TRANSLATION

REPORT ON ACTIVITIES OF BANK HANDLOWY W WARSZAWIE S.A. IN 2010

MARCH 2011

CONTENTS

I. Poland's economy in 2010

1. Main macroeconomic trends

The year 2010 brought about a significant revival of business in Poland. In the first three quarters the Gross Domestic Product grew by 3.6% YOY, i.e. twice as quickly as in the whole year of 2009. The accelerated growth was supported by clear recovery in domestic demand, connected with higher individual consumption dynamics and strengthening investment demand. Manufacturing grew by 9.7% YOY between January and November 2010, supported by the economic recovery in the world, particularly in Germany, which is Poland's main trade partner. The growth rate of euro-denominated exports reached 20.8% YOY in the period of January-October, while imports grew by 22.2% YOY in the same period.

Due to the economic rebound the situation in the labour market improved. Average employment in the enterprise sector grew by 0.7% YOY between January and November, compared with a decline of 1.2% YOY in the whole year of 2009. After a significant increase in the unemployment rate to 13.2% in February, the percentage of people out of work ultimately dropped to about 12.3% in December.

Although domestic demand gradually increased, the inflation rate in 2010 was 2.5% on average, i.e. it stayed close to the Monetary Policy Council's (MPC) inflation target. However, in the second half of the year there were signs of clear strengthening of food and fuel prices dynamics, resulting mainly from higher prices in the global markets. Inflation net of food and energy reached 1.6% YOY on average in 2010, compared to 2.7% YOY in the whole year of 2009.

In 2010 the central bank's basic reference rate was left unchanged at 3.5%. Although the inflation gradually gained pace at the end of 2010, the MPC refrained from monetary tightening on concerns over excess foreign capital inflow and the related risk of the strengthening of the zloty. However, in the final months of 2010 some MPC members started stressing the necessity of higher interest rates. In reaction to the quickly growing excess liquidity in the banking sector, the monetary authorities decided to raise the reserve requirement ratio by 50 bp.

2. Money and forex markets

The eurozone sovereign debt crisis increased the volatility of the Polish currency in 2010. The appreciation of the zloty in the initial months of the year led the National Bank of Poland (NBP) to intervene in the forex market for the first time in a decade, similarly to actions taken by other central banks in the world. Periods of zloty's weakness, on the other hand, created an opportunity for the Ministry of Finance to sell foreign currencies in the market, thus limiting the scale of zloty depreciation. The scale of euro sales in the market increased near the end of the year and as a result the zloty strengthened against the euro at the end of December to the level of 3.9603, compared to 4.1082 in the previous year.

The year 2010 saw a very significant drop in the money market rates. Despite the growing expectations of monetary tightening, the WIBOR3M rate reached 3.95% at the end of December 2010, compared to 4.27% at the end of 2009. Thus the difference between money market rates and the NBP reference rate clearly shrank, reflecting partial normalisation of the conditions in the money market. Lower rates were also influenced by significant growth in excess liquidity within the banking sector, connected with EU funds inflow into Poland.

3. Capital market

The year 2010 in the equity market was composed of two different parts. In the first half of the year, the situation in the capital markets was driven by growing aversion to risky assets on concerns over the financial condition of eurozone countries and the Chinese monetary tightening plans. The following months brought about a strong rebound, mainly due to the quantitative easing in the US and the execution of the support plan for Greece. These activities resulted in record capital inflows, especially to commodity markets and emerging equity markets, including Warsaw Stock Exchange (WSE). Contrary to the previous concerns, high supply of equities generated by the State Treasury – estimated by Dom Maklerski

Banku Handlowego S.A. (DMBH) at PLN 13.9 billion – as well as record value of public offerings (PLN 15.6 billion) did not prevent WSE to generate double-digit growth in the previous year, mainly due to growing equity demand from Open Pension Funds and foreign investors. In the immediate future the domestic equity market may be influenced by the limitation of contributions paid to Open Pension Funds, which will result in reduced stock purchases on the part of this group of investors. On the other hand, more activity on the part of Investment Funds should be expected, as they may receive more inflow to the equity funds (if only caused by transfers from cash and fixed income funds, which seem less attractive considering the expected interest rate hike).

As for the equity index movements in 2010, the best performers were mid-cap companies, whose index recorded a growth of almost 20%. The smallest companies gained a little less (sWIG80 rose by 10.2%), while WIG20 added 14.9%. As for sector specific sub-indices, the best return rates were recorded by chemical companies (+61.1%) and food companies (48.1%). The weakest performers were property developer and IT sub-indices, which retracted 6.5% and 4.6% respectively.

In the past year the WSE main floor floated 34 new companies (including 5 foreign ones). Meanwhile 13 companies were delisted. In total, at the end of the year the primary WSE market listed 400 companies, including 27 foreign ones.

WSE market capitalisation grew by 11% in 2010, to PLN 796.5 billion, of which domestic companies represented PLN 542.7 billion (+29% YOY).

Warsaw Stock Exchange (WSE) Equity Indices, as at 31 December 2010

Index	2010	Change (%)	2009	Change (%)	2008
WIG	47,489.91	18.8%	39,985.99	46.9%	27,228.64
WIG-PL	46,737.15	18.7%	39,372.61	44.9%	27,167.25
WIG20	2,744.17	14.9%	2,388.72	33.5%	1,789.73
mWIG40	2,805.26	19.6%	2,346.14	55.2%	1,511.27
sWIG80	12,219.94	10.2%	11,090.93	61.8%	6,852.79
Sector specific sub-indices					
WIG-Banks	6,921.28	17.9%	5,869.10	33.7%	4,390.90
WIG-Construction	5,400.33	7.4%	5,026.32	16.1%	4,329.98
WIG-Chemicals	5,156.38	61.1%	3,201.34	75.5%	1,823.63
WIG-Developers	2,709.52	(6.5%)	2,897.23	124.8%	1,288.65
WIG-IT	1,221.85	(4.6%)	1,281.06	36.5%	938.77
WIG-Media	3,792.19	25.9%	3,012.68	16.7%	2,580.80
WIG-Fuel industry	3,079.41	26.4%	2,435.46	28.9%	1,889.46
WIG-Food industry	4,536.52	48.1%	3,063.84	126.2%	1,354.52
WIG-Telecommunications	1,271.86	12.7%	1,128.79	1.9%	1,107.33

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

Volumes of trade in shares, bonds and derivative instruments on WSE as at 31 December 2010

	2010	Change (%)	2009	Change (%)	2008
Shares (PLN MM)	473,397	33.3%	355,203	10.8%	320,712
Bonds (PLN MM)	2,855	(3.3%)	2,951	(37.1%)	4,691
Futures contracts (‘000 units)	28,018	4.4%	26,849	9.7%	24,470
Options contracts (‘000 units)	1,350	60.1%	843	29.1%	653

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

In 2010 investor activity increased significantly, resulting in growth of volumes of trade by one-third, to the level of PLN 473.4 billion.

Last year there were no significant changes in the volumes of trade of in the fixed income securities market. During the period investors generated volume of slightly over PLN 2.85 billion, which represents 3.3% drop compared to 2009.

The futures market saw a slight improvement in liquidity. The volume of trade in these instruments increased by 4.4% on an annual basis and exceeded 28 million units.

The options segment, on the other hand, recorded an abrupt increase in investor interest. During the past 12 months trading in these derivative instruments increased by over 60% and amounted to 1.35 million units.

4. Banking sector

The profitability of the Polish banking sector improved considerably in 2010. According to the data of the Polish Financial Supervision Authority (KNF), the net result achieved by the sector reached almost PLN 11.7 billion and was 40% higher than in 2009. The growth in profitability was significantly influenced by the stabilisation of the credit portfolio quality.

Despite continuing global market turbulence, the Polish banking sector is stable (equity of the sector exceeded PLN 116 billion at the end of 2010) and capital adequacy ratios of banks are maintained at safe levels.

Within corporate banking the loan demand was low, which was caused by economic uncertainty and the resulting postponing of investment decisions. As a result the banks' receivables from enterprises decreased by about 2% on an annual basis. The value of corporate deposits, on the other hand, increased by over 10% compared to 2009.

The retail banking segment performed much better as far as volume growth is concerned. The banks' receivables from households grew by almost 14%, mainly on the back of increased housing loan activity. The volume of mortgages for households increased by almost PLN 50 billion (23% YOY) in 2010, partly as a result of the zloty weakening against the Swiss franc. Excluding the effect of exchange rate fluctuations, the mortgage portfolio increased by about 14% YOY. Household deposits also demonstrated positive, double-digit dynamics, which increased by 10% and approached the level of PLN 418 billion.

II. Selected Financial Data of Bank Handlowy w Warszawie S.A.

1. Summary financial data of the Bank

PLN m	**2010**	**2009**
Total assets	36,701.7	36,455.4
Equity	6,422.1	6,134.6
Loans*	10,773.7	10,896.9
Deposits*	20,405.4	20,547.4
Net profit	748.0	525.2
Earnings per ordinary share (in PLN)	5.72	4.02
Dividend per ordinary share (in PLN)	5.72	3.77
Capital adequacy ratio	18.7%	16.8%

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

2. Financial result of the Bank for the year ended 31 December 2010

2.1 Income statement

The Bank's net profit for the year 2010 reached PLN 748.0 million and was PLN 222.9 million or 42.4% higher than a year earlier. Its gross profit for the year 2010 reached PLN 928.2 million, which means an increase of PLN 252.7 million or 37.4% compared to the previous year.

The Bank's operating income in 2010 – which includes net interest and commission income, dividend income, net gains/losses on financial instruments held for trading and their revaluation, net gains/losses on investment debt securities, net gains/losses on equities and net other operating gains/losses – was PLN 31.0 million or 1.2% lower than a year earlier and reached PLN 2,495.1 million.

The income achieved was accompanied by a slight increase in the Bank's operating costs, general administrative expenses and depreciation, by PLN 12.2 million or 0.9% compared to 2009.

Net impairment losses, which amounted to PLN 234.6 million in 2010, compared to PLN 507.7 million in 2009, positively influenced the Bank's net profit (decline of the amount by PLN 273.1 million).

Selected income statement items

PLN '000	2010	2009	Change PLN '000	Change %
Net interest income	1,465,696	1,460,612	5,084	0.3%
Net commission income	599,329	528,360	70,969	13.4%
Dividend income	12,509	17,848	(5,339)	(29.9%)
Net gains on financial instruments held for trading and on revaluation	282,535	275,615	6,920	2.5%
Net gains on investment debt securities	119,921	77,845	42,076	54.1%
Net gains on investment equity securities	3,888	3,437	451	13.1%
Net other operating income	11,172	162,338	(151,166)	(93.1%)
Total income	**2,495,050**	**2,526,055**	**(31,005)**	**(1.2%)**
Overheads and general administrative expenses and depreciation	(1,333,320)	(1,345,564)	12,244	0.9%
Overheads and general administrative expenses	(1,276,558)	(1,271,091)	(5,467)	(0.4%)
Depreciation/amortisation of tangible and intangible fixed assets	(56,762)	(74,473)	17,711	23.8%
Net gains on sale of fixed assets	1,045	2,705	(1,660)	(61.4%)
Net change in impairment losses	(234,561)	(507,695)	273,134	53.8%
Profit before taxation	**928,214**	**675,501**	**252,713**	**37.4%**
Income tax expense	**(180,188)**	**(150,349)**	**(29,839)**	**(19.8%)**
Net profit for the year	**748,026**	**525,152**	**222,874**	**42.4%**

2.1.1 Revenue

Operating income in 2010 reached PLN 2,495.1 million compared to PLN 2,526.1 million in the previous year, representing a decline by 1.2%.

The decrease in income compared to 2009 was mainly caused by a one-off event of settlement of overpaid VAT tax from the years 2005-2008, amounting to PLN 128 million (of which PLN 125 million increased net other operating income and PLN 3 million decreased depreciation). As a result in 2010 there was a decrease in other operating income and costs by PLN 151.2 million or 93.1%. Net of this factor, the Bank achieved an annual income increase by PLN 97.0 million, or 4.0%.

Additionally, the net profit was influenced by:

– increase in net interest income by PLN 5.1 million, or 0.3%, mainly as a result of the growth of income on corporate debt securities (primarily from the portfolio held for trading), in connection with larger securities portfolio held and lowered non-financial sector (mainly retail) deposit costs,

- increase in net commission income by PLN 70.1 million, or 13.4%, mainly due to investment and insurance products in the Commercial Banking segment, commission on custody services and commission on debit and credit card transactions,
- decline in dividend income by PLN 5.3 million, or 29.9%.
- increase in net gains on investment debt securities by PLN 42.1 million, or 54,1%, as a result of active strategy of portfolio management and taking advantage of favourable conditions in fixed income markets.

2.1.2 Expense

PLN '000	2010	2009	Change PLN '000	%
Personnel costs	**638,152**	**622,096**	**16,056**	**2.6%**
General administrative expenses, including:	**638,406**	**648,995**	**(10,589)**	**(1.6%)**
Telecommunication fees and IT hardware	151,562	161,802	(10,240)	(6.3%)
Building maintenance and rent	110,478	127,616	(17,138)	(13.4%)
Advisory, audit, consulting and other external services	88,202	107,241	(19,039)	(17.8%)
Total overheads	**1,276,558**	**1,271,091**	**5,467**	**0.4%**
Depreciation	56,762	74,473	(17,711)	(23.8%)
Total expenses	**1,333,320**	**1,345,564**	**(12,244)**	**(0.9%)**

Throughout the year 2010 the Bank continued to pursue its cost discipline policy. Compared to 2009 expenses were reduced by 0.9%, or PLN 12.2 million. Building maintenance, personnel and consulting costs in the Corporate Bank fell. The decrease of costs in the Retail Banking was driven by decline in building maintenance, IT and consulting costs, as well as optimising the branch network.

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

Net Impairment Losses

PLN '000	2010	2009	Change PLN '000	%
Net impairment losses incurred but not reported (IBNR)	(24,588)	(68,871)	44,283	64.3%
Net impairment losses on loans and off-balance sheet liabilities	(210,848)	(440,017)	229,169	52.1%
accounted for individually	28,906	(249,259)	278,165	111.6%
accounted for collectively, on a portfolio basis	(239,754)	(190,758)	(48,996)	(25.7%)
Impairment of investments	875	1,193	(318)	(26.7%)
Total change in impairment losses	**(234,561)**	**(507,695)**	**273,134**	**(53.8%)**

Total impairment losses of PLN 234.6 million, compared to PLN 507.7 million in 2009, were mainly a result of decreased lending risk driven by economic recovery and improved market situation. This allowed corporate entities to make up for the 2009 losses and improve their creditworthiness, and ultimately write back credit provisions. Although at a smaller scale than in 2009, provisions are still being created in the Retail Banking. The increase in provisions was caused by increased impairment losses incurred but not reported (IBNR) and growing credit portfolio, as well as growing share of irregularly performing receivables.

2.1.4 Ratio analysis

Profitability and cost efficiency ratios

	2010	2009
Return on equity (ROE)*	12.8%	9.3%
Return on assets (ROA)**	2.0%	1.3%
Net interest margin (NIM)***	3.9%	3.7%
Earnings per share in PLN	5.72	4.02
Cost/Income****	53.4%	53.3%

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

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

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

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

The return on equity and return on assets ratios improved significantly in 2010, by 3.5 and 0.7 percentage points respectively. It was a result of a higher net profit and, in the case of ROE, dividend payment for the year 2009.

As for cost efficiency, the Bank's performance slightly deteriorated. The Cost/Income ratio grew by 0.1 p.p. to the level of 53.4%. On the other hand, worth noting is the increase of net interest margin by 0.2 p.p. to the level of 3.9%.

2.2 Balance Sheet

As of 31 December 2010, total assets of the Bank reached PLN 36,701.7 million and were by 0.7% higher than at the end of 2009.

Balance Sheet

	As at		Change	
PLN '000	31.12.2010	31.12.2009	PLN '000	%
ASSETS				
Cash and balances with central bank	3,206,554	4,113,355	(906,801)	(22.0%)
Financial assets held for trading	3,995,217	5,372,618	(1,377,401)	(25.6%)
Debt securities available-for-sale	13,029,254	8,290,225	4,739,029	57.2%
Equity investments	303,165	305,016	(1,851)	(0.6%)
Loans and advances	13,938,510	15,940,293	(2,001,783)	(12.6%)
to financial sector	3,164,818	5,043,395	(1,878,577)	(37.2%)
to non-financial sector	10,773,692	10,896,898	(123,206)	(1.1%)
Property and equipment	431,366	471,103	(39,737)	(8.4%)
land. buildings and equipment	413,058	452,795	(39,737)	(8.8%)
investment property	18,308	18,308	-	-
Intangible assets	1,283,134	1,278,793	4,341	0.3%
Deferred income tax assets	305,253	459,413	(154,160)	(33.6%)
Other assets	199,319	205,077	(5,758)	(2.8%)
Non-current assets available-for-sale	9,901	19,546	(9,645)	(49.3%)
Total assets	**36,701,673**	**36,455,439**	**246,234**	**0.7%**
LIABILITIES				
Liabilities towards the central bank	-	980,446	(980,446)	-
Financial liabilities held for trading	2,804,437	3,108,493	(304,056)	(9.8%)

PLN '000	As at 31.12.2010	31.12.2009	Change PLN '000	%
Financial liabilities valued at amortized cost	26,943,235	25,761,339	1,181,896	4.6%
Deposits from	26,544,190	25,408,506	1,135,684	4.5%
financial sector	6,138,803	4,861,146	1,277,657	26.3%
non-financial sector	20,405,387	20,547,360	(141,973)	(0.7%)
liabilities from own issuance	11,533	-	11,533	-
other liabilities	387,512	352,833	34,679	9.8%
Provisions	32,227	49,527	(17,300)	(34.9%)
Other liabilities	499,682	421,011	78,671	18.7%
Total liabilities	**30,279,581**	**30,320,816**	**(41,235)**	**(0.1%)**
EQUITY				
Issued capital	522,638	522,638	-	-
Share premium	2,944,585	2,944,585	-	-
Revaluation reserve	(44,848)	(81,026)	36,178	44.6%
Other reserves	2,251,691	2,223,274	28,417	1.3%
Retained earnings	748,026	525,152	222,874	42.4%
Total equity	**6,422,092**	**6,134,623**	**287,469**	**4.7%**
Total liabilities and equity	**36,701,673**	**36,455,439**	**246,234**	**0.7%**

2.2.1 Assets

Gross loan receivables*

PLN '000	As at 31.12.2010	31.12.2009	Change PLN '000	%
Banks and other monetary financial institutions	2,273,392	3,478,493	(1,205,101)	(34.6%)
Non-banking financial institutions	913,497	1,587,326	(673,829)	(42.5%)
Non-financial sector entities	5,793,277	5,993,184	(199,907)	(3.3%)
Individuals	6,119,157	6,177,093	(57,936)	(0.9%)
Government units	96,625	86,947	9,678	11.1%
Other receivables	21,492	5,509	15,983	290.1%
Total	**15,217,440**	**17,328,552**	**(2,111,112)**	**(12.2%)**

** Receivables with payable interest*

In 2010 loan receivables portfolio decreased by 12.2% YOY and reached PLN 15,217.4 million. At the end of the year the total of loans to non-financial sector corporate entities amounted to PLN 5,793.3 million, 3.3% lower than at the end of 2009, while the total of loans to individuals amounted to PLN 6,119.2 million, a decrease of 0.9%. Receivables from non-banking financial institutions fell by 42.5%, while receivables from banks and other monetary financial institutions fell by 34.6%. An 11.1% increase was recorded with government units.

Debt securities portfolio increased by PLN 4,059.5 million, or 38.4%, in 2010, remaining the second largest constituent of the Bank's assets.

Debt securities portfolio

	As at		Change	
PLN '000	**31.12.2010**	**31.12.2009**	**PLN '000**	**%**
Treasury bonds	7,807,306	10,471,216	(2,663,910)	(25.4%)
Municipal bonds	-	19,016	(19,016)	-
Treasury bills	23,150	827	22,323	2699.3%
Certificates of deposits and banks' bonds	572,757	40,729	532,028	1306.3%
Issued by non-financial entities	165,075	34,230	130,845	382.3%
Issued by financial entities	63,111	-	63,111	-
NBP bills	5,994,140	-	5,994,140	-
Total	**14,625,539**	**10,566,018**	**4,059,521**	**38.4%**

2.2.2 Liabilities

Financial liabilities valued at amortized cost

	As at		Change	
PLN '000	**31.12.2010**	**31.12.2009**	**PLN '000**	**%**
Due to financial sector including:	**6,136,121**	**4,857,242**	**1,278,879**	**26.3%**
- banks and other monetary financial institutions	2,844,206	1,631,167	1,213,039	74.4%
- due to non-banking financial sector	3,291,915	3,226,075	65,840	2.0%
Due to non-financial sector including:	**20,388,409**	**20,526,652**	**(138,243)**	**(0.7%)**
- corporate clients	12,041,033	10,566,133	1,474,900	14.0%
- individuals	5,705,040	6,322,309	(617,269)	(9.8%)
Other liabilities including accrued interest	**418,705**	**377,445**	**41,260**	**10.9%**
Total	**26,943,235**	**25,761,339**	**1,181,896**	**4.6%**

The key item funding the Bank's assets are liabilities due to non-financial sector clients, which declined slightly in 2010, by PLN 138 million (0.7%). This was caused by the decrease in the balance of deposits from individuals. On the other hand, a 14% increase in liabilities due to corporate clients was recorded. Financial sector deposits also increased (by PLN 1,278.9 million, or 26,3%).

2.2.3 Sources and uses of funds

	As at	
PLN '000	**31.12.2010**	**31.12.2009**
Source of funds		
Funds of banks and other monetary financial institutions	2,958,229	1,773,772
Funds of customers and government units	23,985,006	23,987,567
Own funds with net income	6,422,092	6,134,623
Other external funds	3,336,346	4,559,477
Total source of funds	**36,701,673**	**36,455,439**
Use of funds		
Receivables from banks and other monetary financial institutions	2,272,899	3,477,728
Receivables from customers and government units	11,665,611	12,462,565
Securities, shares and other financial assets	17,327,636	13,967,859
Other uses of funds	5,435,527	6,547,287
Total use of funds	**36,701,673**	**36,455,439**

2.3 Equity and capital adequacy ratio

Compared to 2009, equity of the Bank at the end of 2010 increased by PLN 64.6 million, or 1.2%. The revaluation reserve grew by PLN 36.2 million and the sum of PLN 32.5 from 2009 earnings was added to the general risk reserve.

Equity*

	As at		Change	
PLN '000	**31.12.2010**	**31.12.2009**	**PLN '000**	**%**
Issued capital	522,638	522,638	-	-
Share premium	2,944,585	2,944,585	-	-
Supplementary capital	1,751,402	1,751,337	65	0.0%
Revaluation reserve	(44,848)	(81,026)	36,178	44.6%
General risk reserve	497,500	465,000	32,500	7.0%
Other equity	2,789	6,937	(4,148)	(59.8%)
Total equity	**5,674,066**	**5,609,471**	**64,595**	**1.2%**

**Equity net of net profit/(loss)*

Capital funds are fully sufficient to ensure financial security to the institution and the deposits it accepts, and to ensure its financial growth.

The table below presents financial data needed for calculation of the Bank's capital adequacy ratio.

