of the Management Board ,Mr. Michał H. Mrożek – Vice-President of the Management Board, Mrs. Sonia Wędrychowicz-Horbatowska - Vice-President of the Management Board, Mr. Witold Zieliński - Vice-President of the Management Board and Mrs. Iwona Dudzińska - Member of the Management Board, the annual financial data and the comparative data presented in the "The Annual Financial Statements of Bank Handlowy w Warszawie S.A. as at 31 December 2010" 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 Bank. The Annual Report on Activities of the Management Board contained in this document is a true representation of the development, achievements and situation (together with a description of the main kind risks) of the Bank in 2010.

Selection of the auditor authorized to examine financial statements

The entity authorized to audit financial statements KPMG Audyt Sp. z o.o. Sp. k., has audited "The Annual Financial Statements of Bank Handlowy w Warszawie S.A. as at 31 December 2010", was selected consistently with the legal regulations. KPMG Audyt Sp. z o.o. Sk. K. and the registered auditors auditing the financial statement met the conditions necessary for issuing an impartial and independent auditor's opinion, consistently with the respective regulations of the Polish law.

Signatures of all Management Board Members

09.03.2011	Sławomir S. Sikora	President of the Management Board	
....	....	....	....
Date	Name	Position / function	Signature
09.03.2011	Robert Daniel Massey JR	Vice- President of the Management Board	
....	....	....	....
Date	Name	Position / function	Signature
09.03.2011	Sonia Wędrychowicz-Horbatowska	Vice- President of the Management Board	
....	....	....	....
Date	Name	Position / function	Signature
09.03.2011	Witold Zieliński	Vice- President of the Management Board	
....	....	....	....
Date	Name	Position / function	Signature
09.03.2011	Iwona Dudzińska	Member of the Management Board	
....	....	....	....
Date	Name	Position / function	Signature