Capital adequacy ratio

	PLN '000	**31.12.2010***	**31.12.2009****
I	**Own funds for the calculation of capital adequacy ratio, including:**	**4,121,335**	**4,052,236**
	Less in core and supplementary funds		
	- interests in subordinated financial entities	269,784	271,444
	- intangible assets, including	1,283,134	1,278,793
	Goodwill	*1,245,976*	*1,245,976*
II	**Risk-weighted assets and off-balance sheet liabilities (bank portfolio)**	**14,473,850**	**15,922,938**
III	**Total capital requirements, of which:**	**1,760,895**	**1,934,112**
	- credit risk capital requirements (II*8%)	1,157,908	1,273,835
	- counterparty risk capital requirements	98,223	131,142
	- excess concentration and large exposures risks capital requirements	48,073	58,819
	- total market risk capital requirements	74,635	105,615
	- operational risk capital requirements	353,837	333,493
	- other capital requirements	28,219	31,208
	Capital adequacy ratio (I/III*12.5)	**18.72%**	**16.76%**

**Capital Adequacy Ratio calculated according to the rules stated in Resolution No. 76/2010 of the Polish Financial Supervision Authority dated 10 March 2010 regarding the extent and detailed rules of calculation of capital requirements in respect of particular risks (KNF Official Journal No. 2, item 11).*

***Capital Adequacy Ratio calculated according to the rules stated in Resolution No. 380/2008 of the Polish Financial Supervision Authority dated 17 December 2008 regarding the extent and detailed rules of calculation of capital requirements in respect of particular risks (KNF Official Journal No. 8, item 34).*

As at 31 December 2010 the Bank's capital adequacy ratio stood at 18.72% and was 2 percentage points higher than at the end of 2009. This resulted mainly from a 9% decline of the credit risk capital requirement due to lower risk-weighted assets and off-balance sheet liabilities. Own funds remained virtually unchanged.

III. Activities of Bank Handlowy w Warszawie S.A. in 2010

1. Lending and other risk exposures

1.1 Lending

The Bank's lending policy is based on active portfolio management and precisely specified target markets, designed to facilitate exposure and credit risk analysis within a given industry of each client. In addition, individual borrowers are continuously monitored so that any signs of deterioration in creditworthiness can be detected promptly and appropriate corrective measures undertaken as needed. In the year 2010 the Bank continued to optimise its lending process and to adjust its loan offer to the needs of its clients and customers and to the current market conditions. The portfolio of receivables from individual customers is managed with the support of financial models, which provide for risk and profitability of respective loan category groups in the portfolio. The credit risk and scorecard assessment process draws on information of the Credit Information Bureau. In 2010 the Bank adapted its loan policy to the T Recommendation and other recommendations of Financial Supervision Authority.

Lending to non-bank customers, gross

	As at		**Change**	
PLN '000	**31.12.2010**	**31.12.2009**	**PLN '000**	**%**
Loans in PLN	11,360,834	11,535,714	(174,880)	(1.5%)
Loans in foreign currency	1,372,722	1,333,516	39,206	2.9%
Total	**12,733,556**	**12,869,230**	**(135,674)**	**(1.1%)**
Loans to non-financial sector	11,933,926	12,175,786	(241,860)	(2.0%)
Loans to financial sector	703,005	606,497	96,508	15.9%
Loans to public sector	96,625	86,947	9,678	11.1%
Total	**12,733,556**	**12,869,230**	**(135,674)**	**(1.1%)**
Non-financial corporates	5,793,277	5,993,184	(199,907)	(3.3%)
Individuals	6,119,157	6,177,093	(57,936)	(0.9%)
Non-bank financial entities	703,005	606,497	96,508	15.9%
Public entities	96,625	86,947	9,678	11.1%
Other non-financial receivables	21,492	5,509	15,983	290.1%
Total	**12,733,556**	**12,869,230**	**(135,674)**	**(1.1%)**

As at 31 December 2010 gross credit exposure to the non-bank customers sector amounted to PLN 12,733 million, representing a decrease of 1.1% compared to 31 December 2009. The largest part of the non-banking sector loan portfolio are loans to individuals, which recorded a 0.9% decline in 2010, to the level of PLN 6,119 million. Their share in the structure of gross loan receivables remained unchanged.

As at the end of December 2010, the currency structure of loans outstanding changed slightly as compared with the end of 2009. The share of foreign currency loans, which in December 2009 stood at 10.4%, increased to 12.1% by December 2010. Worth underscoring is the fact that the Bank does not grant currency loans to individuals, but only to corporate entities which, in the Bank's opinion, are able to predict or absorb the currency risk without significant threat to their financial position.

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

Concentration of exposures to non-financial borrowers

PLN '000	31.12.2010 Balance-sheet outstanding*	Off-balance sheet outstanding	Total outstanding	31.12.2009 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
CLIENT 4	251,502	154,190	405,692	266,339	125,780	392,119
GROUP 5	15,413	348,278	363,691	4,515	144,917	149,432
GROUP 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
CLIENT 8	250,000	-	250,000	79,523	-	79,523
CLIENT 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 10	**1,776,946**	**2,213,229**	**3,990,175**	**1,642,552**	**1,527,221**	**3,169,773**

**Excluding equity and other securities exposures*

1.2 Loan portfolio quality

All of the Bank's receivables are attributed to two portfolios, depending on the existing risk of their impairment: the portfolio of receivables with not recognized credit losses ("IBNR") and the portfolio of receivables with recognized credit losses. Depending on the materiality of the receivables and the management style, the portfolio with recognized credit losses is then classified into assets accounted for individually or collectively.

The Management Board believes that provisions for receivables represent the best estimate of the actual impairment of the portfolio, taking into account the discounted forecast of future cash flows associated with repayment of the receivables. Moreover, provisions are estimated for each individual receivable, irrespective of their portfolio attribution or the incurred, yet currently unreported losses.

As at 31 December 2010 the impairment of the portfolio was PLN 1,278.4 million, which represented a decline from PLN 1,387.5 million at the end of December 2009. A significant decrease in impairment was recorded on portfolio accounted for individually (PLN 317.1 million decrease compared to December 2009). The group of loans accounted for collectively recorded an increase in impairment of PLN 178.3 million, up 34.9% compared to December 2009. The provision coverage index fell from 10.8% in December 2009 to 10.0% in December 2010, as a result of a slight decrease in loan receivables by nearly PLN 136 million over the same period.

Impairment of the non-bank loan portfolio

PLN '000	As at 31.12.2010	31.12.2009	Change PLN '000	%
Impairment due to incurred but not reported (IBNR) losses	163,514	133,746	29,768	22.3%
Impairment of receivables	1,114,923	1,253,747	(138,824)	(11.1%)
accounted for individually	425,900	742,976	(317,076)	(42.7%)
accounted for collectively, on a portfolio basis	689,023	510,771	178,252	34.9%
Total impairment	**1,278,437**	**1,387,493**	**(109,056)**	**(7.9%)**
Total provision coverage index	10.0%	10.8%		
Provision coverage index for receivables at risk	71.8%	71.2%		

1.3 Off-balance sheet exposures

As at 31 December 2010, off-balance sheet exposures of the Bank amounted to PLN 12,816.9 million, an 8.1% decline compared to 31 December 2009. The largest change related to committed loans, which decreased by PLN 1,066.2 million (9.2%). These loans form the largest part (82.2%) of off-balance sheet exposures. Committed loans consist of committed but currently unutilised credit lines and unutilised current account overdraft facilities.

Off-balance sheet exposures

	As at		**Change**	
PLN '000	**31.12.2010**	**31.12.2009**	**PLN '000**	**%**
Guarantees	1,771,282	1,902,396	(131,114)	(6.9%)
Letters of credit issued	145,665	128,453	17,212	13.4%
Third-party confirmed letters of credit	1,647	8,023	(6,376)	(79.5%)
Committed loans	10,538,673	11,604,890	(1,066,217)	(9.2%)
Underwriting	359,650	300,000	59,650	19.9%
Total	**12,816,917**	**13,943,762**	**(1,126,845)**	**(8.1%)**
Provisions for off-balance sheet liabilities	10,579	37,564	(26,985)	(71.8%)
Provision coverage index	0.08%	0.27%		

As at 31 December 2010 the total amount of collateral established on assets or held on accounts of the Bank's borrowers amounted to PLN 1,825 million whereas as at 31 December 2009 this stood at PLN 2,482 million.

In 2010 the Bank issued 25,362 enforcement titles amounting to the total of PLN 237.4 million, while in 2009 the enforcement titles numbered 27,343 and stood at PLN 378.5 million.

2. External funding

As at 31 December 2010 overall external funds held by the Bank reached PL 26,943.2 million and was PLN 1,181.9 million (4.6%) higher than at the end of year 2009. The external funding changes were mostly influenced by liabilities towards the financial sector, which grew by PLN 1,277.7 million, or 26.3%, as a result of a higher balance of banks' deposits.

External funding

	As at		**Change**	
PLN '000	**31.12.2010**	**31.12.2009**	**PLN '000**	**%**
Due to financial sector	**6,138,803**	**4,861,146**	**1,277,657**	**26.3%**
Funds on current accounts, including:	1,461,817	2,211,344	(749,527)	(33.9%)
- funds on current accounts of banks and other monetary financial institutions	*755,099*	*1,473,433*	*(718,334)*	*(48.8%)*
Deposits, including:	4,674,304	2,645,898	2,028,406	76.7%
- deposits of banks and other monetary financial institutions	*2,089,107*	*157,734*	*1,931,373*	*1224.4%*
Accrued interest	2,682	3,904	(1,222)	(31.3%)
Due to non-financial sector	**20,405,387**	**20,547,360**	**(141,973)**	**(0.7%)**
Funds on current accounts, including:	11,899,958	10,590,802	1,309,156	12.4%
- corporate clients	*5,616,893*	*3,515,976*	*2,100,917*	*59.8%*
- individuals	*4,309,255*	*4,532,587*	*(223,332)*	*(4.9%)*
- budgetary units	*1,973,811*	*1,957,516*	*16,295*	*0.8%*
Deposits, including:	8,488,451	9,935,850	(1,447,399)	(14.6%)
- corporate clients	*6,424,140*	*7,050,157*	*(626,017)*	*(8.9%)*
- individuals	*1,395,785*	*1,789,722*	*(393,937)*	*(22.0%)*
- budgetary units	*668,526*	*690,391*	*(21,865)*	*(3.2%)*
Accrued interest	16,978	20,708	(3,730)	(18.0%)

External funding

PLN '000	As at 31.12.2010	As at 31.12.2009	Change PLN '000	Change %
Own issuance liabilities	**11,533**	**-**	**11,533**	**-**
Other liabilities, including:	**387,512**	**352,833**	**34,679**	**9.8%**
Loans received	95,714	128,962	(33,248)	(25.8%)
Liabilities from securities sold under agreement to repurchase	113,534	-	113,534	-
Other liabilities	176,054	221,452	(45,398)	(20.5%)
Accrued interest	2,210	2,419	(209)	(8.6%)
Total external funding	**26,943,235**	**25,761,339**	**1,181,896**	**4.6%**

The liabilities towards the non-financial sector category recorded an increase in current accounts (growth of PLN 1,309.2 million, or 12.4%), whereas term deposits fell (decrease by PLN 1,447.4 million, or 14.6%).

Liabilities to non-bank customers and clients

PLN '000	As at 31.12.2010	As at 31.12.2009	Change PLN '000	Change %
Liabilities towards:				
Individuals	5,723,827	6,376,765	(652,938)	(10.2%)
Non-financial economic entities	11,718,678	11,291,905	426,773	3.8%
Non-profit institutions	399,470	359,135	40,335	11.2%
Non-bank financial institutions	3,285,543	3,215,138	70,405	2.2%
Public sector	2,642,811	2,649,389	(6,578)	(0.2%)
Other liabilities	74,766	70,627	4,139	5.9%
Total	**23,845,095**	**23,962,959**	**(117,864)**	**(0.5%)**
PLN	19,729,084	19,943,617	(214,533)	(1.1%)
Foreign currency	4,116,011	4,019,342	96,669	2.4%
Total	**23,845,095**	**23,962,959**	**(117,864)**	**(0.5%)**

3. Corporate and Investment Banking

3.1 Transaction services

The Bank offers comprehensive and modern products in the area of trade and transaction services to corporate customers. In parallel with traditional banking services, such as current bank accounts or domestic and international money transfers, it delivers modern liquidity management solutions (Consolidated Account, Cash Pool) as well as mass payments and receivables management products (Speedcollect, Direct Debit, Unikasa).

In transaction handling services the Bank has pursued a strategy which incorporates the priorities of:

– high customer satisfaction,
– innovation, and
– continued efficiency gains.

Implementing the strategy for the years 2010-2012 will allow for increasing customer satisfaction through simplifying documentation and procedures of product servicing. New IT solutions implemented by the Bank will ensure continuous enhancement of its product offer with innovative services. New IT platforms will increase customer comfort and enable process automation. Streamlining product servicing processes and promoting automatic solutions will further increase the efficiency of the Bank's resource use.

As a consequence of the strategy implementation in 2010, the transaction services offer was enhanced with new product solutions. For example, a new kind of factoring, i.e. reverse factoring, corporate cards issued to the foreign currency accounts, settling the credit on corporate cards with direct debit and Mini Escrow – a reserved account suited to the needs of small and medium-sized enterprises. In 2010 the Bank launched the Centre of Bank Product Development in Łódź. The activity of the Centre is aligned with the Bank's strategy of achieving the position of the most innovative financial institution in Poland.

The Bank is a market leader in numerous areas of transaction services – the number of direct debit transaction processed by the Bank is the highest in Poland, the Bank is leader in the pre-paid card market in Poland, the Mikrowpłaty product, dedicated to servicing mass deposits, is a leading solution in the market, and liquidity management products on the Bank's offer are state of the art.

The Bank's transaction services are recognized in the market. An achievement worth mentioning is receiving 3 Europroduct awards. In the 15th edition of the Europroduct competition the Bank received awards for discounted letter of credit, Citi Factoring and Local Government Factoring. The competition is run under patronage of various institutions, including the Ministry of Economy, the Polish Agency for Enterprise Development and the Chancellery of the Prime Minister. Apart from the above, the custodian services of Bank Handlowy w Warszawie S.A. received the Top Rated title in the Leading Clients category, in a survey conducted by Global Custodian, a specialist trade periodical. The Top Rated title is the highest level of distinction in the survey. The award is even more valuable because it was granted in the Leading Clients category, meaning the biggest and most demanding clients. In 2010 the Bank received the Top Rated title for a second time in a row. It should be underlined that in 2010 Global Custodian respondents' answers were even more positive than in 2009.

3.1.1 Transaction servicing

a) Cash management products

- *Deposits and current accounts*

Current account is the basis for full use of the services the Bank offers. One of the key elements of pursuing the Bank's strategy is focusing on acquiring and servicing operating accounts – i.e. bank accounts hosting the crucial part of operational cash flow of their owners. Within the strategy the Bank intensifies activities aimed at strengthening the Bank-client relations. Achieving this goal will be fostered by further improvement of service quality, adapting the product offer to the needs of particular client segments and implementing innovative transaction banking solutions. The tangible result of implementing this strategy is the 20% growth in the number of operating accounts in the period of January-December 2010.

The funds accumulated by the Bank's customers in current accounts may be later used for term deposits. Term deposits allow for more effective use of cash. The Bank's offer incorporates the following types of deposits:

– term deposits – traditional term deposits may be established for any number of days. This provides flexibility in investment planning and setting its optimal time span,
– negotiated deposits – the Bank enables clients holding significant cash surpluses to agree an individual interest rate though telephone orders consisting in direct negotiations with the Bank's representative,
– automatic deposit – after placing an order to create automatic deposits and agreeing the interest rate, the Bank opens an overnight deposit on every working day,
– blocked deposit – enables to secure funds for a beneficiary, which increases business and financial credibility of the client. The product is used to secure less complicated transactions. The reserved account is used for more advanced constructions.

- *Reserved account*

The reserved account is a convenient instrument that makes it possible to secure a transaction to both transaction parties. In times of high volatility and uncertainty in the markets, each trade transaction party aims at maximising the security of transactions. It is a factor that increases the appeal of the reserved account product. The participants in a transaction who apply the reserved account solution sign a three-partite agreement with the bank. Each party is involved in drawing up the agreement by entrusting the funds designated for the execution of the transaction. The user of the product does not have to be the Bank's client and does not have to undergo credit verification.

In 2010 the Bank expanded its offer with the Mini Escrow account. The product is an ideal solution for the small and medium enterprise (SME) sector and its purpose is to secure less complicated transactions. In order to increase the transparency of the reserved account mechanism, a very simple and short contract was created. It enables even more efficient product launch and execution of the transaction.

In 2010 the Bank used the reserved account to secure 44 transactions.

- *Liquidity management products*

Through the application of cash pooling facilities the Bank offers the possibility of optimal cash management to holding companies which are its clients.

The Bank's offer includes the following solutions:

- virtual cash pooling,
- actual cash pooling, and
- actual cash pooling without reverse bookings.

The application of liquidity management facilities enables debt reduction and decreasing its servicing costs without the risk of losing financial liquidity.

- *MicroPayments*

In 2010 the Bank continued to strengthen its position of leadership in the market segment in which it offers the MicroPayments product.

MicroPayments are used by institutions and entities which accept cash deposits from various payers and have the obligation of returning these together with accrued interest. This module supports calculation of historical interest value, in other words, the allocation of interest amounts to respective payer past deposits.

The Bank continues to work on new solutions and new functionalities and it modifies the banking services offered within the MicroPayment service in order to strengthen its position in the currently serviced customer segment and to access new customer groups. Courts and prosecution administrations are the key client segment using that product. The MicroPayment service is also offered to customers outside the public sector – the Bank's solution is an ideal tool for servicing tenders.

b) Electronic banking

CitiDirect is the primary electronic banking system the Bank offers to its corporate clients.

In 2010 the total of 563 new corporate clients were activated in CitiDirect. The number of corporate clients actively using the system stood at almost 5 thousand at the end of 2010. The total number of transactions processed in the CitiDirect e-banking system amounted to slightly over 23.5 million in 2010, which is comparable to the number of transactions processed in 2009.

The share of bank statements delivered to clients in the electronic form only stood at a very high and stable level of 90%, similarly to 2009.

Top quality of service and customer satisfaction is the Bank's priority. In order to achieve this goal the Bank continues work on further development of the platform and increasing customer satisfaction from its operation. In 2010 the Bank started “Customer Academy – CitiDirect” – a programme consisting of periodic training and information sessions concerning electronic banking. In 2010 the users of the CitiDirect platform were enabled to download electronic statements as early as 7.00 a.m. During meetings with the customers the Bank’s representatives individually analysed detailed processes, for which the `CitiDirect platform is used by the customers. As a result of the review of the processes, the Bank’s employees were able to suggest their modification so that the currently unused CitiDirect platform functionalities could be applied to increase the effectiveness of the Bank-customer cooperation.

c) Card products

The Bank occupies the position of indisputable leadership in the pre-paid payment cards market in Poland. In 2010 its share in that market stood at 44%. The product is most frequently used under loyalty, promotional and incentive programmes, as it also serves as an excellent instrument of social benefit distribution. In 2010 the Bank continued to actively promote its pre-paid cards among its corporate clients.

In 2010 the Bank recorded a 15% increase in pre-paid card turnover compared to 2009.

The Bank continues to strengthen its position in the business card segment by ongoing offer development. In 2010 the turnover in the business card segment increased by 8% compared to the previous year.

One of the advantages of the Bank’s business and pre-paid card offer is its largest rebate programme for cards of this type in Poland. Under the rebate programme, business and pre-paid card users may receive discounts up to 50% in over 1.5 thousand sales outlets all over the country.

The Visa Business debit card issued for EUR and USD accounts proved to be highly popular. The introduction of a new functionality resulted in signing a number of contracts with new corporate card clients.

The Bank expanded its offer by adding the possibility of issuing corporate cards with customised graphic design prepared for the client. This offer is directed at companies which are interested in Visa Business charge cards, Visa Business guarantee cards or Visa Business debit cards. Customers interested in such a solution receive auxiliary materials for the preparation of a complete card design and production files.

The Bank also introduced direct debit for Visa Business guarantee cards. The purpose of this new functionality is to streamline the process of the credit card repayment by an employee and executing the payment by its due date. Using the direct debit for guarantee cards is also beneficial for the company because of quicker employee card debt settlement, elimination of charging the company account in the case of default on payment by the users, and simple initiation of the service.

d) Payments and receivables

- *Unikasa*

Unikasa is a brand that enjoys high rates of recognition in the mass payments market. It is a modern product that facilitates servicing of the Bank clients’ receivables while allowing payers settlement of their bills for products and services in the most frequently visited locations, such as hyper- and supermarket chains throughout the country. The Bank’s counterparties can also choose to use the Unikasa Network infrastructure to form their own branded networks. Unikasa is now present in 448 sales outlets in 256 cities throughout Poland.

In 2010 Unikasa was equipped with additional functionality – one can now pay off their credit card debt via the Network. In parallel to enhancing its product offer the Bank has continued to acquire new invoice issuers and new business partners.

In 2010 Unikasa started cooperation with 5 new invoice issuers. In 2010, as a part of the payment network development scheme, the Bank started cooperation with a new partner within the Unikasa White Label model and consequently added 1.4 thousand sales outlets to the network. Due to this initiative the Unikasa service was available in over 1.8 thousand outlets by the end of 2010 (compared to 484 outlets at the end of 2009).

- *Domestic and foreign bank transfers*

The aim of the Bank is to continually improve customers' satisfaction through the highest quality of service. The Bank continues working on automatization of foreign bank transfers, which directly translates into quality and speed of servicing our clients' transfers. The automatic transfer processing module introduced at the turn of 2009 and 2010 is still being improved with new functionalities added.

As a result of the changes introduced, the Bank offered to its customers longer cut off time for foreign transfers via e-banking.

For transactions with VD+1 and VD+2 currency date the hour of 14:30 was changed to 17:00, for foreign transfers with VD+0 currency date the hour of 10:00 was changed to 14:00 (for USD and EUR) and 12:00 (for PLN, CHF and GBP).

As a result of the developments the foreign transfer conditions offered by the bank are the most competitive in the market as far as the range of currencies and cut off times are concerned.

The cut off time for internal domestic transfers delivered via electronic banking was changed as well, and it is now 17:30.

In 2010 the Bank also introduced the possibility of settlement of incoming transactions through the Euro Elixir system.

Due to the changes introduced, in 2010 the Bank recorded an almost 7% increase in processed foreign transactions compared to 2009.

- *Direct Debit*

The Bank provides its clients with comprehensive debt management service. One of the segments of that service market, in which the Bank holds a dominant position, is the Direct Debit market.

In 2010 the Bank executed over 8.5 million Direct Debit transactions as the creditor's bank and thus recorded a medium market share in the volume of Direct Debit processed, amounting to 36%.

- *SpeedCollect*

SpeedCollect is a service that allows automatic booking of receivables. It is an excellent solution for companies with large bases of customers making frequent payments and it makes it possible to manage their counterparties' settlements effectively. The Bank amassed over fifteen years of experience in servicing SpeedCollect. It was the first entity in the Polish market to include a product of this type in its offer. In 2010 the Bank executed nearly 130 million SpeedCollect type transactions, which puts it at the very forefront of the Polish market.

e) Cash products

The Bank provides its clients with comprehensive cash management services. Despite the growing popularity of electronic settlement channels, a large number of transactions continue to be settled in cash. The highest volume of cash transactions serviced by the Bank is generated by customers' over-the-counter deposits. 2010 was a year of dynamic growth in the volume of cash deposited with the Bank by corporate clients. The volume was 10% higher compared to the previous year. A vast majority of over-the-counter deposits (about 98% of the volume) is in a closed form, i.e. it is delivered to the Bank in sealed packages and counted without the client being present.

The Bank offers cash deposits in different variants, suited to the clients' expectations. A new form available within the transaction services is the option of Low Cost Cash, i.e. a deposit in ordered bank bills, with specific quality conditions fulfilled. Cash deposits may be complemented with a range of complementary solutions, such as cash-in-transit, purchase of safe envelopes for depositing cash, electronic document transfer, SpeedCash (SpeedCollect for cash payments), bank vault service and others.

Apart from cash deposits, the Bank's customers also use cash withdrawals – both traditional, over-the-counter withdrawals, and sealed cash packages.

The Bank also provides services designed for a more restricted group of clients, such as substitute counter service or substitute division service, directed at the public sector. Increasingly popular are also the currency purchase and sale services offered to other banks (i.e. providing).

Providing is a service consisting in purchasing or selling domestic or foreign currencies, which the Bank provides to other domestic banks or branches of credit institutions and foreign banks. The service is available over the whole territory of Poland and the client is not required to have an account with the Bank.

f) EU Office

In 2010 the EU Office prepared and started implementing the operation strategy for EU advisory services. The strategy was based on the expected level of resources available within the EU funds for Poland in the years of 2007-2013 and the execution of its current assumptions. The underlying strategy objective for 2010 was to provide the clients with top quality services aligned with the newly introduced service models.

In order to reach the inactive Bank's clients, a campaign using various communication channels was started in the first half of the year. Representatives of the Bank organised direct meetings with the clients and various media were used in the campaign. The EU Office employees took part in numerous meetings with the Bank's clients in its branches in Lublin, Opole, Szczecin, Słupsk and Bydgoszcz. During the meetings the possibilities to obtain EU financing were presented. The clients were also provided with information on potential financing of innovative undertakings. The "Open Days" were aimed mainly at small and medium enterprises. The campaign was effective in the sense of gaining new clients, for whom the EU Office has provided advisory services and prepared application documents.

The EU Office representatives conducted training on general EU issues for clients from the government administration sector. The training generated a very positive reaction from the representatives of the sector. The training focused on how the government administration can apply for the EU financing and how it can be used for courts of laws' investments.

In the second half of the year the activities of the Office were mainly focused on acquiring new clients and further activation of existing Bank's clients. The media and the Internet were used for the campaign as information conduit for the advisory services of the Bank. As a result of the activation process, the EU Office employees reached 411 clients with their offer.

A significant event of 2010 was the Technological Loan offer expansion and adapting it to market conditions. Technological Loan is a relatively novel financial instrument aimed at supporting innovative projects undertaken by clients of small and medium enterprise segment. The Technological Loan concept is that it enables partial repayment of an EU grant provided the obtained funding is used for implementation of new technologies.

In 2010 the Bank signed a contract for co-financing the execution of the project of the Centre of Banking Product Development in Łódź. The EU Office representatives participated in a significant way in the preparation of the contract. The operation of the Centre is aligned with the Bank's strategy of achieving the position of the most innovative financial institution in Poland.

3.1.2 Trade finance products

Trade finance products play a significant role in the Bank's transaction services. The key product in this area is factoring. In 2010 the Bank conducted a marketing campaign under the slogan of "CitiFactoring". The campaign promoted active management of the company's working capital. The campaign resulted in 144 new factoring contracts with the total value of credit limits for newly signed contracts amounting to PLN 219 million. The Bank's factoring turnover increased by 50% in 2010 compared to the previous year. Such high dynamics place the Bank among the top factoring companies in Poland.

In the second half of 2010 the Bank expanded its offer with the introduction of a new factoring solution – reverse factoring. The solution consists in the Bank's payment of client's liabilities, who is a debtor in a trade transaction. The product enables the client to effectively manage working capital (without increasing bank loan) in two ways – in makes it possible to achieve a discount from the supplier and fills the liquidity gap in the period of waiting for the payment from the recipients.

The Bank also expanded its offer with a new solution within the trade finance products – an extension of payment for import letters of credit. The solution enables the client to postpone the payment of the outstanding letter of credit for purchasing domestic and foreign goods without the necessity to change the trade conditions agreed with the supplier. Such a solution becomes possible since the Bank pays the supplier according to the conditions of the letter of credit and agrees to postpone the client's refunding until collecting payment from the final recipients.

Apart from traditional solutions, the Bank boasts high quality of structured trade finance services. Significant events that took place within this area include:

– structured factoring transaction for one of the biggest fuel producers in Poland,
– a solution of supplier financing for a global FMCG company,
– financing debt without recourse for a consortium executing a motorway construction, and
– financing future accounts payable for purchasing "coal bonds" for one of the biggest producers of mining machinery in Poland.

The Bank strives to further increase customer satisfaction from the quality of the services. One of the tools used to achieve this is reducing bureaucracy and simplifying the communications between the clients and the Bank. The activities included launching the InfoTrade helpline operated by the specialists of the Trade Finance Office in Olsztyn. The direct contact between the clients and the teams servicing their transactions considerably simplified and sped up the clarification of current operational issues.

3.1.3 Custody and depositary services

The Bank provides custody services on the basis of Polish regulations and in compliance with international standards for depositary services rendered to investors and intermediaries acting in global securities markets. Thus, the Bank is able to comply with the requirements of the largest and most demanding institutional clients.

In 2010 the Bank has maintained its position of a market leader among depositary banks in Poland. It offers custody services to foreign institutional investors as well as depositary services to domestic financial entities, particularly pension, investment and insurance sector funds.

As part of its statutory activities provided on the basis of a permit of the Securities and Exchange Commission (presently the Polish Financial Supervision Authority), the Bank operates securities accounts, settles securities trades, ensures servicing of dividend and interest payments, performs asset portfolio valuations, provides individual reports and arranges representation of clients at general shareholders meetings of public companies. The Bank also provides the service of maintaining a registry of foreign securities, within which it intermediates in clearing transactions of domestic clients in foreign markets.

In 2010 the Bank maintained its position of a market leader in settlement of securities transactions executed for the benefit of remote members of WSE and of BondSpot S.A. Also, the Bank participated in settlement of transactions executed by institutional clients on the electronic debt securities trading platform operating under the trade name of Treasury BondSpot Poland, organised by BondSpot S.A.

The Bank continued activities aimed at honing the effective legislation regulating the securities market. The Bank's representative chaired: the Council of Depositary Banks at the Polish Bank Association; the Advisory Committee to Krajowy Depozyt Papierów Wartościowych S.A. (National Depository for Securities or NDS); and the Steering Committee for Standards of General Shareholders Meetings. Applying the Bank's human and technical resources, experience and expertise, its representatives, in cooperation with the Polish Financial Supervision Authority, NDS and WSE, actively participated in work on implementing new systemic solutions through the working teams established at the Polish Bank Association.

The custody and depositary services of the Bank received the Top Rated status in the Leading Clients category, in a survey conducted by Global Custodian, a specialist trade periodical.

This survey is the most prestigious and comprehensive study of customer satisfaction with custody services and is conducted annually in over 50 countries. The Top Rated status is the highest possible title that a custodian bank can be awarded within that survey. The award is even more valuable because it was granted in the Leading Clients category, meaning the biggest and most demanding clients among international financial institutions using custody services, which confirms the highest quality of the services offered by the Bank and the effectiveness of the new strategy implemented by the Bank in 2010.

As at 31 December 2010 the Bank serviced 13.6 thousand securities accounts.

At the same time the Bank was the depositary for six Open Pension Funds:

– AMPLICO OFE,
– AVIVA OFE AVIVA BZ WBK ,
– Generali OFE,
– ING OFE,
– Pekao OFE,
– Nordea OFE

and two Employee Pension Funds:

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

The Bank also acted as the depositary of investment funds and subfunds, managed by the following Investment Fund Companies:

– BZ WBK AIB TFI S.A.,
– PKO TFI S.A.,
– PIONEER PEKAO TFI S.A.,
– LEGG MASON TFI S.A.,
– AVIVA INVESTORS POLAND TFI S.A.

3.2 Treasury

The Bank offers a wide range of foreign exchange services addressed to its non-bank clients. The opportunities of investment of funds and managing the currency position, offered by the Bank, meet the expectations of the clients in this area. In 2010 the Bank maintained its leading position in the foreign exchange market in Poland.

The CitiFX Pulse internet platform proved particularly popular among non-bank clients. It is a modern and stable transaction platform that enables the clients to execute various FX transactions and offers a range of currency pairs, settlement deadlines and products. It is a multi-functional system that provides easy access to vast Citi resources through configurable modules. The latest CitiFX Pulse version is an effect of 5 year long cooperation with the clients, thanks to whom the Bank continues its dynamic development. The platform was equipped with new functions meeting the clients’ expectations. Through the platform the clients may read current news from the world and Poland, obtain information on equity and financial markets provided by Reuters, have access to economic analyses and even to the calendar of market events and holidays. Additionally, the clients can use reports and statements that facilitate the analysis of executed transactions and thus enable them to manage their FX exposure in an efficient way.

In 2010 about 65% of clients executing FX transactions actively used the platform, generating turnover exceeding PLN 21 billion. The Bank recorded a 50% increase in revenue from on-line FX transactions compared to the previous year.

In 2010 the clients were also relatively active in the market of complex derivative instruments.

The offer of products designed for hedging against market interest rate risk met the clients' requirements in 2010, which is confirmed by twofold increase of the Bank's revenue from such transactions in comparison with 2009.

The clients were also interested in hedging against unfavourable changes in commodity prices. Revenues from commodity transactions were a few times higher in 2010 than in the previous year.

3.3 Commercial Bank

Through its commercial banking franchise the Bank channels comprehensive financial services to the largest Polish companies, strategic companies with strong growth fundamentals as well as the largest financial institutions and public sector companies.

One common characteristic of the commercial banking clients is their need for advanced financial products and financial services advisory. In that area the Bank provides coordination of investment, treasury and cash management products, and prepares loan offers involving diverse forms of financing. The innovativeness and competitiveness of the novel financing structures on offer come from a combination of local expertise and experience of the Bank and its cooperation within the global Citigroup structure.

The table below presents balances of assets and liabilities in the particular segments in the management view.

Assets

PLN MM	**31.12. 2010**	**31.12. 2009***	**Change**	
			Amount	**%**
Total Commercial Bank	**7,029**	**7,148**	**(119)**	**(2%)**
including:				
SMEs and MMEs	1,007	869	138	16%
Large Enterprises	950	651	299	46%
Public Sector	112	104	8	7%
Global Clients	2,818	2,334	485	21%
Strategic Clients	1,297	1,887	(590)	(31%)

* The comparative data as at 31 December 2009 differ from the data presented in Report on Activities of Bank Handlowy w Warszawie S.A. in 2009 due to a change in the clients segmentation.

Liabilities

PLN MM	**31.12. 2010**	**31.12. 2009***	**Change**	
			Amount	**%**
Total Commercial Bank	**16,947**	**16,515**	**432**	**3%**
including:				
SMEs and MMEs	2,175	1,892	26	1%
Large Enterprises	935	1,113	172	23%
Public Sector	2,958	2,989	(30)	(1%)
Global Clients	7,866	8,129	(320)	(4%)
Strategic Clients	2,940	2,272	651	28%

* The comparative data as at 31 December 2009 differ from the data presented in Report on Activities of Bank Handlowy w Warszawie S.A. in 2009 due to a change in the clients segmentation.

3.3.1 Key initiatives in the Global Clients Segment

The year 2010 brought about an increase in loans granted and the balances on current accounts of the Global Clients segment. There was continued interest in trade finance (factoring), particularly in the area of financing suppliers cooperating with multinational corporations. Due to this the Bank's activity within the area increased, particularly in the retail and fuel sectors.

The Bank arranged a few large transactions, including financing a retail client combined with simultaneous acquisition for the client and a few long term loans for large automotive companies.

Unquestionable success stories include the increase in the value of Open Pension Fund and Investment Fund assets under custody of the Bank and winning a few significant tenders for providing transaction services to clients.

Last year the Bank executed a key Equity Capital Market (ECM) transaction in collaboration with DMBH and launched significant leasing financing in collaboration with Handlowy Leasing, which extended its scope of cooperation with the clients.

At the end of 2010 the Global Clients segment maintained 626 client relations.

3.3.2 Key initiatives in the Strategic Client Segment

In 2010 the Bank signed significant financing contracts for clients from the following sectors: energy, petrochemical, FMCG and telecom, including:

– financing of TAURON Polska Energia S.A. together with 5 Polish banks in the form of bonds amounting to the total of PLN 1.3 billion. The Bank was the Lead Arranger, Issue Agent, Paying Agent, Depositary and Lead Underwriter to the amount of PLN 217 million;
– granting 3-year current account credit to the amount of PLN 200 million to PGE Polska Grupa Energetyczna S.A.;
– financing of a leading telecom company in collaboration with a bank consortium, to the total amount of PLN 2 billion. The bank was the Mandated Joint Lead Arranger, Financing Arranger and Agent for Credit, participating in financing to the amount of PLN 117.7 million;
– financing of a petrochemical company in collaboration with other Polish banks to the total amount of PLN 3 billion. The Bank is the Lead Underwriter to the amount of PLN 450 million;
– financing of an FMCG group in Poland. The Bank is the Financing Arranger, Agent for Credit, Documentation Agent and Collateral Agent and participates in financing to the amount of PLN 214.5 million.

The Bank executed a number of structured derivative transactions in the commodity market (copper, oil, natural gas) and the foreign exchange market with the largest Polish companies in collaboration with Citigroup.

Other success stories included winning a tender for partial financing of working capital in the form of current account credit for a leading energy sector company and executing a significant leasing transaction for a pharmaceutical company.

At the end of 2010 the Strategic Client Segment maintained 47 client relations.

3.3.3 Key initiatives in the Enterprise Segment (SME/MME/PS)

Within the Enterprise Segment, the Bank aimed at rebuilding the position of a relational bank among SME clients. This goal was pursued through activation campaigns concerning working capital, higher account interest rates and lowered transfer fees and operating account as well as through an activation campaign based on 4 solutions (Factoring, CitiFXPulse, EU funds and cash management products) and they will be continued in 2011.

Additionally, the Bank strengthened its position among present and future clients through an image campaign under the slogan of "We are listening to your needs – we are creating solutions" in the press and the media. As a result, 421 Enterprise Segment clients were acquired in 2010, including 138 credit relations. At the end of 2010 the Enterprise Segment serviced over 6,600 clients.

As for enhancing the product offer, the introduction of two new factoring solutions are worth mentioning: factoring with recourse (Citifatoring) and reverse factoring, plus the discounted letter of credit with postponed payment and executing the first financing transactions for coal bonds. All of this was possible due to systematic development of both loan processes and loan offer for the clients of this segment.

In 2010 the bank continued to enhance cooperation with the Public Sector clients, both acquiring new clients and offering increasingly wider range of solutions designed for this market segment.

The acquisition of a client from the group of Territorial Government Units (TGU) – Tarnów Municipal Office – is worth underlining. The full servicing of the municipal budget with over a hundred organisational units was launched in record time, in less than 2 weeks. Additionally, the Bank granted TGU clients further long term investment loans within the Municipal Finance Facility programme signed with Kreditanstalt für Wiederaufbau and the Council of Europe Development Bank.

3.3.4 Key initiatives in the Direct Banking Office

The new Direct Banking Office was launched at the beginning of 2010, which – in line with the accepted strategy – executes the plan of making active those accounts that maintain limited cooperation with the Bank. Remote cooperation methods and standard product offer are also good alternatives for clients with limited banking service needs.

The Direct Banking Office made particular efforts to make the clients active. As a result about 200 clients were activated and the share of income-generating clients in the total portfolio was increased to 58% from 48%.

At the end of 2010 the Direct Banking segment serviced over 2.5 thousand clients.

3.3.5 Key initiatives in Investment Banking

A new Investment Banking team, which started work in mid 2010, managed to participate during the period in a few spectacular transactions in the fast-growing capital market. The undisputable success stories included the participation in two key transactions in collaboration with DMBH: the initial public offering of Warsaw Stock Exchange and accelerated sale of 10% PGE shares designated for sale by the State Treasury.

4. Retail Banking

4.1 Credit cards

At the end of 2010 the total size of the credit card portfolio amounted to 904 thousand, a 14% decline compared to the size of the portfolio at the end of 2009. This change is largely due to the reaction to the financial crisis and tightened credit policy. On the other hand, the Bank focused on increase of credit card customers' activity, which therefore led to an 18% growth in the value of non-cash transactions per card.

In 2010 the Bank developed innovative methods credit card sales. They included the introduction of an immediate process of credit card pressing in a Bank's branch. During one visit to the Branch the client may apply for a credit card, obtain the credit decision and collect a ready-to-use card.

Partner cards made a significant majority of cards acquired in 2010. They amounted to 69% of the total sales, and the share of partner cards in the total portfolio stood at 58%. The most popular cards in 2010 were the Citibank-Plus and Motokarta. The Citibank-Plus card portfolio reached the level of 153 thousand cards. The Citibank-Elle Credit Card portfolio, specially designed for women, amounted to 70 thousand cards at the end of 2010, while the number of Citibank-LOT Credit Cards stood at 49 thousand. Continuing its successful cooperation with BP, the Bank enhanced its offer with the Motokarta card, which enables collecting points in the Payback Programme. Reaching 224 thousand units, Motokarta gained the second-highest share in the portfolio, behind the Citibank-Plus card.

In order to achieve the assumed acquisition level, a number of competitions for sales personnel were conducted, as well as promotions of partner cards (including double or triple amount of loyalty points as a welcome gift, iPod or USB flash memory prizes and 10% reimbursement of fuel cost).

The limited edition Anniversary Card issued in September 2010 to celebrate the 140th anniversary of Bank Handlowy w Warszawie S.A. with the image of one of its first branches proved to be a huge success. Its sale was conducted within a special price offer – exempted from the annual fee. Additionally, in the fourth quarter of 2010 the Bank added the innovative Citibank Municipal Payment Card to its offer. The card provides the client with cheaper fares on public transport in Warsaw and at the same time enables the client to get 1% reimbursement of any non-cash transaction cost.

During the year the Bank actively promoted using credit cards by organising numerous competitions and lotteries. In the January 2010 winter competition the authors of the best slogans promoting the advantages of Citibank Credit Cards were able to win 10 tourist trips to various regions of the world. Also in March and April, within the Beauty&Spa special offer, the Bank promoted the rebate programme for credit card holders in a network of tourist facilities. The Bank's offer was also advertised in a tourist catalogue of the Terra Mare travel agent, available in 600 sales outlets all over the country. On the occasion of the International Children's Day a drawing competition was organised for the children of Citibank Credit Card holders. The winners were awarded with family trips to Disneyland Paris.

During the summer holidays Citibank-Lot and Citibank-Plus Credit Card holders were able to win other attractive prizes and gain double loyalty points within the Miles & More and 5Plus programmes, while the Motokarta card owners were able to gain triple points for fuel within Payback. In mid October the lottery started in which the main prize was the BMW X5 vehicle. In the Christmas period the lottery was enhanced with the possibility of winning attractive shopping vouchers from the Christmas catalogue. Two activation campaigns for clients not using their card were conducted in 2010, resulting in 30% activation in the best group. As a result of the above-mentioned activities, a further increase in credit card transactions was achieved, both in terms of volume and value.

The Citibank Credit Card Rebate Programme continued its intensive development in 2010. The number of sales outlets offering rebates for Citibank Credit Card holders grew by further 900 outlets during the year and at the end of 2010 it reached over 4.7 thousand retail and service outlets all over Poland. The clients may achieve discounts of up to 50%. The rebate programme remains the largest programme of its kind in the Polish market.

4.2 Consumer Bank

4.2.1 Bank Accounts

In 2010 the Bank continued its initiatives aimed at acquiring active customers and increasing activity of the existing customers. The Bank also introduced numerous solutions to increase the quality of service and reduce costs.

In order to increase new client acquisition, in mid-year the Bank introduced a new Table of Fees and Commissions, offering lower prices for individuals opening accounts. The key change consisted in introducing three new personal accounts with free-of-charge cash withdrawal from all ATMs in Poland. The change was made possible due to a significant reduction in cash withdrawal charges, introduced in the second quarter of 2010 by MasterCard. At the same time the aim of the offer was to promote activity – clients who made regular contributions to the account were exempted from account maintenance charges. Additionally, the new Table introduced other charge reductions, such as removing the charge for cash withdrawal in shops (the Cashback service), no charge on internal transfers, irrespective of the channel of execution, or introducing the rule that the first-in-the-month transfer from a savings account, including a currency account, is free of charge.

In 2010 the Bank introduced a range of initiatives that award active clients, i.e. those who make regular contributions to the account (minimum of PLN 1.5 thousand a month) or execute non-cash transactions.

In June 2010 the Bank offered a unique promotion of the Medical Package – the clients were provided free-of-charge, unlimited access to 5 specialist doctors. The special offer of personal accounts for Citibank Credit Card holders was also continued. The Citibank Credit Card holders were provided with the possibility of being exempted from the annual fee on condition that they made regular contributions to the account.

The clients who executed non-cash transactions with their account-linked debit card amounting to the minimum of PLN 500 a month were awarded with a higher Savings Account interest rate of 3.53% (compared to 3.03% in the standard offer).

In order to raise the service quality, the Bank introduced a number of new solutions. In January 2010, in accordance with the recommendation of the Polish Bank Association, the Bank launched the "Account Mobility" service. This service is aimed at facilitating bank change for individual customers in the Polish banking market.

In the second quarter of 2010 the Bank extended its debit card offer for personal account owners with a new MasterCard PayPass card. The new card is equipped with a microprocessor and the PayPass proximity payment facility. The microprocessor protects the data encoded in the card from theft due to which the card fulfils the highest security standards of transactions. Additionally, the PayPass technology enables executing non-cash transactions even faster and easier, as it only requires placing it close to the reader at a sales outlet. Since 4 May 2010 a campaign promoting the new cards has been conducted. Those clients who replaced their former card with the new one and executed transactions in service and retail outlets were able to win 8 trips to New York and 400 cameras.

Beginning from the third quarter of 2010 clients interested in the MasterCard PayPass debit card with a microprocessor can obtain it "on the spot" in a branch of the Bank. The immediate issuance of the card is made possible due to replacing the card pressing equipment in the branches and the banking system software. The purpose of this significant technological change is to increase banking service quality for both new and existing clients, who can receive the card as soon as they open an account. The Bank is the only institution in Poland to offer such a service. At the end of 2010 150,000 proximity cards were issued.

In the third quarter of 2010 the new Contract for Deposit Products was also introduced. Signing this contract by both existing and new clients enables them to launch further products and services via CitiPhone (by telephone) and via the Internet at Citibank Online. The Contract incorporates the contracts for personal account, savings account, deposits, debit card and other payment instruments such as mobile payments. For Clients who are willing to provide the Bank with their e-mail address the contract introduces also the electronic statements and electronic notification of changes to the Bank Accounts Regulations and the Table of Fees and Commissions.

In the fourth quarter of 2010 the Bank added yet another improvement to its offer – a PayPass sticker – a modern way to execute non-cash transactions from the personal account. Additionally, as the first bank in Poland it introduced the Municipal Payment Card, which incorporates two functionalities: that of a Citibank payment card and a Warsaw Municipal Card. This solution was awarded with the "Most Innovative Card of 2010 in Poland" title. In 2010 the Bank issued almost 5 thousand municipal cards.

Through 2010 the Bank continued lowering the interest rates of deposit products in PLN and foreign currencies. The changes in interest rates increased income efficiency from savings accounts and deposits and was an element of the strategy of active interest rate management for the clients.

At the end of 2010 the number of personal accounts stood at 581 thousand, including almost 407 thousand local currency accounts and 174 thousand foreign currency accounts. The number of personal savings accounts stood at 209 thousand at the end of 2010 and the total balance of assets in the accounts was about PLN 2.47 billion (for savings and supersavings accounts), compared to 191 thousand savings accounts with the total balance of PLN 2.99 billion in the same period of 2009.

4.2.2 Credit Products

Cash Loan

In the first half of 2010 the Bank focused its efforts on introducing changes to its product offer which would foster execution of the new strategy of the Bank. In the period between February and May 2010 special loan offers for the *Blue* and *CitiGold* segments were introduced which consisted primarily in modification of the product pricelist.

Active clients from the *Blue* segment who maintain a certain level of deposit and loan relation with the Bank will be able to participate in the “Bonus for Banking” programme, under which the interest rate of a cash loan is lowered depending on the client’s balance on products already used. As for *CitiGold* clients, since May 2010 they have been able to make use of an attractive price offer coupled with additional benefits for clients actively cooperating with the Bank in the area of deposit products.

Between February and April 2010, in response to seasonal client needs, the Bank conducted another edition of “The More You Consolidate, the More You Gain” promotion, within which clients consolidating their liabilities towards other banks under a cash loan would receive a lower loan interest rate, reduced by as much as 2.5 percentage points, depending on the balance of the consolidated liabilities, and if the consolidated amount was higher than PLN 40 thousand – the preparation fee was lowered by 1 percentage point compared to the standard offer. The promotion was supported by an internet campaign, leaflets and posters in the branches of the Bank and dedicated promotional communication to selected clients of the Bank, based on channels such as SMS and IVR, i.e. text and voice messages.

At the end of the second quarter 2010 the programme of proactive retention for a selected group of customers using the cash loan was introduced. The objective of the programme was encouraging clients to strengthen the credit relation with the Bank by increasing the cash loan amount under very favourable conditions. The offer was designed in the following way: the fewer months there were to the termination of the client’s current loan contract, the better pricing conditions were offered.

The purpose of introducing the “Loan with Attractive Interest Rate” promotion in July 2010 was to encourage selected credit card clients to transfer their liabilities from other banks. Under this special consolidation offer the clients were able to receive the nominal interest rate of a loan that was lower by as much a 1 percentage point from the lowest interest rate of their loan with other bank, under the condition of consolidating the liabilities and presenting the contract or other written confirmation of the financial conditions offered by the other bank.

In September 2010 the Bank introduced a particularly attractive offer of a cash loan for active clients of the Bank who owned a personal account and regularly transferred their remuneration to it. Since September 2010 the nominal interest rate of the cash loan was lowered by 3% for each client who made use of the promotional cash loan offer and started transferring their remuneration to an account with the Bank. Additionally, at the beginning of September 2010, in response to a seasonal growth of interest in the Bank’s credit offer, the Bank prepared a promotion for persons seeking large sums of cash loans over the internet channel. Each client who applied for the loan between 1 September and 29 November 2010 over the internet and received a loan of at least PLN 80 thousand could choose one of the prizes – a laptop computer or 0% of the preparation fee for granting the loan.

In the fourth quarter of 2010 the Bank implemented the “You Borrow – You Benefit” programme, directed at a selected group of clients who were using the cash loan product and were interested in using another product. In each month of the programme the clients were presented with a different, attractive price offer and they were able to make use of it via different product distribution channels. Depending on the month, the offer consisted in lowered interest rates, 1% preparation fee as well as non-financial benefits within the free-of-charge Benefit Programme package. The programme lasted from October till the end of December 2010. It proved very popular among the clients and resulted in 20% product sales growth already in the first month.

Credit Line

The Bank perceives its Credit Line as supplement to its active personal account offer, which assists in cultivation of a long term relationship with a customer. In order to acquire the largest possible number of active customers in the second half of 2010 the Bank introduced a simplified procedure for moving a Credit Line from another bank. The offer might be used based on a 6-month credit history under the Credit Line with another bank and valid documents certifying customer’s monthly income.

In the first half of 2010 customers were provided with the opportunity of applying for the Credit Line by telephone and signing credit documents with no need to visit a branch.

In addition, in each quarter of 2010 the Bank offered to increase the Credit Line limit to the current customers on simplified conditions. The offer met with a very positive reception.

In 2010 the Bank continued promotional sales of the Credit Line by wavering of the annual fee in the first year of use of the Credit Line. In addition, in 2010 customers could still benefit from the unique feature offered by the Citibank Credit Line, which consisted in not charging interest on withdrawn credit line funds for every 7 days of each calendar month.

Mortgage Products

In 2010 the Bank continued to implement mortgage products to its credit offer. The mortgage strategy covers 4 main pillars: product, marketing, sale and credit policy. During 2010 the Bank developed its products, thus expanding its credit offer by a housing repair loan and construction financing, and it implemented a price policy based on customer segments per risks.

The main advantage of the mortgage offer is a process, which in 2010 assumed 14 days for loan disbursement from filing complete loan documentation. The Bank was developing product market awareness through marketing actions consisting of two campaigns conducted in the spring and autumn. Besides, the Bank was present in 10 real estate fairs organized all over Poland.

The cooperation with external partners (real estate agencies, developers and local brokers) with whom the Bank concluded almost 500 agreements generating contacts with customer interested in lending, became one of the pillars in the implemented strategy. In November 2010 a central cooperation agreement was signed with one of the largest financial consulting companies in Poland – Expander Advisors Sp. z o.o.

The Bank's sales team was reconstructed to develop the product sales and increase productivity. The credit policy implemented in 2009 was expanded in November 2010. In order to meet market and customer expectations, the policy introduced, among other, the maximum LTV (loan-to-value) level at 90% and the maximum tenor of 35 years.

In 2010 the Bank sold mortgage loans in the total amount of PLN 139 million.

4.2.3 Investment and insurance products

a) Investment products

In 2010 the Bank implemented the requirements of the Markets in Financial Instruments Directive, providing high standards of customer interest protection and transparent rules for financial institutions offering investment products and services.

The Bank continued its efforts to further enhance and diversify its offer of investment funds. At the end of the year the Bank added four new investment fund companies to its offer: Aviva TFI S.A., Allianz TFI S.A., Skarbiec TFI S.A. and Allianz Global Investors, thus increasing the number of investment funds offered by domestic and foreign investment fund companies to 121 at the end of the year.

The Bank also provided customers with a broad range of structured bonds, while keeping its competitive market position. In 2010 the Bank organized 19 subscriptions for structured bonds addressed to CitiGold and CitiGold Select customers. Structured bonds were denominated in Polish zloty (13 subscriptions), in U.S. dollar (5 subscriptions), and in pound sterling and euro (1 subscription of each). Offers were addressed both to customers seeking products with a fixed coupon (with annual yields of 4-5% for bonds in U.S. dollar and pound sterling), and those seeking an indirect exposition to the equity markets – both Polish and foreign, provided that they retained full or conditional capital protection by the Issuer on maturity.

The Bank expanded its offer with a new structured product – Bank Securities in the form of Certificates of Deposit where customers may get a premium dependent on the underlying instrument's behavior. In 2010 the Bank organized three issues of Bank Securities connected with a pair of currencies: EUR and PLN (1 issue) and with WIG20 (2 issues). Bank Securities are a short term offer addressed to all customers of the Bank, they provide 100% capital protection on maturity and are covered by the Bank Guarantee Fund.

The continued Bank its information and promotion campaign on brokerage services provided by the Bank and DMBH. A special offer was prepared in which over a 3-month promotional period the Bank offered a reduced commission fee on orders placed via the DMBH internet platform. In addition, customers deciding to transfer their securities investment to an account opened via the Bank were paid back the cost incurred in connection with such an operation; this in the form of paid back commission fees on the orders placed through the new account.

Bank customers were actively using brokerage services of the Bank during three large public offerings of privatized companies – PZU, TAURON and WSE. Brokerage services offered by the Bank met with a very positive reception, which was reflected in a large number of orders. That added to the improvement of the structure of the whole portfolio of Customers using brokerage services of the Bank and DMBH. Presently over 45% of investment accounts are active.

b) Insurance products

The Bank continued its development and modification of the product offer in particular categories. Changes were aimed both at expanding the current range of products to best fit its customers' needs and to make the current products more attractive.

The Bank added numerous new products to its offer when implementing new product projects in 2010. In the first quarter of 2010 it introduced an insurance product for credit card holders – Income Protection Plan providing insurance coverage against a loss of job, serious illness and temporary incapacitation. The insurance provides a customer, among others, with benefits up to PLN 1,500 per month after a loss of job or up to PLN 1,000 per month in the case of temporary incapacitation. Benefits are paid regardless of the debit balance on the card account.

In April 2010 the Bank modified its offer of life insurance coupled with equity funds by introducing a new version of products with a regular premium (Optimum Investment Plan) and a single premium (Premium Investment Portfolio). The products are offered in collaboration Aegon TUnŻ S.A. insurance company. Both products introduced, among others, a more attractive fee structure, 100% of premium allocation, and broad investment opportunities under the new offer of insurance equity funds. They are more flexible and better fit customers' need due to available product options e.g. different minimum periods of regular premium payment, insurance coverage.

Current customers who use a similar product purchased earlier were also given an opportunity to convert into new conditions under existing insurance agreements.

In June 2010 the Bank introduced a new protection and savings insurance product – Insurance Policy for a Good Start, which is a child financial security product. The insurance is offered with a single or regular premium. The insurer is MetLife Tuż S.A.

In June and July 2010 the offer of the Bank was expanded by travel insurance:

- World with No Borders (*Świat bez granic*) insurance purchased by a customer for a specific foreign trip with a possibility to choose one from several different options of coverage, insurance sums and a number of persons to be covered with insurance. Insurance is offered electronically via Citibank Online, due to which the procedure of concluding the agreement is fast and simple.
- Travel Package (*Pakiet Podróżny*) insurance addressed in particular to credit card holders who travel frequently. The insurance provides coverage for the Main Card Holder for each trip, lasting up to 60 days, during a year. Depending on the type of card the insurance may cover also trips abroad – in Europe and all over the world, and car assistance for trips in Poland and Europe.

Both types of insurance provide coverage, among others, for costs of medical assistance in the case of a sudden illness, accident, assistance, third party liability, luggage delay or loss, flight delay.

In 2010 the Bank entered into an agency agreement with the largest Polish life insurance company – PZU Życie S.A., under which it started to offer subscriptions for individual investment life insurance – 3-year life and endowment insurance with embedded derivatives. In 2010 the Bank organized two subscriptions with an investment bonus based on WIG20.

5. Achievements of respective distribution channels

The Bank's customer service is provided via the network of outlets, banking advisers, external direct sales agents and remote distribution channels such as internet banking, call-in service centre, IVR and multifunctional automatic teller machines.

5.1 Branch network

At the end of the year 2010 the Bank's branch network consisted of 154 outlets, including outlets of the L type (former Commercial Bank and CitiGold Wealth Management outlets and the Investment Centre), the M type (former multifunctional outlets) and the S type (former CitiFinancial branches).

In 2010 the Bank proceeded with implementation of network optimization measures and thus: increased its operational efficiency; expanded its sales activities; optimized productivity of its human resource base and of its infrastructure; and curbed its property management costs.

The network optimization project tasks implemented in 2010 included:

- a decision to sell the property led to consolidation of all operations of the L type outlets: in Płock at ul. Kobylińskiego 13, with the customer/client services transferred to the existing outlet at ul. Królewiecka 22; in Szczecin at ul. Św. Ducha 2, with the customer/client services transferred to the existing outlet at pl. Rodła 8; and in Częstochowa at ul. Jasnogórska 75, with the customer/client services transferred to the expanded outlet at ul. Najświętszej Marii Panny 26,
- consolidation of all operations of the L type outlets: in Olsztyn at ul. Piłsudskiego 63, with the customer/client services transferred to the expanded outlet at ul. Pieniężnego 15; and in Świdnica at ul. Tołstoja 2, with the customer/client services transferred to the existing outlet at ul. Rynek 20,
- consolidation of 24 branches, which previously operated mainly under the CitiFinancial brand. Actions here involved the transfer of these outlets' operations to existing multifunctional branches, which offer a complete range of products;
- expansion of retail deposit taking services in two former S type – currently M type outlets
- due to the awarded contract for services to the town of Tarnów, that would result in an increased number of cash transactions of a corporate client, the functionality of the outlet in that town was expanded from M type to L type,
- closing of the L type outlet in Kutno at ul. Barlickiego 3.

In 2010 the Bank equipped its branches with devices allowing for personalization of debit and credit cards compliant EMV standard. As the first in Poland, the Bank applied such solution for personalization of EMV cards (with a microchip). In Warsaw branches customers may also buy a payment card integrated with a rechargeable electronic ticket card – Warsaw City Travelcard in any branch.

The Bank commenced an installation of ATMs with a new functionality – BNA (bunch note acceptor) allowing for automatic posting of payments both to an account and credit card. Funds deposited by a customer in an ATM are available on his or her account directly after the payment. At the end of 2010 the Bank had 60 such devices. It is planned that in the first half of 2011 all ATMs will have such functionality installed. At the same time new ATMs are gradually equipped with a function allowing for their use by blind people.

Number of branches as the period end:

	31.12.2010	31.12.2009	Change
Number of outlets:	**154**	**184**	(30)
- L type	43	45	(2)
- M type	90	87	3
- S type	21	52	(31)
Other sales / customer service outlets:			
Polkomtel sales points	154	130	24
Plus sales showrooms	15	11	4
Airports	5	3	2
BP gas stations	23	53	(30)
Shopping Centers	18	4	14
Sales points of public transport services	24	-	-
Own ATMs	149	161	(12)
Euronet ATMs with the Citi Handlowy logo	909	-	-
Unikasa sales points – expanded functionality	1,849	484	1,365

5.2 Internet and telephone banking

5.2.1 Internet and mobile banking

In 2010 the Bank dynamically developed its Citibank Online internet bank platform. At the beginning of the year credit card holders were offered an option of electronic transfers of cash from a credit card account to an account with any bank. Customers were also provided with access to the Credit Card and Personal Account history in the form of electronic statements for the last three years and an option of transfer confirmations in the PDF form.

The first phase of changes in Citibank Online was closed with the launch of the BILIX electronic billing payment and presentation service in the first quarter 2010, allowing for convenient and fast bill payments. In addition, in the first half of the year retail customers so far using Citibank Online were offered an opportunity to use a mobile version of internet banking tailored to browsers embedded in mobile telephones – CitiMobile.

In the ranking of ‘50 Largest Banks in Poland’ published in the first half of 2010 by the BANK monthly magazine the Bank was awarded the title of ‘The Best Internet Bank’. The methodology of ranking was based on the absolute number of internet accounts served, rate of their growth and the share of internet accounts in all accounts. With the result of over 550,000 internet banking users in 2009 and slightly above 344,000 in 2008 the Bank came as the first in the ‘Internet Bank’ category.

On 6 September 2010 the Bank provided its retail customers with a new transaction service of Citibank Online. The new version of the system means the new layout, new transparent and intuitive navigation and new options for customers such as own naming of bank accounts, bank calendar and credit card expenditure manager.

In months following presentation of the new transaction platform the Bank was making subsequent functionalities of that solution available. The first one was a division of a credit card transaction into installments under the Comfort Installment Payment Plan. The Plan allows to divide credit card transactions into equal monthly installments bearing interest lower than standard card interest rate.

In 2010 the Bank offered its customers the functionality of opening subsequent accounts with the Bank by themselves via internet, including accounts in foreign currencies and savings accounts. With the use of that functionality customers were also able to activate the Pay with Mobile (*Płać komórką*) service, join the Change for You (*Reszta dla Ciebie*) program and activate the service of MasterCard internet payments.

The last change introduced for customers in the fourth quarter of 2010 was the functionality of debit card limit management. Under that functionality customers may connect a debit card to accounts in a selected currency and establish their own daily limits, among others, for internet transactions.

The changes and development of the internet banking platform brought a growth in the number of customers using that channel. At the end of the year the number of registered users of Citibank Online grew from 550,000 in 2009 to over 660,000 in 2010 and the number of electronic statement users went up from 456,000 in 2009 to over 504,000 in 2010.

5.2.2 CitiPhone

In 2010 CitiPhone, a 24h customer telephone service, met the assumed TSF quality standards reaching the level of 80.6%. Income from sales of Bank products and services in that channel reached 101.3% of the target.

From the initiatives implemented in CitiPhone in 2010 the most important ones are adapting the process segmentation and customer service to assumptions made in the Bank strategy by dedicating specialized teams of CitiGold and CitiGold Select advisers. Another significant event was implementation of advanced technological solutions supporting CitiGold and CitiGold Select customer service in IVR and launch of an innovative tool for effective sales of products offered by the Bank – CRM Pop-up.

5.3 Indirect and direct customer acquisition

The Bank continued its project involving sale of credit cards through a stand set up in the airports. Following the successful last year sale of credit cards in the Warsaw Okęcie Airport Terminal, the Bank decided to expand the sales in the first half of 2010 by the regional airports in Krakow, Katowice, Poznań, Gdańsk and Wrocław. In June 2010 the Bank added a new insurance product – Travel Package to the offer for customers acquired in the airports.

At the end of the first half of 2010 direct sales agencies launched the sale of personal accounts and in the fourth quarter of 2010, with the introduction of an Integrated Citibank Payment and City Travelcard (*Miejska Karta Płatnicza Citibank*), travel cards were introduced for sale in 24 dedicated sales points. Those points were placed in Inmedio, Relay and Kolporter kiosks. In the first two months of launching the sale, the sales points of public transport services acquired 1,300 Integrated Citibank Payment and City Travelcards.

The end of 2010 brought a reconstruction of the Polkomtel channel network – presently it covers 154 sales points. It is worth mentioning that level of activation of acquired cards was 78% at the end of 2010.

The Citibank at Work Office is responsible for reaching and providing sales services to employees of corporate clients at the place of their work, by offering convenient, time saving and preferential products and services of the Bank. The leading product in the first half of the year was a personal account, which was supplemented by a credit card offer in the second half of 2010.

One of major projects implemented in 2010 was expanding the sales structure of the Office by direct sales agent network through the country. Due to significant improvement in effectiveness, Citibank at Work acquired over 5,000 customers with regular salary receipts and the total acquisition exceeded 25,500 products (including almost 10,000 personal accounts and over 2,600 credit cards).

In 2010 the Bank developed an initiative of meetings and financial seminars approximating the market of banking services and Bank products to employees of served companies. In the 12-month period the Bank organized over 670 meetings for the total of around 7,500 participants, over 38% of whom were interested in contacting the Bank.

6. Developments in IT

In 2010 the Bank implemented projects supporting maintenance of a stable technological platform and the new strategy of the Bank. We also continued a number projects aimed at reducing operating costs in IT and upgrading the quality of products offered.

Implementation of all the technological projects was consistent with the priorities set out within the long term business strategy.

The following solutions were implemented in 2010:

– launch of an internet based communication channel with the Bank for corporate clients, which will allow to expand the product offer, among others, through the use of the electronic signature;
– Launch of a new electronic banking system for corporate clients, aimed at increasing the customer satisfaction and enhancing Bank's competitive abilities in this segment;
– introduction of a facility for immediate credit application review and issuance of microchip debit and credit cards at branch level;
– introduction of an innovative service – Mobile Banking, which will provide retail customers with mobile phone access to the current account and credit card account; customers may check balance, make transfers, open deposits and check currency exchange rates;
– implementation of a Business Process Management (BPM) class system which will enable modeling of business processes and upgrade processing of the related electronic documents;
– implementation of a new type of ATMs, which will allow to make cash payments (in accordance with the European Central Bank Directive ECB6) and their real time posting;
– adaptation of IT systems of the Bank to Recommendation T of the KNF on best practice guideline to management of credit risk arising from retail exposures;
– cost optimization due to centralization of most local banking applications and the central banking system Flexcube in the innovative regional data processing centre of Citigroup;
– introduction of significant improvements of the internet platform, which will allow for better servicing of retail customers, changing of the layout and opening of deposit products online, and improving cooperation with the sales support system;
– development of voice recording services in Bank branches and centralization of the NICE recording system.

The ongoing modifications likely to impact the Bank's operations in the near term:

– pilot launch of a new version of electronic banking system for corporate clients. The production implementation is planned for 2011;
– implementation of a platform for institutional clients, which will upgrade servicing of trade finance and documentary operation products;
– implementation of a system, which will assure the fulfillment of new reporting requirements of the Bank Guarantee Fund;
– consolidation of CRM applications for institutional clients to improve customer relations and reduce costs of support;
– completion of the process of ATM replacement to the one compliant with the European Central Bank Directive ECB6 and allowing for real time posting of deposits..

7. Equity investments

All capital investments of the Bank are classified as part of either the strategic or the divestment exposures portfolios. In 2010 the Bank continued its previously chosen capital investment policy. In managing the strategic portfolio it sought to: maximize profits in the long term; grow the market share; stimulate development of co-operation with the Bank; and to expand of the Bank's offer. In managing its divestment portfolio the Bank aimed: to optimize transaction gains and to minimize the risk inherent in such transactions.

7.1 Strategic portfolio

The strategic holdings include entities operating in the financial sector, whose performance has an impact on earnings of banking operations, has contributed to expansion of the Bank's product offer and strengthens its reputation and competitive advantage in the Polish financial services market, e.g.

Handlowy-Leasing Sp. z o.o., Dom Maklerski Banku Handlowego S.A. Its strategic portfolio holdings also include infrastructure providers operating for the benefit of the financial sector. In these the Bank does not hold controlling interests, yet they are of strategic importance for it in view of the operations they perform, e.g. the Warsaw Stock Exchange, the National Clearing House or the Credit Information Bureau.

The Bank intends to retain its strategic holdings in the infrastructure providing entities and take an active role in outlining the strategic directions of their development while exercising its right of vote. Its overriding objective in the exercise of its corporate governance prerogatives over these companies is to ensure their stable development and continuance of their present operations, which the participants of the financial market, including the Bank, rely on.

7.2 Divestment portfolio

The interests held ‘for sale’ include entities in which the Bank’s exposure is not strategic. The portfolio includes entities held directly and indirectly, and special purpose investment companies used by the Bank to execute capital transactions. Some of these holdings are restructured exposures, which originate from debt-to-equity swap transactions.

The strategic objectives of the Bank with regard to the companies earmarked for sale provide for gradual decrease of the Group’s participations in them. The adopted assumption is that the individual participations will be sold whenever market conditions are most favorable. The divestment portfolio comprises capital exposures without predetermined rate of return. The Bank does not plan any additional equity investments with the view of their subsequent divestment. However, the divestment portfolio may grow if the Bank chooses to convert its debt to equity and by investments made in the course of its future operations.

8. Other information about the Bank

8.1 Rating

The Bank has a full rating of Moody’s Investors Service (Moody’s), an international rating agency. In 2010 the rating did not change.

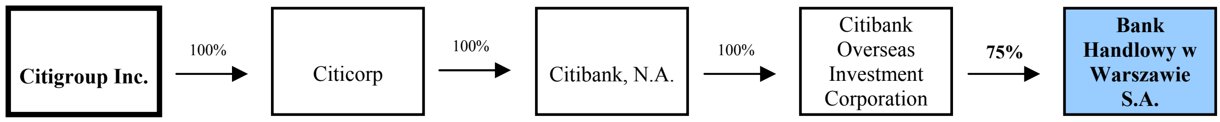
The last rating change was made on 18 June 2009 when Moody’s reduced its rating for the Bank’s financial strength (BFSR) from C- to D+ with negative outlook. The rating for the Bank’s deposits in Polish zloty and foreign currencies was reduced from A3 to Baa1 with negative outlook. The ratings of short term deposits remained unchanged (P-2). The change in ratings described here was a consequence of deterioration of the market environment, primarily impacting the retail and corporate portfolios. At the same time Moody’s indicated that Bank’s capital position as net lender remained stable and that its solvency ratio was among the highest of the banks rated by Moody’s.

At the end of the year 2010 the Bank had the following ratings awarded by Moody’s:

Rating for long term deposits in the domestic currency	Baa1
Rating for long term deposits in foreign currencies	Baa1
Rating for short term deposits in the domestic currency	Prime-2
Rating for short term deposits in foreign currencies	Prime-2
Financial condition *Financial strength rating outlook* *Long term deposits in the domestic currency rating*	D+ *Negative outlook* *Negative outlook*

8.2 The Bank's shareholding structure and performance of its stock on the Warsaw Stock Exchange

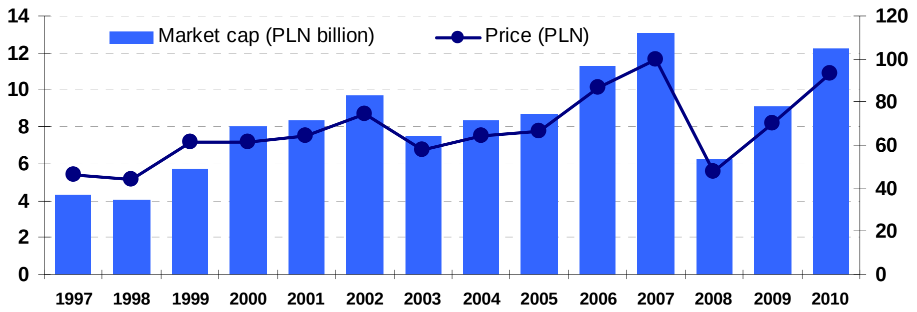
The only shareholder of the Bank that holds a minimum 5% participation in its share capital and votes at its General Shareholders Meeting (GSM) is Citibank Overseas Investment Corporation (COIC), a Citigroup company that holds the group's oversees investments. COIC is at the same time the strategic majority shareholder of the Bank. Throughout the year 2010 neither the number of shares held by COIC nor its participation in the share capital and votes at the GSM of the Bank changed, and stood at 97,994,700 shares representing a 75% participation in the share capital and votes at the GSM. The following diagram depicts the positioning of Bank Handlowy w Warszawie S.A. in the organizational structure of Citigroup:



The remaining shares (32,664,900, equivalent to 25% of the share capital) constitute free float, in other words, remain in free trading and are listed on the WSE.

In 2010 thirteen years elapsed since floatation of Bank Handlowy w Warszawie S.A. on WSE. The year 2010 was another period in which the Bank's share price increased; its market capitalization at the end of 2010 stood at PLN 12.2 billion (compared to PLN 9.1 billion at the end 2009). Its market price ratios were as follows: price to earnings (P/E) at 18.5 (18.1 in 2009); price to book value (P/BV) at 1.9 (1.5 in 2009).

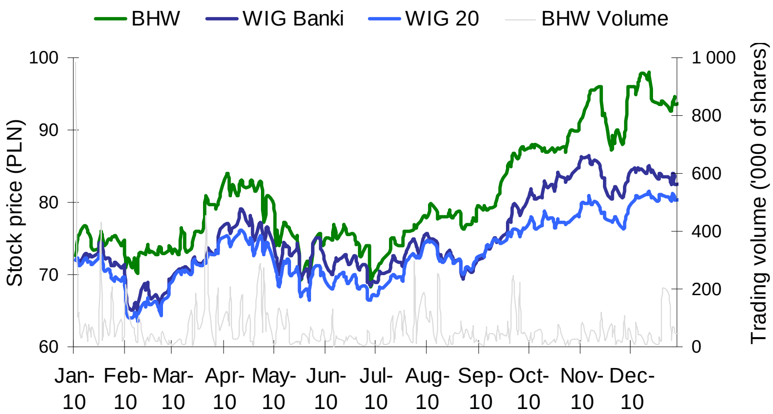
BHW market capitalisation and share price over the 13 years of trading on the WSE



In 2010 the Annual GSM resolved to allocate 94% of net profit for dividends, which means that the dividend per share amounted to PLN 3.77. Consequently, the Bank's dividend rate was one of the highest among the banks listed on the WSE and amounted to 5.4%.

In 2010 the share price increased from PLN 71.5 (4 January 2010) to PLN 93.5 (31 December 2010). It represents the Bank's share price gains adjusted by the dividends of 39%. That was the highest share price growth among large banks listed on the WSE and one of the highest from among listed companies with capitalization over PLN 5 billion. When presenting top share price gains of the largest companies the Parkiet daily ranked the Bank as the third, making it the

Bank ("BHW") share price and trading volume against WIG-Banks and WIG20 market indices rebased (04/01/2010 = 71.5)



top representative of the financial sector.

The year 2010 began with a gentle upward trend. In April the Bank's share price reached PLN 83.9 – the highest point since 4 June 2008 i.e. the beginning of the financial crisis.

From May to July 2010 the share price exhibited volatility (fluctuated within the range of PLN 68 and PLN 80).

The second half of 2010 was the period of growth in the share price. From 1 July 2010, when the share price was PLN 68.5, it began a consistent climb peaking on 15 December 2010 (PLN 98). Finally on 31 December 2010 the share price stood at PLN 93.5 per share.

These share price achievements set the Bank apart from the sector (WIG-Banks gained 15.3% in 2010). The Bank's share price gains were also stronger than performance of the WIG20, which gained 12.3%.

8.3 Interest rates

We set out below the weighted average effective interest rates of receivables and payables by the respective business segments of the Bank.

As at 31 December 2010

in %	**Commercial Bank**			**Consumer Bank**		
	PLN	**EUR**	**USD**	**PLN**	**EUR**	**USD**
ASSETS						
Receivables from financial and non-financial sector entities						
- fixed term	5.58	2.93	2.11	16.35	3.57	7.40
Debt securities	4.23	3.00	3.67	-	-	-
LIABILITIES						
Payable to financial and non-financial sector entities						
- fixed term	3.13	0.47	0.30	3.64	0.42	0.33

As at 31 December 2009

in %	**Commercial Bank**			**Consumer Bank**		
	PLN	**EUR**	**USD**	**PLN**	**EUR**	**USD**
ASSETS						
Receivables from financial and non-financial sector entities						
- fixed term	5.19	2.47	3.18	17.09	4.53	7.40
Debt securities	4.95	4.80	3.62	-	-	-
LIABILITIES						
Payable to financial and non-financial sector entities						
- fixed term	3.18	0.62	0.35	5.25	0.78	0.62

8.4 Awards and honors

In 2010 the Bank and the Leopold Kronenberg Foundation received a number of prestigious awards and honorary titles:

- On 7th December at the gala ceremony celebrating the 140th anniversary of Bank Handlowy w Warszawie S.A., the President of the Bank Management Board, Sławomir S. Sikora, was awarded with the Knight's Cross of the Order of Polonia Restituta (*Krzyż Kawalerski Orderu Odrodzenia Polski*). On behalf of the President of Poland the distinction was awarded by the chief of the President's chancellery, Minister Jacek Michałowski, who said, among others, "Your contribution to development of the Polish banking sector is significant. You did a lot of good during your services for the Republic of Poland (...). I am happy I could award your achievements";
- Citi Factoring, Self-Government Factoring and Discounted Letter of Credit were recognized in the 15th edition of the Europroduct contest. The contest has been run since 2000 by Polskie Towarzystwo Handlowe Sp. z o.o. under the patronage of the Ministry of Economy, Polish Enterprise Development Agency (PARP) and the Chancellery of the Prime Minister. The purpose is to promote brands, products and services that are considered best in the market and to recognize services that cater for the customer needs in a comprehensive and professional way;
- The Bank came first in a survey of the prestigious financial magazine – Euromoney. In terms of sale of products to corporate clients, Citi Handlowy's market share was 35.8%. The survey is performed annually and includes the best institutions offering wealth management services. The position in the survey is decided through customer voting as the customers report the size of currency trading with their banks;
- In January 2010, the Bank was awarded in the Clean Work (*Praca na czysto*) contest held by the Ministry of the Environment. The contest promotes best educational companies in the area of environment protection and is open both to companies/enterprises as well as to public and local government institutions;
- The WWF, which organized An Hour for the Earth (*Godzina dla ziemi*) event, awarded Citi Handlowy with the official partner title – a unique recognition considering the fact that Poland was the only country in which the bank being the part of Citigroup was awarded with such a title;
- Environment protection and ecological education practices carried out by the Bank were appreciated in the CSR Best Practice (*Dobre praktyki CSR*) contest held by Deloitte, PKPP Lewiatan and NSZZ Solidarność, and received 19 points out of the maximum 23;
- As an environmentally responsible financial institution, the Bank was ranked as first, winning 92 points out of the maximum 100, in the Responsible Company ranking prepared by PricewaterhouseCoopers;
- Citi Handlowy won the 2009 Benefactor of the Year (*Dobroczyńca Roku 2009*) award in the category of Strategic Corporate Social Responsibility Programs, which was awarded for its comprehensive and long term strategy of financial education provided to the Polish society, carried out by the Leopold Kronenberg Foundation. The purpose of the contest is to promote social involvement and social responsibility of entrepreneurs, as well as to inform of social actions and programs that have been carried out with the help of enterprises, their employees and NGOs. This is the most prestigious award for social involvement of business;
- On 17 May 2010 the Minister of Culture and National Heritage decorated the Leopold Kronenberg Foundation with the Order of Merit for Polish Culture (*Zasłużony dla Kultury Polskiej*), recognizing its contribution to the recovery of Wojciech Gerson's 'Resting in a Tatra Shed' (*Odpoczynek w tatrzańskim szałasie*) painting lost during World War II, and presenting it the Royal Castle in Warsaw. The order is awarded by the Minister of Culture and National Heritage to remarkable persons and institutions creating, promoting or protecting the Polish cultural heritage.
- The Integrated Citibank Payment and City Travelcard (*Miejska Karta Płatnicza Citibank*) was awarded with the title of the Most Innovative Polish Card of 2010. The award was granted by the jury of this year contest organized under the Central European Electronic Card conference. The contest is to promote plastic cards and innovative technological solutions, and in particular companies and people able to 'transform' those novelties into market products increasingly approved of by the growing number of users.

8.5 Engagement in cultural patronage and social responsibility projects

The Bank has pursued its mission of social responsibility via the Leopold Kronenberg Foundation, a charitable institution which supports on the Bank's behalf various public benefit activities.

In 2010 the Foundation focused its efforts on financial education, promotion of entrepreneurship and innovation, and coordination of the Bank's employee volunteer projects addressed to the socially disadvantaged as well as those aiming at preservation of cultural heritage.

Bank's social responsibility projects were approved by the President of Poland, Bronisław Komorowski, in his special thanks addressed to participants of the ceremony celebrating the 140th anniversary of Bank Handlowy, 'The history of that institution, founded by Leopold Kronenberg, a renowned entrepreneur and philanthropist, may serve as a description of the Polish experiences in the last two centuries, as an illustration of the economic and civilization development of our country. Today that honorable Bank is among the leaders of the Polish financial market, offering specialized, modern products and services to its customers. Social responsibility is a characteristic feature of your activity. Bank Handlowy preserves the Polish cultural heritage, provides patronage of valuable cultural projects and supports local development.'

In 2010 the Bank pursued the following programs and actions under the business social responsibility:

- **From a Grosz to a Złoty** (*Od grosika do złotówki*) – the first Polish financial education program for pupils of primary schools, executed in the context of integrated learning in collaboration with the Foundation of Entrepreneurship of Young People. It is being run jointly by teachers and volunteers from the Bank with collaboration of the parents. The program is intended to help children develop habits of saving money, developing their awareness of the value of work, learning what money can be used for and preparing children for the task of rational shopping decisions.

  In the course of the school year of 2010-2011 the program engaged 473 teachers and approximately 17,000 parents who opened up the world of finances before 11,000 pupils of 174 schools. The Grosz Journeys (*Grosikowe Wędrówki*) workshops were run in the context of Citi's Global Community Day 2010 and involved 568 pupils of 25 classes and 410 parents and grandparents. The workshops involved also 25 teachers, 25 guests and 23 volunteers from the Bank.

- **My Finances** (*Moje Finanse*) – the largest Polish financial education program addressed to higher secondary school students. It meets social demand for financial education and gives an opportunity for a more educated society who consciously manages its finances by saving, borrowing and investing. Running the program in higher secondary schools the Foundation takes part in the education of young people, to make them able to take financial decisions that are rational and beneficial for them, on the basis of constantly updated knowledge.

  The program is sponsored by the Leopold Kronenberg Foundation and the National Bank of Poland, and conducted by the Foundation of Entrepreneurship of Young People. Its direct recipients are teachers and pupils of higher secondary schools throughout the country.

  In 2010 there were conducted 80 workshops preparing 1,600 teachers for implementation of the program based on new materials. In the school year of 2010-2011 the program involved over 153,000 pupils and it is implemented by 1,600 teachers and 51 trainers.

- **Banks in Action** (*Banki w Akcji*) – a financial education program addressed to higher secondary school students interested in a financial sector career. The program aims to promote among this student group knowledge of the principles of functioning of financial markets, and particularly of commercial banks. The program is implemented by the Leopold Kronenberg Foundation and the Foundation of Entrepreneurship of Young People

  In 2010 the program proceeded with the following modules:

  - **Banks in Action – Enterprise Day** – one day in a year on which higher secondary school students are invited to the Bank so that they can see what the work of bankers involves. This project is executed in the context of the nationwide Enterprise Day program. In 2010 the Enterprise Day was held on 10 March, on which the Bank hosted 225 student trainees;
  - **The Banks in Action Competition** – organized with the National Bank of Poland, the Foundation of Entrepreneurship of Young People and a group of eight university schools of banking. The 'Olympic' competition fits within a larger framework of subject 'Olympiads'

authorized by the Polish Ministry of National Education and is addressed to students of higher secondary schools seriously interested in economy. The 3rd edition of the 'Olympic' competition – held in autumn of 2010 and titled Personal Finance – brought together 11,600 students of 763 schools;

- Promoting the use of the **Banks in Action** simulation model in regular educational work – the Banks in Action is an interactive simulation model of a commercial bank. Respective students can play the role of a bank board president and – in competition with the computer or other students – take financial and marketing decisions which translate into the bank's financial standing. Teachers who took part in the workshops conducted classes with the use of a simulation engine for the benefit of 15,000 pupils throughout the country.

– **Week for Savings** (*Tydzień dla Oszczędzania*) – a nationwide awareness campaign which seeks to promote the need for planning financial future. This media campaign is conducted through multiple information channels.

This edition of the Week for Savings focused on promoting five practical financial skills: beginning from opening a bank account, though selecting types of savings suitable to personal needs, planning of personal finance and becoming aware of consequences of debts and the need of saving for retirement.

During this Week for Savings young people – individually or assisted by teachers – could take part in two contests. In the first one participants could send a work referring to the problem of five practical financial skills, prepared in the form of a poster, photo story or film.

In addition to contests the Leopold Kronenberg Foundation prepared special information packages. They were sent to 3,500 schools willing to take part in the action. For the purpose of the campaign the Newsweek weekly published an extensive supplement devoted to personal savings while radio stations broadcast programs and educational spots on the subject.

We estimate – based on the available research tools – that around 5.7 million people came in contact with the educational and promotional materials relating to saving via various media and the internet.

– **Innovation in Banking** (*Innowacje w bankowości*) – a nationwide competition announced by the Leopold Kronenberg Foundation and the Bank and addressed to second- to fifth-year university students at large. The initiative aims to inspire the young people to develop innovative business solutions. It seeks to tap into the knowledge and creativity of young people, and to strengthen their confidence in the possibilities for personal career development.

The main prize of the second edition, of PLN 10,000 and a 3-month internship with the Bank, went to Karolina Mamczur of the University of Łódź. Additionally, five honorable mentions were awarded with prizes of PLN 2,000 and a place in the Bank's Summer Internship Program, each.

– **Micro-entrepreneur of the Year 2010** (*Mikroprzedsiębiorca Roku 2010*) – a unique competition addressed to owners-operators of small businesses. Through organization of the event the Foundation seeks to promote active stance toward entrepreneurship, stimulate establishment of small businesses and to present the best of them as effective business models.

The 6th edition of the competition was entered into by 188 small businesses. The prestigious Micro-entrepreneur of the Year 2010 title went to Centrum Badań DNA of Poznań, established by Jacek Wojciechowicz and nominated by the Marshall Office of the Wielkopolska Province. The business of the winning company is popularization of the latest achievements of molecular genetics on the medical diagnostics market and development of new research techniques and methods.

– **Finance in Your Hand** *(Finanse w Twoich rękach)* – a new program prepared by the Leopold Kronenberg Foundation in cooperation with the Union of Citizens Advice Bureaux, introduced as a pilot project in 2010. The program is aimed mainly at preventing adverse effects of debts by way of expansion of services provided by the Bureaux.

The project is addressed to three groups:

- Debtors seeking help with solving their financial problems,
- Advisors of Citizens Advice Bureaux to provide competent assistance,
- Trainers of the Union of Citizens Advice Bureaux to assure permanent sharing of new skills in helping debtors in the Bureaux network.

As the pilot project was approved, the program was authorized for implementation in 2011.

– **Award of Bank Handlowy w Warszawie S.A. for outstanding contribution to development of economics and finance** – this competition aims to promote the most valuable publications on theory of economics and finance. The award is perceived as one of the most prestigious ones in Poland in the field of economics. To popularize the work of the winner of the 15th edition of the competition, Dr Anna Moździerz, there was developed a program of the Time for the Young (*Czas dla młodych*) competition whose participants were to provide their idea for managing the budgetary deficit. The award ceremony was held during the rector debate on 'Imbalance of Public Finances: Indebtedness – a Threat or Only a Myth of the Coming Decade?', held at the University of Economics.

  The 16th edition of the competition had 20 submissions. The winners of the competition were Prof. Eugeniusz Najlepszy, Ph.D. and Dr Konrad Sobański of the Poznań University of Economics, for their 'Instability of External Balance of Developing Countries'. The official award ceremony was held on 18 October 2010. The award proceedings were followed by a conference on 'Prevention or Cure? Instability of External Balance of Central and East European Countries", that referred both to the winning work and to the current economic problems. This was moderated by Piotr Kalisz, the Bank's senior economist.

– **Employee Volunteer Program** – a program that aims to assist the Bank employees in developing their social responsibility and involvement. Its main pillars include Citi's Global Community Day; employee engagement in dissemination of financial education; and innovative voluntary work projects executed in the course of corporate integration trips. The employees can provide their services on a individual or organized group basis.

  In 2010 we organized and conducted a Student Social Project – Become a Change Creator (*Studencki Projekt Społeczny – Zostań Kreatorem Zmian*) competition addressed to the University of Warsaw students with ideas for a volunteer project. 14 best ideas received a grant up to PLN 3,000 and were implemented in July and August 2010.

  In 2010 Bank volunteers implemented 148 projects. The largest of them, Citi's Global Community Day, mobilized over 1,300 Bank volunteers, working together with their families and friends on 120 projects, including 91 projects they themselves set up within the Dependable Volunteer (*Wolontariusz na Bank!*) competition. The assistance the Project extended reached approximately 18,000 needy beneficiaries.

  From January 2010 the Foundation has been an official patron of volunteer programs in Poland.

– **Professor Aleksander Gieysztor Award** – the most prestigious award granted for activity aimed at preservation of the Polish cultural heritage. It is granted annually to institutions and individuals, among others, for:
  - museum, restoration, archive and library work;
  - commemoration and preservation of the Polish cultural heritage abroad;
  - initiatives aimed at collection and preservation of traces and mementos of cultural heritage;
  - dissemination of knowledge on the needs and methods of preservation of cultural heritage in Poland.

  This year's 11th edition Gieysztor Award went to Prof. Andrzej Tomaszewski for his long term work to preserve the Polish cultural heritage, and in particular his personal involvement in the organization of the Polish and German cooperation to preserve the common heritage.

– **Unveiling of a statue of Tadeusz Kosciuszko** – on 16 November 2010 a statue of Tadeusz Kosciuszko was unveiled at Plac Żelaznej Bramy in Warsaw. The statute was funded by the Bank. In this way a promise to bring a replica of the Washington statue of General Tadeusz Kosciuszko of 1910 to Poland, made a hundred years ago, was fulfilled. This event became a part of both the celebration of the 140th anniversary of the Bank and its mission of corporate responsibility, an important part of which is the preservation of the Polish cultural heritage.

– **Presenting Wojciech Gerson's 'Resting in a Tatra Shed' to the Warsaw Royal Castle** – on 1 June 2010 there was held a ceremony of presenting Wojciech Gerson's 'Resting in a Tatra Shed' (*Odpoczynek w tatrzańskim szałasie*) painting to Prof. Andrzej Rottermund, Director of the Warsaw Royal Castle. The painting was presented by Sławomir S. Sikora, President of the Bank Management Board, on behalf of the Leopold Kronenberg Foundation. The painting was a property of Leopold

Kronenberg, the founder of Bank Handlowy w Warszawie S.A. Like most of the Polish painting collection of the Kronenberg family, the painting went missing during World War II and was catalogued among Polish paintings lost. Owing to efforts of the Leopold Kronenberg Foundation, the Ministry of Culture and National Heritage as well as Polish diplomatic missions the painting was recovered.

In appreciation of efforts made by the Foundation to recover the lost paining, the Minister of Culture and National Heritage awarded the Leopold Kronenberg Foundation with the Order of Merit for Polish Culture (*Zasłużony dla Kultury Polskiej*).

– **Subsidy Program – a grant competition through which the Leopold Kronenberg Foundation supports the most valuable projects implemented by non-profit institutions operating in the spheres of education and local development**

In 2010 the Foundation granted subsidies toward 31 initiatives in a total amount of PLN 760,900, including PLN 530,000 for 22 local initiatives recommended by branch directors.

The grants were awarded for following areas: innovation in education (PLN 183,600), cultural heritage and tradition (PLN 361,800), economic education (PLN 106,500), artistic creativity of children and youths (PLN 78,300) and social policy (PLN 30,600).

The grants were awarded, among others, towards:

- a nationwide Polish Jews History and Culture knowledge contest for higher secondary school students (9^{th} edition) and 'On Common Ground' contest for primary and high school pupils (5^{th} edition) organized by the Shalom Foundation of Warsaw;
- the Academy of Capital Market Leaders – 5^{th} edition organized by the Lesław A. Paga 2065 Foundation;
- 2010 Young Physicists Competition organized by the Polish Physical Society;
- the development of educational offering of the Stanisław Lem Garden of Experience organized by the Museum of Urban Engineering in Krakow;
- Summer In English, a language and cultural education program organized by the Municipal Public Library of Chrzanów.

– **Aid for Flood Victims** – in response to the needs of flooded communes, the Bank and the Leopold Kronenberg Foundation prepared an aid program dedicated to support local communities in recovery of their educational facilities. The program granted subsidies for schools to recover their educational equipment, including computers, and for libraries to recover their book collections. Managements of flooded communes could not apply for subsidies. The Board of the Foundation decided to subsidize 35 projects for the total amount of PLN 300,000.

– **More Trees Thanks to You** (*Więcej drzew dzięki Tobie*) – the program is carried out by the Bank along with the Leopold Kronenberg Foundation and Our Earth Foundation. Its purpose is to promote 'green' habits and encourage Bank's clients to quit paper account or credit card statements. As part of the program Citi Handlowy planted one tree on behalf of each customer who decided to switch to electronic statements.

In the third year of the program the Bank planted 141,000 trees in the Żednia forest district (Podlesie Province). During the educational part of the program, 3 tree planting workshops were held, attended by 93 pupils and teachers from Warsaw schools.

– **Responsible Business League** (*Liga Odpowiedzialnego Biznesu*) – a program organized by the Responsible Business Forum in collaboration with the Leopold Kronenberg Foundation and public universities (University of Warsaw, Jagiellonian University, Warsaw School of Economics and other). It responds to a growing interest in responsible business among students in Poland. It promotes CSR ideas in the academic environment, as standards of functioning in business and life, education on responsible business practices and construction of social environment favorable for responsible business.

In the 6^{th} edition (academic year 2009/2010) the activities of the Responsible Business League reached over 3,000 recipients. Through its Grant Program, the League granted 23 grants for responsible business education and promotion among students, pupils, teachers, journalist and local leaders.

Presently the League collaborates with over 40 organizations in Poland. The Minister of Economy, Mr. Waldemar Pawlak, became the honorable patron of the Responsible Business League.

- **Citi Helps Students. Students Help Locally** – a program implemented by the Academy for Development of Philanthropy in collaboration with the Leopold Kronenberg Foundation. It promotes cooperation of university environments and student communities with local social organizations.

  Students selected under a contest were assigned to 16 organizations where they worked as trainees and gained valuable, practical experience and opportunity to get involved in activities for the community. Local NGOs benefited from modern, theoretical knowledge of university students – trainees (e.g. research, project evaluation), which was advantageous for both the organizations and their beneficiaries.
- **Student in a Local Consumer Community** (*Student w lokalnej społeczności konsumenckiej*) – a summer internship program for law students, implemented in branches of the Consumer Federation in Krakow, Warsaw, Gdańsk and Wrocław. Having received training the trainees, supervised by lawyers of the Consumer Federation, were giving consumer law advice. Such form of activity allowed the students to apply in practice the knowledge acquired during studies. An additional advantage of internship was to promote the idea of work for the third sector among students. In 2010 the project was participated by 41 students. They granted almost 2,600 pieces of legal advice, prepared over 200 written interventions and granted over 1,200 pieces of telephone and direct advice.

IV. Significant risk factors relating to operation of the Bank Handlowy w Warszawie S.A.

1. Major risk factors and threats to the Bank's operating environment

1.1 Economy

The debt crisis in the euro zone is a serious threat to the perspectives of the Polish economy and stability on the financial markets. If the crisis grows the volatility in the markets and risk aversion may again increase seriously, thus leading to a weaker Polish zloty and increased public debt productivity. The deteriorating country's fiscal position, manifested in particular through a high public finance deficit and an increase in debt connected with the same, also has an adverse effect on evaluation of Polish assets.

Even though the rate of economic growth in 2010 proved much higher than earlier expected, the GDP growth in 2011 is still uncertain. A possible downturn in Asian economies could slow down the activity in Germany and consequently reduce the demand for Polish exports. Such scenario would probably lead to stagnation in the domestic labor market and deterioration of the income situation of Bank's customers. Lower exports and weaker than expected economic growth in Poland could also contribute to deteriorated financial results of Polish enterprises.

1.2 Regulatory risk

Any changes in economic policy and the legal system may significantly affect the financial standing of the Bank. Of particular relevance here is the regulation of the banking sector, which takes the form of primary legislation and regulations issued by the Minister of Finance, resolutions of the Management Board of the National Bank of Poland (NBP), ordinances issued by the President of NBP and resolutions of the Polish Financial Supervision Authority (KNF). As of 1 January 2008 KNF assumed the competences of the Commission for Banking Supervision (KNB).

The most relevant of these regulations include and cover:

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

- mandatory reserves, establishment and transfer (NBP Act, Banking Law Act, resolutions of KNB and KNF, and resolutions of the NBP Management Board);
- taxes and similar charges;
- Act Amending the Civil Code Act and Certain Other Acts of 7 July 2005 limiting the maximum interest rates on consumer loans and the maximum fees chargeable on such loans;
- restrictions in granting mortgage-secured foreign currency loans arising from Recommendation S of KNB;
- Competition and Consumer Protection Act of 16 February 2007;
- Countering Unfair Market Practices Act of 23 August 2007;
- Countering Introduction into Financial Circulation of Property Values Derived from Illegal or Undisclosed Sources and Counteracting the Financing of Terrorism Act of 16 November 2000;
- Consumer Credit Act of 29 July 2001;
- restrictions in granting mortgage-secured foreign currency loans arising from Recommendation S(II) of KNB.
- Recommendation T of the KNF on best practice guideline to management of credit risk arising from exposure to households;
- Recommendation I on bank FX risk management and carrying out operations bearing such risk;
- Recommendation A on the management of risk accompanying derivative transactions made by banks.

Because of the failure to implement in the Polish law within the required timescales, i.e. by 1 November 2009, of Directive 2007/64/EC of the European Parliament and of the Council of 13 November 2007 on payment services in the internal market (PSD Directive), the process of adjustment of the institutions PSD Directive applies to has not been conducted in compliance with the provisions specified by the European Union. In 2010 the legislative process proceeded with the aim of transposing the European law to the national regulations.

Additionally, because of the failure to implement in the Polish law within the required timescales, i.e. by 11 June 2010, of Directive 2008/48/EC of the European Parliament and of the Council of 23 April 2008 on credit agreements for consumers, the process of adjustment of the institutions the aforesaid directive applies to has not been conducted in compliance with the provisions specified by the European Union.

In addition, because of the failure to implement in the Polish law within the required timescales, i.e. by 1 November 2007, of the Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments (MiFID Directive) and of relevant executive legislation, including the Commission Regulation (EC) 1287/2006 and the Commission Directive 2006/73/EC (both dated 10 August 2006), the process of adjustment of the institutions MiFID Directive applies to (investment firms and lending institutions conducting investing activities) has not been conducted in compliance with the provisions specified by the European Union. Legislative process proceeded in the year 2008 with the aim of transposing European law to national regulations, and in particular to the Trading in Financial Instruments Act and the ordinances issued by the Minister of Finance on the basis of the act. The implementation process was however completed at the end of 2009, at incorporation in the relevant regulations of the amendments informed by the ruling of the Constitutional Tribunal, which had examined the regulations at the motion of the President of Poland. The Act on Amendment of the Trading in Financial Instruments Act was published on 6 October 2009 and came into force as of 14 days of its publication while the relevant executive regulations were published on 2 December 2009 and came into force as of 16 December 2009. As of the day of the relevant regulations coming into force there ran the six-month period within which the Bank needed to adjust its operations to the new requirements of the law, the final deadline expired on 16 June 2010. Presently there is implemented a procedure (public consultations) at the EU level, aimed at verifying how those regulations operate in practice and introducing necessary changes, if any. Consequently, it should be expected that EU regulations first mentioned in this paragraph will change, while such changes will have to be implemented in Poland.

Another procedure at the EU level is implemented to regulate OTC investments, introduce legal solutions allowing to clear certain OTC transaction through the so-called Central Clearing Counterparty (CCP) and to introduce transaction repositories. Those laws may be introduced with an unknown effective date as soon as in 2011 by way of regulations and as such they will probably not need transposing to the Polish legal order.

The aforesaid legislative changes also apply to a subsidiary of the Bank – Dom Maklerski Banku Handlowego S.A.

1.3 Competition within the banking sector

The Polish banking has proved to attract attention also in the times of recession. Despite strong competition from other banks, new banks with little or no presence in the Polish market have watched this sector very closely. This has been proven by a considerable number of potential buyers interested in those banks that are already in the Polish market, but have been put on sale, or by the number of notifications on the intention to run cross-border activities based on common passport, filed with the Financial Supervision Commission. Increased competition fosters development and leads to better quality of the offered services, which translates to better customer satisfaction, but also poses a threat to bank profits. The existing process of consolidation which was caused by difficult position of certain bank owners in Poland, might reduce competition in this sector.

The increased credit risk caused by the strained condition of the enterprise sector and the deteriorating position of the retail customers (as driven by growing unemployment) led the banks to adopt a substantially more prudential view of creditworthiness of their clients and customers. Because of that, the banks will focus more on expanding relationships with their existing customers than on acquiring new ones. Over the long term the policy should yield positive results in the form of lower cost of risk and improved results of the banking sector.

2. Major risk factors and threats connected with the Bank and its operations

2.1 Liquidity risk

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

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

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

The Bank's deposit base is stable and diversified. In addition, the Bank has a large portfolio of liquid securities, good access to interbank funding and adequately high capital base. The level of liquidity risk is thus low.

2.2 Foreign exchange risk

The Bank performs foreign exchange operations both on behalf of its customers and on its own account, and holds open foreign exchange positions within established limits. As a result, the Bank is exposed to exchange rate risk and there is no certainty that future movements in exchange rates will not have an adverse effect on the Bank's financial standing. The control of foreign exchange risk is the responsibility of the Market Risk Department, which cooperates with the Treasury Department, the unit managing the

Bank's liquidity and its foreign exchange position. The market risk is moderate and the limit of value at risk (VaR) arising from open foreign exchange positions is established at below 1% of the Bank's equity.

2.3 *Interest rate risk*

The Bank is exposed to a risk arising from mismatch in timing of changes in interest rates on its assets and the underlying liabilities (revaluation mismatch gap risk), and the sensitivity of the value of debt securities and of interest rate based derivative instruments to changes in the market rates (pricing risk). In respect of the revaluation mismatch gap risk, interest rate risk can arise when a fall in income caused by lower rates of interest on loans proves impossible to offset through a corresponding reduction in the rates of interest paid to depositors. This risk also applies to situations where a rise in deposit rates cannot be offset by a corresponding rise in lending rates. In respect of the pricing risk, interest rate risk can arise when changes in market rates have a negative impact on: valuation of the trading portfolio and thus directly on the bank's financial result; or on valuation of the portfolio of securities available for sale and thus directly on the value of its equity capital funds. The management of interest rate risk is one of the functions of the Banks Asset and Liability Committee, which, among others, determines the Bank's pricing policy in the context of interest rate risk. In the year 2010 the level of interest rate risk ranged between low and moderate in the case of the trading portfolio and was moderate in the case of the bank portfolio.

2.4 *Credit risk*

Credit risk represents the potential loss resulting from the borrower's inability to settle its contractual obligations due to insolvency or other reasons, after collateral, unreal debt payment protection and other loss control provisions. The Bank monitors its risk assets on an ongoing basis as it classifies and establishes provisions against them in accordance with the relevant regulations. The Bank Management Board is of the opinion that the current level of provisions is appropriate. As the possibility of change in the external environment that can adversely affect the financial condition of the Bank's customers always exists, there is no certainty that some future need for adequate provisioning against the existing asset portfolio will not have an adverse effect on the Bank's financial condition or that the provisions and the collateral in place will prove sufficient to absorb the possible losses arising out of lending activity.

2.5 *Equity investment risk*

Equity investments fall into two basic categories: strategic and divestment. The strategic portfolio includes the Bank's shares in Polish financial institutions of strategic significance to the Bank due to its operations. The divestment category exposures originate, among others, from debt-to-equity conversion operations and investing activity performed in the past. Investments are held directly by the Bank or indirectly via its wholly-owned special purpose investment vehicles. In the case of some of the equity investments, their valuation is based on the assumption of ultimate identification of a strategic investor for the company in which the Bank is a shareholder. Therefore, maintenance of the high level of foreign direct investments may be of key importance for the valuation of these investments. Moreover, a number of macroeconomic effects, the conditions prevailing in the capital markets and other factors having an impact on activities of the companies in which the Bank is a shareholder may cause the selling price of the held shares to be lower than expected, or even lower than the value at which they are held on the Bank's books. The Bank has monitored and exercised oversight over its portfolio of capital investments and it has already made substantial write-offs related to impairment of these investments, thus bringing the risk of further decline in value of its investment portfolio to a low level.

2.6 *Operating risk*

The Bank defines operating risk as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events.

Operating risk includes the risk relating to business practices and reputational risk. Operating risk includes also legal risk and compliance risk but it does not include strategic risk or the risk of potential losses resulting from decisions to undertake credit risk, market risk, liquidity risk or insurance and underwriting risk.

The Bank's approach towards operating risk was defined in the internal procedures. The purpose is to create a consistent, effective and added-value-oriented system for operating risk control, evaluation, monitoring, measurement and reporting, and for ensuring general efficiency of the internal controls within the Bank's organization. The Risk and Control Self Assessment (RCSA) process was implemented by the Bank to help evaluate effectiveness of the control system. The Bank manages operating risk using tools, techniques, systems and applications whose effectiveness is reviewed, confirmed and expanded on a regular basis.

Operating risk management also includes management of the risk of compliance risk, which is understood as the risk of non-compliance with regulations, including international regulations or laws of other countries that have an impact on the Bank's operations, internal regulations and the code of conduct adopted by the Bank. Compliance with the laws, internal regulations, corporate regulations, ethical standards and best practice is a duty of each and every employee of the Bank.

The Supervisory Board and Management Board of the Bank oversee management of operating risk and in this process are supported by various Committees and a separate unit responsible for operating risk management.

Synthetic information on operating risk is discussed and reviewed by Committees that support the work of the Management Board and Supervisory Board of the Bank. Such information contains data that allow to monitor operating risk profile of the Bank (e.g. results of internal controls and external audits, results of RCSA, Key Risk Indicators (KRI), losses on operations, COB and information security updates, problems and corrective actions, capital requirements, and stress tests).

Due to low appetite for residual operating risk, all operating risks (including IT risk, legal risk, compliance risk, strategic risk etc.) will continue to be managed through effective control environment. The main goals for the years 2010-2012 will focus on improving and enhancing operating risk management tools and techniques.

Use of outsourcing enables more customers to have access to information on products and services offered by the Bank, and to new technology solutions without additional expenditure. The Bank intends to continue using outsourcing, especially in the area of information technology and in cases when such outsourcing is justified by business needs and does not threaten safe operations of the Bank. As outsourcing is not only benefits but also an increased risk, the Bank strives to mitigate such risk in particular by: ensuring compliance with the external laws and internal regulations, effective internal controls, monitoring of cooperation with third parties, ensuring safety of processed data and the banking secret. The decision to outsource banking activities is always taken by the Management Board of the Bank.

The Bank applies a standard method (STA) to calculate the capital required to cover the operating risk. The Bank adjusts the level of capital to the level and type of risk as well as the nature, range and complexity of operations. For that reason, the Bank implemented the internal capital adequacy assessment process (ICAAP). As part of ICAAP, the Bank estimates, allocates and maintains capital at the level adequate to the risk profile and a well-defined risk appetite. The purpose of the well-defined risk appetite is to ensure safety of the operations and implement strategic goals.

2.7 Contributions to the Bank Guarantee Fund

Pursuant to the Act on the Bank Guarantee Fund (Act on BGF; legal status as at 30 December 2010), the Bank is included in a mandatory deposit insurance scheme for bank accounts and receivables confirmed with Bank documents. The banks included in the scheme are required to make specific contributions to the Bank Guarantee Fund, in accordance with Article 13 of Act on BGF, and to invest and deposit assets to the guaranteed deposits insurance fund created by the Bank in accordance with Article 26 of the Act on BGF.

When a guarantee condition is satisfied (for a domestic bank – a KNF's decision on suspension of bank's activities and appointment of the receivership, and filing to the competent court for bankruptcy), a body authorized to represent a given bank immediately transfers BGF funds allocated for guaranteed payments. The relation of contributions to total mandatory contributions of entities included in the scheme is the same as the relation of the amount of the guaranteed deposits insurance fund of an entity included in the scheme to the total amount of guaranteed deposits insurance funds of all entities included in the scheme, excluding the entity satisfying the guarantee condition. The Bank Guarantee Fund makes the payment of guaranteed funds first from the guaranteed deposits insurance fund of the bank satisfying the guarantee condition and then from the guaranteed deposits insurance fund of entities included in the scheme. The order of using funds by the Fund is provided under Article 16a of the Act on BGF.

V. Development prospects for Bank Handlowy w Warszawie S.A.

1. The Bank's general development objectives

In 2010 the Bank redefined its business model in accordance with the new strategy for 2010-2012. It introduced numerous changes to best fit its customers' needs and improve the quality of services.

In 2011 the Bank will develop its operations based on the business model introduced in 2010. Strengthening of the relations with existing customers will remain a priority. The growth in loans and deposits, both consumer and retail, will be an important objective. Increase will be attained mainly through investment banking. Top quality services and innovative solutions will invariably be the pride of the Bank. New innovative products will be introduced in 2011.

The Bank's overriding long term objective is to systematically increase shareholder value by ensuring appropriate return on equity and such liquidity and capital adequacy as ensure security of our customers and retention of their trust.

1.1 Corporate and Commercial Bank

The Bank is one of the leading service providers to the corporate banking segment in Poland.

In 2011 the Bank plans to expand collaboration with its existing clients as it focuses on service quality and readjustment of its service model in ways that will best fit its clients' needs. The overriding objectives here are: to significantly increase satisfaction of our clients with the products and services we offer; and to establish ourselves in the position of the leader in innovation who continues offering novel solutions. The Bank will seek to strengthen further the relations it has with its corporate clients and to reward their loyalty.

Significant part of the Bank's income will come from handling of trade transactions, cash management, foreign exchange and investment banking products introduced to its offer. Innovative highest quality products will be one of the most important elements of the Bank's competitive edge, particularly in collaboration with the demanding domestic and international clients.

As it puts into action its new strategy, the Bank will concentrate on achieving the highest possible operational efficiency.

Continuing implementation of its strategy for the years 2010-2012, the Bank added investment banking to its range of services. Customers have at their disposal a team which is unique in the equity market, consisting of: Citi Handlowy, which has been the leading bank to provide services to corporate clients, Dom Maklerski Banku Handlowego, the no. 1 in the market (in 2010 its share in the stock trading in WSE was 15), and Citi investment bankers with access to investment banking experience and the global group of clients and capital.

1.2 Consumer Bank

In 2011 the Consumer Bank will implement another stage of the 3-year strategy adopted by the Bank for the years 2010-2012. High customer service quality, broad and attractive product offer available in convenient service channels and innovation are to strengthen the relationships with current customers and convince new persons to establish relationships with the Bank.

In the first half of the year the Bank will summarize and revise service standards implemented in 2010 for particular customer segments. Fast services and further upgrade of quality in each channel will be significant in this area.

In savings and investment products the Bank will strive to provide customers with a broad range of products selected with the use of advanced analytical tools. Special focus will be made on products related to financial schemes of retired customers. The Bank will further develop its insurance offer. The Bank's strategic objective will be dynamic increase in the number of customers actively using a personal account and overdraft facility.

In credit products the Bank will focus on development of mortgage loans, cash loans and credit cards. It is planned to launch new card products to make the current offer even more attractive. They will be targeted at encouraging customers to actively use a credit card by way of offering them with measurable financial benefits.

High standard of services and changes in the product offer will be aimed at consolidating relationships with current customers by increasing the number of products which they actively use. At the same time the Bank will focus on acquisition of new customers by showing them benefits from active and long term relations with the Bank.

Activation and acquisition will be supported by development of innovative services, such as mobile banking, advanced solutions in contactless payments and a dual card integrating the functionality of a travel card and payment card.

The segment of high-net-worth individuals will remain favored. Top quality services, prestigious products, individual offer for customers expecting both retail and business services and broad access to investment solutions allow the Bank to keep the leading position in this segment.

1.3 Distribution network

The Bank's development plans for the year 2011 provide for continued activity aimed at delivering top customer service quality. We will also undertake actions in response to current market developments.

Consistent with the adopted strategy, throughout the year 2011 we will continue with implementation of the Citi Grow program – aimed at standardizing the sales and customer service quality – in all the branches located on our G9 markets (the country's largest urban centers, of strategic importance from the standpoint of development of the retail banking business) and TIER1 markets (major cities with strong record of commercial activity). The Bank's branch network will receive active support from the remote customer service channels (CitiPhone, the internet platform, TeleSales) providing 24-hour transaction handling capability and customer need driven banking product sales capability.

New outlets will accommodate the need for increased deposit handling capability for the benefit of retail customers. The Bank will also undertake preparations for build-out of its branch network, specifically for adding outlets in the G9 markets.

VI. Statements of Bank Handlowy w Warszawie S.A. on its application of corporate governance rules in 2010

Corporate governance rules applied by the Bank Handlowy w Warszawie S.A (the "Bank" or "Company")

It is the Bank's priority to become the most respected financial institution in Poland, with a considerable sense of business and social responsibility. Since 2003 the Bank has been complying with corporate governance rules adopted by Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange) in the form of "Best Practices in Public Companies 2005" and as of 1 January 2008 in the form of "Best Practices for WSE Listed Companies". The key objective behind the adoption of corporate governance rules as a standard determining the Bank's functioning has been to establish transparent relations among all corporate bodies and entities involved in the Company's operation as well as to ensure that the Company and its enterprise are managed properly, with due diligence and loyally with respect to all shareholders. The willingness to ensure transparency of the operation of Bank Handlowy w Warszawie S.A., including in particular the relations and processes between the Company's statutory bodies, led to the adoption of best practices as set forth in the "Best Practices for WSE Listed Companies" to be applied by the Bank. The aforementioned document is available on the website of the Warsaw Stock Exchange. By a resolution of 13 May 2008 adopted by the Management Board and a resolution of 20 May 2008 adopted by the Supervisory Board, the Bank's governing bodies declared their willingness to comply with the corporate governance rules specified in the "Best Practices for WSE Listed Companies", except for three rules not applicable to the Bank's operations. Additionally, by a resolution of 20 July 2010 adopted by the Management Board and a resolution of 6 August 2010 adopted by the Supervisory Board, the Bank's governing bodies agreed to comply with corporate governance rules specified in the "Best Practices for WSE Listed Companies", amended by the resolution of 19 May 2010 adopted by the Board of the Warsaw Stock Exchange.

The Bank continually undertakes actions aimed at improving transparency in its organization, its division of powers and functioning of its respective governing bodies, and their mutual relations. These include the following:

- The Bank has published its financial statements in accordance with International Financial Reporting Standards (IFRS) since 1 January 2005;
- One half of the Bank Supervisory Board is composed of independent members, including the Chairman of the Board;
- The Audit Committee, composed of two independent members, including the independent Chairman of the Committee, has been established within the Bank Supervisory Board;
- Remuneration of all the Management Board members is commensurate with the company size and reflects the individuals' scope of duties and responsibilities;
- All significant internal regulations as well as information and documents relating to the Company General Meetings are available at the Company's registered office and via its website.

Recommendations and corporate governance rules as per the "Best Practices for WSE Listed Companies", which were not applied by the Bank in 2010

In May 2008 the Bank declared its willingness to comply with the "Best Practices for WSE Listed Companies", except for the following three rules:

(i) rule II.3 (applicable to the Management Board) and rule III.9 (applicable to the Supervisory Board) in respect of the Supervisory Board's approval of material related party transactions/agreements entered into as part of ongoing operations, in particular those related to liquidity management; and

(ii) rule IV.8 for ensuring a change of the entity authorized to audit the financial statements at least every seven financial years and the recommendation concerning broadcasting the General Meeting sessions via the Internet.

The Bank did not apply rules II.3 and III.9 incorporated in the "Best Practices for WSE Listed Companies" only with respect to related party agreements regarding ongoing operations, in particular those related to liquidity management.
Considering the nature and number of transactions entered into as part of ongoing operations, it is not possible to obtain the Supervisory Board's approval of their conclusion from the perspective of the operating activity. Simultaneously, it should be emphasized that a report on the ongoing monitoring of the Bank's operations is submitted to the Supervisory Board on a monthly basis, which includes among others information on related party transactions exceeding PLN 100,000.

By a resolution of 19 May 2010 adopted by the Board of the Warsaw Stock Exchange, rule IV.8 of the "Best Practices for WSE Listed Companies was repealed. Since 2010 the Bank, pursuant to the amended corporate governance rules, has been publishing on the Bank's website the content of the company's current rule concerning changing an entity authorized to audit financial statements.

In 2010 the Bank did not apply the recommendation concerning broadcasting the General Meeting sessions via the Internet due to the fact that it does not have a fragmented shareholding structure, and sessions take place at the company's registered office at convenient times.

Internal control and risk management systems in the process of drawing up financial statements of the Bank

The financial statements of the Bank are drawn up by the Financial Reporting and Control Department, which constitutes a separate organizational unit in the Financial Division in the Management and Support Sector, reporting directly to the Chief Financial Officer – Vice-President of the Management Board.

The process of drawing up the financial statements is subject to the Bank's internal control system, aimed at ensuring accuracy and reliability of the data shown in Bank's financial reports. The internal control system includes identification and control of risks related to the process of drawing up the Bank's financial statements, auditing the Bank's compliance with legal provisions and internal regulations in this respect as well as internal audit.

Functional internal control is exercised by every employee and additionally by their direct superiors, peers as well as managers of the Bank's organizational units with respect to the quality and correctness of the employees' performance of duties, with the objective to ensure compliance of such activities with the Bank's procedures and control mechanisms. The risk management is performed by means of internal control mechanisms. The internal control functions include a separate financial control function performed by the Financial Division. The Bank's financial control applies to the accounting policy and financial reporting. The quarterly Risk and Control Self-Assessment (RCSA) constitutes an evaluation and a proactive, effective key risk management process, integrated with the process of drawing up the financial statements. The quarterly RCSA process is the Bank's fundamental tool used for monitoring the risk levels as well as changes in the financial reporting environment, for identification of new threats, verification of control mechanisms' efficiency and implementation of corrective action plans. The Bank's operational risk monitoring process is based on efficient mechanisms ensuring the security of technology systems. The IT systems used in the process of drawing up the financial statements are covered by the Bank's COB plan.

The functional control system is supervised by the Bank's Management Board supported by the Risk and Capital Management Committee.

The Bank's internal audits are conducted by the Audit and Risk Review Department, a separate organizational unit of the Bank, reporting directly to the President of the Management Board. The ARR Department is responsible for an independent and objective review and assessment of the risk related to the activities undertaken by the units involved in the process of the Bank's financial reporting as well as effectiveness of the internal control system. To this end, the Department regularly controls and evaluates the compliance of the above units with the law, internal normative acts as well as the risk incurred.

The Supervisory Board of the Bank exercises supervision over the internal control system and the operations of the Audit and Risk Review Department. The Supervisory Board performs its functions with the support of the Audit Committee, which, as part of the supervisory function, in cooperation with the Bank's Management Board and the statutory auditor verifies the fairness of the financial statements as well as proper functioning of the processes related to their preparation and submits recommendations regarding the approval of the annual and interim financial statements by the Bank's Supervisory Board.

On a periodic basis, at least once per annum, the Head of the ARR Department provides the Supervisory and the Management Boards with information on irregularities identified and conclusions arrived at in the course of the internal audits performed as well as measures undertaken to remove the irregularities or implement the recommendations. The ARR Head has the right to participate in meetings of the Management and Supervisory Boards during which issues related to the Bank's internal control are considered.

Significant shareholdings

The Bank's shareholder holding a significant block of the Bank's shares is Citibank Overseas Investment Corporation (COIC) – a subsidiary of Citibank N.A. that holds 97,994,700 shares, which accounts for 75% of the Bank's share capital. The number of votes corresponding to COIC's shareholding is 97,994,700, which accounts for 75% of the total number of votes at the Bank's General Meeting.
All shares issued by the Bank are ordinary bearer shares which do not involve any special control privileges with respect to the Bank.
The restrictions result from Article 25 of the Banking Act – an entity which intends to purchase or acquire – directly or indirectly – shares, or rights attached to shares, of a domestic bank in an amount that ensures reaching or exceeding the thresholds of 10%, 20%, one-third, 50% of the total number of votes at the General Meeting or interest in the share capital, respectively, is obliged to notify each time the Polish Financial Supervision Authority of its intention. An entity which intends to become, directly or indirectly, a parent company of a domestic bank in a manner other than by purchasing or acquiring shares, or rights attached to shares, of a domestic bank in an amount that ensures a majority of the total number of votes at the General Meeting is obliged to notify each time the Polish Financial Supervision Authority of its intention. The Bank's Articles of Association do not provide for any other restrictions as regards the transfer of its shares.

Rules governing the appointment and dismissal of Members of the Management Board

The Management Board of the Bank is composed of five to nine members, including President of the Management Board of the Company, Vice-Presidents of the Management Board of the Company as well as Members of the Management Board. At least half of the members of the Management Board should be of Polish nationality. Each member of the Management Board is appointed by the Supervisory Board for an individual term of three years. The appointment of two members of the Bank's Management Board, including the President, requires the approval of the Polish Financial Supervision Authority.

The term of office of a member of the Management Board expires:

1) as of the date of the General Meeting which approves the Management Board's report on the activities of the Bank as well as the financial statements for the last full financial year of a Management Board member's term of office;
2) upon the death of a Management Board member;
3) as of the date of dismissal of a Management Board member;
4) as of the date of resignation submitted to the Chairman of the Supervisory Board in writing.

The Management Board decides, by resolutions, on the Company's matters not reserved by the applicable laws and the Articles of Association to be a responsibility of another governing body. In particular, it:

1) determines the strategy of the Company;
2) establishes and liquidates the Company's committees and determines their competences;
3) develops its regulations and submits them to the Supervisory Board for approval;
4) develops regulations regarding the management of special funds created from the net profit and submits them to the Supervisory Board for approval;
5) determines dividend payment dates within the deadlines specified by the General Meeting;
6) appoints proxies, general attorneys and general attorneys with the right of substitution;
7) decides on matters specified in the regulations of the Management Board;
8) resolves issues raised by the President, Vice-President or a member of the Management Board;

9) takes independent decisions regarding acquisition and disposal of real properties, perpetual usufruct or share in a real property;
10) adopts a draft of the Company's annual financial plan, accepts investment plans and reports on their implementation;
11) accepts reports on the activities of the Company as well as financial statements;
12) draws up motions regarding profit distribution or loss coverage methods;
13) approves the HR and credit policy as well as legal rules governing the Company's operation;
14) approves the principles governing the Company's capital management;
15) approves the employment structure;
16) determines the fundamental organizational structure of the Company, appoints and dismisses Sector Heads, appoints and dismisses Division Heads and determines the scope of their competence;
17) develops the plan of control measures undertaken in the Company and accepts reports on audits conducted;
18) resolves other issues subject to submission to the Supervisory Board or the General Meeting pursuant to the Articles of Association;
19) decides on contracting liabilities or managing assets whose total value with respect to one entity exceeds 5% of the Company's equity or grants authorizations to designated parties to take the aforementioned decisions. However, with respect to issues for which the Company's Committees bear responsibility, such decisions are made upon consultation with the competent Committee;
20) determines the organizational structure and the scope of responsibilities of the ARR Department, including mechanisms ensuring audit independence.

The Management Board is in charge of development, implementation and ensuring proper functioning of the Company's management system. It develops, implements, approves and updates written strategies, procedures, plans and analyses as well as undertakes other measures in respect of the risk management system, internal control, internal capital assessment as well as review of the process of assessing and maintaining the internal capital. Members of the Management Board as well as heads of the organizational units specified in the Regulations of the Management Board are authorized to file motions to be considered by the Management Board with respect to matters within the competence of the aforementioned units.

President of the Management Board:

1) manages the activities of the Management Board, including designation from among the Board members of a person performing the role of Deputy President in his/her absence and determines the method of deputizing other Board members in their absence;
2) convenes and chairs meetings of the Management Board;
3) presents the position of the Management Board to the Company's governing bodies, state and local authorities as well as the general public;
4) files motions to the Supervisory Board regarding the appointment or dismissal of members of the Management Board as well as determination of their remuneration;
5) issues internal regulations governing the Company's operations and has the right to authorize the remaining members of the Management Board or other employees of the Company to issue such regulations;
6) decides on the use of internal control results and notifies the audited unit of any decisions made with respect to the audit;
7) exercises other rights under the regulations adopted by the Supervisory Board.

President of the Management Board has the right to assign to individual members of the Management Board as well as Division Heads particular responsibilities as specified above, except for those referred to in points 1) and 4).

Amendments to the Articles of Association

The General Meeting is authorized to introduce amendments to the Bank's Articles of Association. Any changes to the Articles of Associations must be entered in the register. Pursuant to Article 34 clause 2 of the Banking Act of 29 August 1997, any amendments to the Bank's Articles of Association require permission of the Polish Financial Supervision Authority, if they pertain to:

1) the Bank's name;
2) the Bank's registered office as well as the object and scope of its business activities;
3) the governing bodies and their powers, in particular those of members of the Management Board appointed upon the consent of the Polish Financial Supervision Authority as well as the principles governing the decision-making process, the fundamental organizational structure of the Bank, principles for submitting declarations with respect to property rights and obligations, the procedure for issuing internal regulations and the decision-making process regarding contracting liabilities or disposal of assets whose total value with respect to one entity exceeds 5% of the Bank's equity;
4) the principles governing the internal control system;
5) equity and financial management principles;
6) share privilege or restrictions with respect to the voting right.

General Meeting procedure, description of its fundamental powers as well as shareholder rights and their exercise method

General Meeting procedure

The General Meeting of the Bank operates in accordance with the Regulations of the General Meeting, Articles of Association as well as applicable laws. The Bank's General Meetings (General Meeting) comply with stable Regulations setting forth detailed principles for conducting meetings and adopting resolutions.

It is the Company's practice that the General Meeting is held at the registered office of the Company in Warsaw. The ordinary General Meeting of Shareholders is convened by the Management Board. It shall be held within the first six months after the end of each financial year. The Company's practice is to convene the Ordinary General Meeting no later than in the last week of June, before noon time. The Supervisory Board shall have the right to convene an ordinary General Meeting of Shareholders if the Management Board fails to convene such meeting within the timeframe set in the Articles of Association or an extraordinary General Meeting of Shareholders if the Board considers it necessary. The extraordinary General Meeting is convened by the Management Board on its own initiative and at the request of a shareholder or shareholders representing at least one-twentieth part of the share capital. A request for convening an extraordinary General Meeting of Shareholders should be submitted to the Management Board in writing or in an electronic form. If within two weeks from submission to the Management Board of a request an extraordinary General Meeting of Shareholders is not convened, the registry court, by way of a decision, can authorize a shareholder or shareholders, who have made such request, to convene the extraordinary General Meeting of Shareholders. The shareholder or shareholders authorized by the registry court, in the notice convening an extraordinary General Meeting of Shareholders, shall refer to the decision of the registry court mentioned in the previous sentence. The chairman of such an extraordinary General Meeting of Shareholders shall be appointed by the registry court. An extraordinary Meeting of Shareholders may also be convened by shareholders representing at least one half of the Bank's share capital or at least one half of the total number of votes at the Bank. The chairman of such a Meeting of Shareholders shall be appointed by the shareholders. The General Meeting of Shareholders shall be convened by way of announcement placed on the Bank's website and in the manner stipulated for the distribution of current filings by public companies, provided that such an announcement is made at least twenty six days before the date of the General Meeting of Shareholders. Shareholders who have the right to demand that a certain issue be included on the agenda of a General Meeting of Shareholders, in order to exercise such right, should submit a motion to the Bank Management Board in writing or in an electronic form, along with a justification and a draft resolution related to the proposed item on the agenda, no later than twenty-one days before the date of the General Meeting of Shareholders. The Management Board shall place the issue on the agenda of the next General Meeting of Shareholders immediately, but no later than eighteen days before the scheduled date of the General Meeting of Shareholders. General Meeting of Shareholders may be cancelled only if there are some extraordinary obstacles preventing it or it has become expressly irrelevant. A General Meeting is cancelled, or its date is changed, in the same manner as it is convened, except that the twenty six day period is not applied. Cancellation or the change of date of a General Meeting of Shareholders must ensure the minimum adverse effects for the Bank and the shareholders. The General Meeting of Shareholders can resolve not to consider an issue placed on its agenda and to change the order of issues included on the agenda. However, in order to remove from the agenda or resolve not to consider an issue included on the agenda at shareholders' request, the consent of all present shareholders who have made such a request shall be required, supported by 80% of votes at the General Meeting of Shareholders. Motions concerning such issues should be justified in a detailed way.

A full text of the documentation to be presented at the General Meeting of Shareholders along with the draft resolutions (and if a given case does not require passing a resolution – along with the comments of the Management Board) and other information with respect to a General Meeting, shall be placed at the Bank's website as of the day of convening such a General Meeting. Materials to be used at the General Meeting are made available at the Company's registered office at the time specified in the announcement convening the General Meeting. Notwithstanding the foregoing, the Bank shall fulfill all disclosure requirements related to convening General Meetings imposed by the applicable laws.

The General Meeting is opened by the Chairman of the Supervisory Board and in his/her absence by the Vice-Chairman or a member of the Supervisory Board. It is the Company's practice with respect to holding General Meetings that a Chairman of the Meeting is elected immediately after opening the Meeting. The General Meeting does not make any decisions prior to the election of the Chairman.

Through the party in charge of opening the General Meeting, the Bank's Management Board always provides the Chairman of the General Meeting with instructions for performing such a function in a manner ensuring compliance with generally applicable laws, corporate governance rules, the Articles of Association as well as internal regulations of the Bank. Members of the Bank's Management and Supervisory Boards as well as the statutory auditor ought to participate in the session of the General Meeting if it focuses on financial issues.

The General Meeting votes in an open ballot. Secret ballot is applied with respect to elections and motions regarding dismissal of members of the Company's governing bodies or liquidators, holding them liable, as well as in personal matters. In addition, secret ballot must be ordered upon the motion of at least one shareholder present or represented at the General Meeting.

The General Meeting is valid irrespective of the number of shares represented at it, subject to specific circumstances defined by applicable laws. Resolutions are adopted by the General Meeting by an absolute majority of votes cast by the attendees, unless the applicable laws or the Articles of Association provide otherwise.

In practice, voting takes place through a computer system for casting and counting votes, which ensures that the number of votes corresponds to the number of shares held and eliminates the possibility to identify the vote casting method used by individual shareholders in the event of secret ballot.

The Chairman of the General Meeting ought to formulate resolutions in a manner ensuring that each authorized party who objects to the decision constituting the object of the resolution has an opportunity to appeal against it. The Chairman of the General Meeting is obliged to ensure that resolutions are drawn up in a clear and explicit manner. Additionally, the Management Board of the Company provides the Chairman with the potential assistance of the entity rendering legal services to the Company.

Resolutions adopted by the General Meeting are recorded in the form of minutes by a notary public. The minutes should state that the General Meeting has been properly convened and has the capacity to adopt resolutions, as well as list the resolutions adopted, number of votes for each resolution as well as objections filed. The minutes should be supplemented with an attendance list, including signatures of the participants in the General Meeting. The evidence supporting the fact of convening the General Meeting should be enclosed by the Management Board in the book of minutes.

The Management Board encloses a copy of the minutes in the book of minutes.

General Meetings may be attended by the media.

Fundamental powers of the General Meeting

The General Meeting should be convened to:

1) examine and approve the Management Board's report on the activities of the Company, its financial statements for the previous financial year as well as the consolidated financial statements of the Company's capital group;
2) adopt a resolution on profit distribution or loss coverage;
3) acknowledge the fulfillment of duties by the members of the governing bodies of the Company.

In addition to the powers set forth in mandatory provisions of law, the responsibilities of the General Meeting include:

1) disposing of and leasing the enterprise or its organized part and establishing a limited property right on the enterprise or its part;
2) amending the Articles of Association;
3) increasing or reducing the Company's share capital;
4) determining the date of exercising the pre-emptive right with respect to new issues;
5) determining the date of dividend payment for the previous financial year as well as dividend payment deadlines;
6) creating and liquidating special funds from profit;
7) appointing and dismissing members of the Supervisory Board;
8) determining the amount of remuneration paid to members of the Supervisory Board;
9) business combination or dissolution of the Company;
10) appointing and dismissing liquidators;
11) redeeming the Company's shares;
12) using the supplementary and reserve capitals, including the reserve capital created for the purpose of collecting undistributed profit (not allocated to dividend paid in a given financial year) as well as general risk fund.

The General Meeting decides upon profit distribution by determining the amount of write-offs for:

1) supplementary capital created on an annual basis from write-offs from profit in the amount of at least 8% of the profit generated in a given financial year until the capital amounts to at least one third of the share capital. The General Meeting has the right to adopt a resolution imposing the obligation to record further write-offs:
2) reserve capital;
3) general risk fund;
4) dividend;

5) special purpose funds;

6) other purposes.

In the event of the Company's liquidation, upon the motion of the Supervisory Board the General Meeting appoints one or more liquidators and determines the liquidation method.

Shareholders' rights and their exercise method

The Company's shares are disposable bearer shares. The shareholders have the right to a share in the profit disclosed in the financial statements audited by a statutory auditor, which has been allocated to payment to the shareholders by the General Meeting. The profit is distributed proportionately to the number of shares.

The right to participate in the General Meeting of the Bank as a public company is vested exclusively in the Bank's shareholders at least sixteen days prior to the date of the General Meeting (Day of Registration of participation in a General Meeting). A shareholder participating in the General Meeting is entitled to vote, file motions and raise objections as well as present a concise statement of reasons for his/her position.

Draft resolutions proposed for adoption by the General Meeting as well as other important materials ought to be provided to the shareholders together with a statement of reasons and the opinion of the Supervisory Board prior to the General Meeting within a time limit sufficient for the shareholders to read and evaluate the above documents.

A shareholder has the right to participate in the General Meeting and exercise his/her voting right in person or through an attorney.

Each shareholder has the right to stand as a candidate for the position of Chairman of the General Meeting, as well as propose one candidate for the position of Chairman of the General Meeting to the minutes.

In consideration of every point of the agenda the shareholder is entitled to make a statement and a response.

Upon a shareholder's request the Management Board is bound by the obligation to provide him/her with information on the Company, on condition that such a request is justified for the purpose of evaluating the issue included in the agenda. The Management Board ought to refuse access to information if such an action:

1) could be detrimental to the Company, its related party or subsidiary, in particular through the disclosure of technical, trade or organizational secrets of the enterprise;

2) could expose a member of the Management Board to penal, civil or administrative liability.

In justified cases the Management Board has the right to provide information in writing, not later than within 2 (two) weeks from the date of closing the General Meeting.

The governing bodies of the Company do not limit the information but at the same time they comply with the provisions of the Act on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organized Trading and Public Companies, the Act on Trading in Financial Instruments, the Regulation on current and periodical reporting by issuers of securities as well as the provisions of the Code of Commercial Companies.

The General Meeting is valid irrespective of the number of shares represented at it, subject to specific circumstances defined by applicable laws. Resolutions are adopted by the General Meeting by the absolute majority of votes cast by the attendees, unless the applicable laws or the Articles of Association provide otherwise.

Each shareholder has the right to object to the provisions of a resolution adopted by the General Meeting as well as present his/her related arguments and statement of reasons.

Each shareholder has the right to propose changes and supplements to draft resolutions included in the agenda of the General Meeting until the closing of the discussion regarding a particular item of the agenda with respect to the draft resolution to which the proposal applies. Proposals and their brief justifications ought to be presented in writing.

A shareholder may file a motion on a formal issue at the General Meeting. Motions on formal issues concern the procedure and voting.

The shareholders have the right to propose their candidates to the Bank's Supervisory Board in writing to the Chairman of the General Meeting or orally to be included in the minutes; in both cases the proposals require a brief justification.

The shareholders have the right to access the book of minutes and request the issuance of copies of the resolutions certified by the Management Board.

Shareholders who voted against a resolution at the General Meeting and after its adoption requested their objection to be recorded in the minutes, shareholders who have not been admitted to participate in the General Meeting for no legitimate reasons and shareholders absent from the General Meeting shall have the right to file an action regarding cancellation of a resolution adopted by the General Meeting only in the event the procedure for convening the General Meeting was not executed correctly or a resolution was adopted with respect to an issue not included in the agenda.

The shareholders have the right to file an action against the Company in order to cancel a resolution adopted by the General Meeting which does not comply with an applicable legal act.

The Company's shares may be redeemed upon the consent of a shareholder through their acquisition by the Company (voluntary redemption). Share redemption requires the adoption of a relevant resolution by the General Meeting. The resolution ought to determine in particular the legal basis for the redemption, the amount of consideration payable to the shareholder of the redeemed shares or a statement of reasons for share redemption without a consideration as well as the method of reducing the share capital.

The Bank ensures adequate protection of the minority shareholders rights, within the constraints dictated by its corporate status and the associated primacy of the majority rule principle. In particular, in order to ensure equitable treatment of all shareholders the Bank adheres, among others, to the following practices:

- The General Meetings always take place in the Company's registered office in Warsaw;
- Presence of representatives of the media at the General Meetings is allowed;
- In accordance with corporate practices, all important materials being prepared for the General Meeting, including draft resolutions with justifications and opinions of the Supervisory Board, are made available to Shareholders no later than within 14 days before the date of the General Meeting, at the Company's registered office and via the Bank's website
- The General Meeting has stable Regulations setting forth detailed principles for conducting meetings and adoption of resolutions;
- Members of the Management Board and Supervisory Board take part in the General Meeting in order to provide its participants with explanations and information about the Bank within the scope of their powers and responsibilities;
- The General Meeting participants objecting to a resolution are offered an opportunity for brief presentation of the rationale of their objection. Moreover, each General Meeting participant can submit written statements to the meeting minutes.

The Bank's information policy, the aim of which is to provide information to all persons and institutions that need information about the Company, includes as its integral part the investor relations function, which provides information to current and potential investors and capital market analysts. The methods whereby the Bank delivers its information policy through the investor relations function include:

- Regular meetings with analysts and investors in the form of briefings and conference calls, also in the Bank's registered office, in which members of the Bank's Management Board participate;
- Support from the Public Relations Office at quarterly media press conferences organized after publication of interim statements;

- Publication on the Bank's website of current information about the Bank and its undertakings, and all the current and periodic reports; the website facilitates contact with the Investor Relations team, which provides information about the Bank and its Capital Group;
- Enabling participation of media representatives at the General Meetings.

Composition of and changes to the Management and Supervisory Boards. Rules of procedure of the Bank's managing and supervisory bodies

Management Board

The Management Board of the Bank is composed of five to nine members, including President of the Management Board of the Company, Vice-Presidents of the Management Board of the Company as well as Members of the Management Board. At least half of the members of the Management Board should be of Polish nationality. Each member of the Management Board is appointed by the Supervisory Board for a term of three years.

In 2010, the Management Board of the Company was composed of six members, including:

Sławomir S. Sikora – President of the Management Board;

Robert Daniel Massey Jr. – Vice-President of the Management Board, appointed to the position on 26 May 2010;

Michał H. Mrożek – Vice-President of the Management Board (On the 28^{th} of February 2011 Mr. Michał Mrożek, ceased to perform his duties as the Vice Presidet of the Management Board, due to accepting an offered position in the Citibank Headquarters in New York);

Sonia Wędrychowicz-Horbatowska – Vice-President of the Management Board;

Witold Zieliński – Vice-President of the Management Board;

Iwona Dudzińska – Member of the Management Board.

The Management Board of the Company operates on the basis of generally applicable regulations, the Company's Articles of Association as well as the Regulations of the Management Board of Bank Handlowy w Warszawie S.A.

The Regulations of the Management Board of Bank Handlowy w Warszawie S.A. set forth the scope, rules of procedure as well as the procedure for the adoption of resolutions.

President of the Management Board convenes and chairs meetings of the Management Board, and he/she may also determine fixed meeting dates.

The Corporate Services Office in the Corporate Communication and Marketing Department, henceforth the Corporate Services Office, ensures organizational support to the Management Board.

The attendance of members of the Management Board at its meetings is obligatory. Absence must be excused. In addition to members of the Management Board, meetings may be attended by:

1) Division Heads;
2) Corporate Services Office Head or a designated person;
3) Compliance Head;
4) Legal Division Head.

The ARR Head may participate in meetings of the Management Board during which issues related to the Company's internal control are considered. Upon the motion of members of the Management Board, meetings may be attended by the Company's employees or third parties competent with respect to a particular matter. The chairman of the meeting may decide upon a debate without the participation of parties not being members of the Management Board.

For resolutions adopted by the Management Board to be valid the presence of at least half of the members at the meeting is required. Adoption of resolutions by the Management Board requires the absolute majority of votes.

The Management Board adopts resolutions by voting in an open ballot. The chairman of the meeting may order a secret ballot on his/her own initiative or upon a motion of a member of the Management Board. A resolution of the Management Board enters into force as of the date of its adoption, unless a different adoption date is specified therein.

In justified cases, resolutions may be adopted by the Management Board by circulation pursuant to a decision of the President of the Management Board or the Deputy President. A resolution may be adopted by circulation provided that all members of the Management Board are notified of its adoption. A resolution adopted by circulation constitutes an appendix to the minutes from the first meeting of the Management Board following its adoption.

Minutes are taken from the Management Board's meeting, for which the Corporate Services Office is responsible. Minutes from the Management Board's meetings are marked with the clause "banking, restricted". The minutes ought to include:

1) agenda;
2) first and last names of attendees;
3) information on excused absence or reasons for the absence of members of the Management Board from a meeting;
4) texts of resolutions adopted;
5) number of votes cast for a particular resolution and dissenting opinions;
6) name of the entity or organizational unit or first and last name of the person in charge of implementation of the resolution; and
7) resolution implementation deadline.

The minutes must be taken not later than within 3 (three) business days from the date of the meeting. The minutes are signed by all members of the Management Board attending the meeting, immediately after they have received the document.

The Management Board provides the Supervisory Board with the following financial information:

1) upon preparation, but not later than 30 (thirty) days from each month-end, monthly and periodical (covering the period from the beginning of the year to the end of the preceding month) financial information, compared with the budget adopted in the annual plan and in relation to the previous year;
2) immediately upon preparation, but not later than 120 (one hundred and twenty) days after each year-end, annual individual and consolidated financial statements drawn up in accordance with the International Financial Reporting Standards and audited by the Company's statutory auditor;
3) immediately upon preparation but in each case not later than by the end of each year, the draft annual plan for the following financial year; and
4) immediately, other available financial data related to the Company's operations and its financial position as well as the operations and financial position of the Company's subsidiaries, which may be reasonably requested by a member of the Supervisory Board.

The Supervisory Board

The Supervisory Board of the Company is composed of five to twelve members, each of whom is appointed by the General Meeting for a term of three years. At least half of the members of the Supervisory Board should be of Polish nationality.

At present, the composition of the Company's Supervisory Board is as follows:

Chairman:	Stanisław Sołtysiński,
Vice-Chairmen:	Shirish Apte, Andrzej Olechowski,
Members:	Igor Chalupec, Sanjeeb Chaudhuri, Mirosław Gryszka, Frank Mannion, Krzysztof Opolski, Stephen Simcock, Wiesław A. Smulski, Alberto J. Verme, Stephen R. Volk.

Independent members account for half of the members of the Supervisory Board. The independence criteria with respect to members of the Supervisory Board are set forth in the Company's Articles of Association.

The Supervisory Board of the Company operates on the basis of generally applicable regulations, the Company's Articles of Association as well as the Regulations of the Supervisory Board of Bank Handlowy w Warszawie S.A.

The Supervisory Board performs activities as set forth in the applicable laws and the Company's Articles of Association, in line with the Regulations of the Supervisory Board of Bank Handlowy w Warszawie S.A.

Apart from the rights and responsibilities stipulated in the applicable laws, the powers of the Supervisory Board include:

1) appointment and dismissal of the President of the Management Board of the Company in a secret ballot;
2) appointment and dismissal of Vice-Presidents and other members of the Company's Management Board in a secret ballot upon the motion of the President of the Management Board;
3) determination of the terms and conditions of employment contracts or other legal relationship between members of the Management Board and the Company;
4) granting consent to opening or closing branches;
5) adoption of the Regulations of the Supervisory Board as well as the approval of:
   a) the Regulations of the Management Board of the Company;
   b) regulations for management of special funds created from the net profit;

   as adopted by the Management Board of the Company;
6) granting prior consent to undertaking measures with respect to management of the Company's fixed assets with value exceeding 1/10 of the Company's share capital;
7) appointment of the Company's statutory auditor;
8) granting consent to employment and dismissal of the person in charge of the Audit and Risk Review Department upon the motion of the Management Board;
9) supervision over the Company's internal control system in line with the principles determined separately in the Company's Articles of Association and the Regulations of the Audit Committee;
10) any performances made by the Company and its related parties for the benefit of members of the Management Board as well as granting consent to entering into a material agreement by the Company

or its subsidiary with the Company's related party, member of the Supervisory Board or Management Board as well as their related parties;

11) supervision over the implementation of a management system in the Company as well as evaluation of the adequacy and efficiency of this system.

12) supervision over implementation and monitoring of the Bank's management system, including in particular supervision over non-compliance risk management, as well as evaluation, at least once a year, of adequacy and efficiency of this system;

13) approval of the Bank's operational strategy and the principles for prudent and stable management of the Bank;

14) approval of the fundamental organizational structure of the Bank, adjusted to the size and profile of incurred risk and determined by the Bank's Management Board;

15) acceptance of the general level of the Bank's risk;

16) approval of the principles of the Bank's policy regarding the non-compliance risk;

17) approval of the Bank's internal procedures concerning the processes of assessment of internal capital, capital management and capital planning;

18) approval of the Bank's information policy;

19) approval of the internal control procedure.

Additionally, the Supervisory Board is responsible for suspending individual or all members of the Management Board for material reasons as well as delegating members of the Supervisory Board to temporarily (for a period not exceeding three months) act in the capacity of members of the Management Board who have been dismissed, submitted a statement of resignation or are incapable of performing their duties for any other reasons.

Members of the Supervisory Board perform their duties in person. The Supervisory Board performs its duties collectively; each member of the Supervisory Board has the right to be provided by the Management Board with information required for due performance of their duties. Meetings of the Supervisory Board are held at least once a quarter. Such meetings are convened by Chairman of the Supervisory Board, and in his/her absence – by one of Vice-Chairmen of the Supervisory Board on their own initiative, upon the motion of a member of the Supervisory Board or upon the motion of the Management Board of the Company. The Chairman of the Supervisory Board may determine fixed dates of the Supervisory Board's meetings. Notices convening such meetings, including the agenda and materials to be debated upon, are distributed by the Secretary of the Supervisory Board to members of the Supervisory Board at least 7 (seven) days prior to the date of the meeting.

The Supervisory Board meets on the date of the General Meeting which approves the Management Board's report on the activities of the Company as well as the financial statements for the last full financial year of performing the function of member of the Management Board in which the terms of office expire, for the purpose of electing new members of the Management Board of the Company.

On an annual basis, the Supervisory Board adopts a resolution regarding the report on the activities prepared by the Board, presenting the Supervisory Board's evaluation of the Company's position, evaluation of the Supervisory Board's activities, evaluation of an internal control system and a significant risk management system, as well as the results of the evaluation of the financial statements of the Company, including proposals of the Management Board as to profit distribution. The above document is submitted by the Supervisory Board to the General Meeting for approval.

Members of the Supervisory Board may participate in the process of resolution adoption, by casting their votes in writing through another member of the Supervisory Board. The Supervisory Board has the right to adopt resolutions in writing or by means of direct long-distance communication.

Meetings of the Supervisory Board are chaired by the Chairman of the Supervisory Board and in his/her absence – by one of the Vice-Chairmen of the Supervisory Board. If both the Chairman and Vice-

Chairman are absent – the meeting is chaired by a member of the Supervisory Board elected by the remaining members.

For resolutions adopted by the Supervisory Board to be valid the presence of at least half of the members at the meeting is required. Adoption of resolutions by the Supervisory Board requires the absolute majority of votes. Without the consent of the majority of independent members of the Supervisory Board resolutions should not be adopted with respect to:

1) any performances made by the Company or its related parties for the benefit of members of the Management Board;
2) granting consent to entering into a material agreement by the Company or its subsidiary and the Company's related party, member of the Supervisory Board or Management Board or their related parties;
3) appointment of a statutory auditor responsible for auditing the financial statements of the Company.

Each member of the Supervisory Board is obliged to immediately inform the remaining members of a conflict of interests and refrain from taking part in the discussion as well as voting on a resolution with respect to which a conflict has arisen.

The Supervisory Board adopts resolutions in an open ballot, except for the appointment and dismissal of the President of the Management Board in a secret ballot as well as the appointment and dismissal of Vice-Presidents and other members of the Company's Management in a secret ballot upon the motion of the President of the Management Board. The chairman of the meeting may decide upon a secret ballot with respect to other issues on his/her own initiative or upon a motion of a member of the Supervisory Board.

A resolution of the Supervisory Board enters into force as of the date of its adoption, unless a different adoption date is specified therein.

Minutes are taken from the meetings of the Supervisory Board, including the agenda, first and last names of the present members of the Supervisory Board, the number of members absent from the meeting with the reasons for their absence, the number of votes for individual resolutions, separate tasks as well as the full text of resolutions adopted. The list of members of the Supervisory Board attending the meeting as well as other participants constitutes an appendix to the minutes. The minutes are signed by all members of the Supervisory Board attending the meeting. The minutes from the meetings of the Supervisory Board for the whole term of its office are collected in a separate file stored by the Company.

Members of the Management Board of the Company attend meetings of the Supervisory Board, except for those concerning directly the Management Board. Upon the motion of Chairman of the Supervisory Board or the Management Board, meetings may be attended by the Company's employees or third parties competent with regard to a particular matter. The ARR Head may participate in meetings of the Supervisory Board during which issues related to the Company's internal control are considered. In particularly justified circumstances, Chairman of the Supervisory Board may decide to convene a meeting without the participation of parties other than members of the Supervisory Board, irrespective of any previous regulations providing otherwise.

Supervisory Board Committees

Standing Committees of the Supervisory Board include:

1) Audit Committee; and
2) Remuneration Committee;
3) Risk and Capital Committee.

The Supervisory Board has the right to adopt a resolution on the appointment of committees other than those specified above and composed exclusively of members of the Supervisory Board. The relevant resolution of the Supervisory Board sets forth the scope of responsibilities of such a committee.

In line with the aforementioned procedure, in 2003 the Supervisory Board appointed the **Strategy and Management Committee** responsible for ongoing analyses of all issues related to the activities performed by the Bank's corporate bodies as well as streamlining their functioning. The Committee is composed of: Shirish Apte acting as the Chairman, Andrzej Olechowski and Alberto J. Verme acting as the Vice-Chairmen and Igor Chalupec, Sanjeeb Chaudhuri, Mirosław Gryszka, Stanisław Sołtysiński and Stephen R. Volk acting as Committee members. The Committee meets as convened by the Chairman.

Audit Committee

The Audit Committee is composed of:

1) Mirosław Gryszka – Chairman of the Committee;
2) Stephen Simcock – Vice-Chairman of the Committee;
3) Shirish Apte – Member of the Committee;
4) Krzysztof Opolski – Member of the Committee;
5) Wiesław Smulski – Member of the Committee;
6) Frank Mannion – Member of the Committee.

The Audit Committee is a standing committee of the Company's Supervisory Board.

The roles and responsibilities of the Audit Committee include monitoring the financial reporting, monitoring the efficiency of the systems of internal control and internal audit, monitoring the risk management, monitoring the audit performance and monitoring the independence of the auditor.

Members of the Committee perform their roles pursuant to Article 390 of the Code of Commercial Companies. The Committee submits annual reports on its activities to the Supervisory Board. A report for each subsequent calendar year is submitted by the end of the first quarter of the following year. The aforementioned reports are made available to the shareholders through their publication at the Bank's website. During the first subsequent meeting of the Supervisory Board the Committee provides the Board with a report on every meeting of the Committee as well as its recommendations discussed at such meetings.

The Audit Committee should consist of at least two independent members, one of whom performs the function of the Committee Chairman. At least one member of the Committee should meet the independence requirements referred to in Article 56, clause 3, point 1, 3, 5 of the Act on auditors, their self-government and the entities authorized to audit financial statements and public supervision, as well as hold qualifications within the field of accounting or financial auditing.

For the resolutions adopted by the Committee to be valid, at least three members must participate in the meeting.

Audit Committee meetings are convened by the Committee Chairman on his/her own initiative or upon the motion of a Committee member. Should the Committee Chairman be unable to convene a meeting for any reason whatsoever, the above right is exercised by the Deputy Chairman. Meetings are also convened upon the motion of a Committee member or the Chairman of the Supervisory Board.

A notice convening the meeting, including the agenda and materials subject to discussion, is distributed to members of the Audit Committee by the Secretary of the Committee (this role is performed by the Secretary of the Supervisory Board). Meetings of the Audit Committee are held at least four times per annum at dates determined by the Chairman upon consultation with the Deputy Chairman of the Committee.

At least on an annual basis the Audit Committee meets:

1) with Audit and Risk Review Head, without the participation of the management;
2) with the statutory auditor of the Company, without the participation of the management;
3) members of the Audit Committee, exclusively.

At its discretion, the Audit Committee may also meet with individual executives of the Company.

The agenda of the Audit Committee includes standing items as well as issues considered upon motion. The number of standing items considered at the Committee's meetings is determined in a resolution adopted by the Committee. The Supervisory Board, individual Committee members as well as the remaining members of the Supervisory Board have the right to propose issues to be considered at the Committee's meetings.

Basing on materials received, the Secretary of the Audit Committee develops a draft agenda, including a list of invitees, and submits it to the Committee Chairman and Deputy Chairman for approval. The draft agenda approved by the Committee Chairman and Deputy Chairman is distributed with materials to Committee members.

All members of the Audit Committee are obliged to participate in its meetings. A Committee member unable to take part in the meeting should inform the Secretary of the Committee accordingly seven days prior to the specified meeting date. The Committee has the right to consult advisors and invite the Company's employees or other parties to its meetings to discuss or examine the issues considered by the Committee. Parties invited by the Committee Chairman or Deputy Chairman may participate in the meeting or its relevant part.

The meetings of the Committee are chaired by the Chairman of the Audit Committee. In the Chairman's absence, the meetings are chaired by the Deputy Chairman. Upon consultation with the Deputy Chairman of the Committee, the Chairman may remove an issue from the agenda, in particular for the purpose of supplementing a motion or obtaining an opinion.

Resolutions of the Audit Committee are adopted by the absolute majority of votes cast by Committee members attending a meeting.
Upon consultation with the Deputy Chairman of the Committee, the Chairman may decide on considering a matter by circulation (in writing).

Remuneration Committee

The Remuneration Committee is composed of:

1) Stanisław Sołtysiński – Chairman of the Committee;
2) Alberto J. Verme – Vice-Chairman of the Committee;
3) Shirish Apte – Member of the Committee;
4) Andrzej Olechowski – Member of the Committee.

The Remuneration Committee is a standing committee of the Company's Supervisory Board.

The Remuneration Committee is an advisory body of the Supervisory Board and the Committee members perform their functions pursuant to Article 390 of the Code of Commercial Companies. The Committee submits annual reports on its activities to the Supervisory Board. A report for each subsequent calendar year is submitted by the end of the first quarter of the following year. The aforementioned reports are made available to the shareholders through their publication at the Bank's website. During the first subsequent meeting of the Supervisory Board the Committee provides the Board with a report on every meeting of the Committee as well as its recommendations discussed at such meetings.

The powers and responsibilities of the Remuneration Committee include:

1) evaluating the remuneration paid to members of the Company's Management Board against arm's length criteria. The evaluation involves analysis of reports prepared by independent experts or independent market research companies and providing the Supervisory Board with information on material changes to arm's length conditions for remunerating management board members of competitive entities;

2) evaluating the remuneration paid to members of the Company's Management Board with respect to their scopes of duties and their performance. The evaluation involves analyses of the relationship between remuneration paid to individual members of the Company's Management Board and the present scope of their duties and the performance of such duties by members of the Company's Management Board as well as informing the Supervisory Board of material changes in the relationship referred to above;
3) providing the Supervisory Board with recommendations as to the amount of remuneration paid to individual members of the Company's Management Board each time prior to its determination or modification. Recommendations are submitted following the assessment of qualifications and scopes of duties of each member of the Company's Management Board as well as suggestions as to the adequate remuneration. The suggestions presented by the Remuneration Committee ought to apply to both the total amount of remuneration and its individual components;
4) performing a general assessment of the correctness of the remuneration policy adopted by the Company with respect to its executives not being members of the Management Board.

The Remuneration Committee consists of at least 3 (three) members of the Supervisory Board, including 1 (one) independent member of the Supervisory Board. Committee members, including its Chairman and Deputy Chairman are elected by the Supervisory Board in an open ballot.

Remuneration Committee meetings are convened by the Committee Chairman on his/her own initiative or by the Deputy Chairman if the Committee Chairman is unable to convene a meeting for any reasons whatsoever. Meetings are also convened upon the motion of a Committee member or the Chairman of the Supervisory Board. Meetings of the Remuneration Committee are held at least two (2) times a year at dates determined by the Chairman of the Committee. The agenda of the Remuneration Committee includes standing items as well as issues considered upon motion.

Basing on materials received, the Secretary of the Remuneration Committee develops a draft agenda, including a list of invitees and submits it to the Committee Chairman for approval.

All members of the Remuneration Committee are obliged to participate in its meetings. A Committee member unable to take part in the meeting should inform the Secretary of the Committee accordingly 7 (seven) days prior to the specified meeting date. Parties invited by the Committee Chairman, and in particular parties presenting individual issues, participate in the Committee meeting or its relevant part.

Resolutions of the Remuneration Committee are adopted by the absolute majority of votes cast by Committee members attending a meeting.

The Committee Chairman may decide on considering a matter by circulation in writing. A member of the Remuneration Committee voting against may request that a dissenting opinion be included in the minutes.

Minutes are taken from the meetings of the Remuneration Committee. They are signed by the Chairman and the Secretary. The minutes from the Committee meeting are subject to approval by the Committee members at the first subsequent meeting of the Committee.

Risk and Capital Committee

The Risk and Capital Committee is composed of:

1) Alberto Verme – Chairman of the Committee;
2) Igor Chalupec – Vice-Chairman of the Committee;
3) Andrzej Olechowski – Member of the Committee;
4) Stephen Simcock – Member of the Committee;
5) Sanjeeb Chaudhuri – Member of the Committee.

Members of the Committee perform their roles specified in these Regulations pursuant to Article 390 of the Code of Commercial Companies. The Committee submits annual reports on its activities to the Supervisory Board. A report for each subsequent calendar year is submitted by the end of the first quarter of the following year. The aforementioned reports are made available to the shareholders through their publication at the Bank's website and in its registered office. During the first subsequent meeting of the Supervisory Board the Committee provides the Board with a report on every meeting of the Committee as well as its recommendations discussed at such meetings. The Committee's Regulations are published at the Bank's website and made available in its registered office.

The Committee is responsible for supervision over the implementation of a risk management system by the Bank's Management Board, assessment of the adequacy and effectiveness of the aforementioned system as well as supervision over the process of assessing the internal capital and capital management.

The Committee consists of at least four members of the Supervisory Board, one of whom performs the function of the Committee's Chairman. For the resolutions adopted by the Committee to be valid, at least three members must participate in the meeting.
Committee meetings are convened by the Committee Chairman on his/her own initiative or upon the motion of a Committee member. Should the Committee Chairman be unable to convene a meeting for any reason whatsoever, the above right is exercised by the Deputy Chairman. Meetings are also convened upon the motion of a Committee member or the Chairman of the Supervisory Board.
Meetings of the Committee are held at least on a semi-annual basis at dates determined by the Committee Chairman upon consultation with the Deputy Chairman of the Committee.
A notice convening the meeting, including the agenda and materials subject to discussion is distributed to members of the Committee by the Secretary of the Committee (this role is performed by the Secretary of the Supervisory Board). The notice should include the agenda as well as materials related to the matters discussed at the meeting. The agenda of the Committee includes standing items as well as issues considered upon motion. The Supervisory Board, individual Committee members as well as the remaining members of the Supervisory Board have the right to propose issues to be considered at the Committee's meetings.
All members of the Committee are obliged to participate in its meetings.
The Committee has the right to consult advisors and invite the Bank's employees or other parties to its meetings to discuss or examine the issues considered by the Committee.
Parties invited by the Committee Chairman or Deputy Chairman may participate in the meeting or its relevant part.

Committee meetings are chaired by the Chairman of the Committee. In the Chairman's absence, the meetings are chaired by the Deputy Chairman.
Resolutions of the Committee are adopted by the absolute majority of votes cast by Committee members attending a meeting. Upon consultation with the Deputy Chairman of the Committee, the Chairman may decide on considering a matter by circulation (in writing).
Minutes are taken from the Committee meetings.

VII. Bank's Authorities and other corporate governance rules

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

The total amount of salaries, awards and benefits paid or payable to the current and former members of the Bank Management Board in 2010 is as follows:

PLN '000	Salaries, awards and short term benefits		Capital assets granted
	Base salaries and awards	Other benefits	
Sławomir S. Sikora	3,517	193	234
Robert Daniel Massey JR	1,144	100	-
Michał H. Mrożek	1,575	13	64
Sonia Wędrychowicz-Horbatowska	1,666	97	59
Witold Zieliński	1,471	81	53

PLN '000	Salaries, awards and short term benefits		Capital assets granted
	Base salaries and awards	Other benefits	
Iwona Dudzińska	1,514	41	58
Former members of the Bank Management Board:			
Peter Rossiter [(1)]	-	169	-
Edward Wess [(2)]	-	9	-
	10,887	**703**	**468**

(1) until 31 October 2009
(2) until 30 November 2008

'Base salaries and awards' include gross salary paid and payable in respect of the year 2010 as well as awards granted in respect of 2010.
According to a decision of the Supervisory Board, the awards granted to members of the Bank Management Board in respect of 2009 paid in 2010 amounted to a total of PLN 4,248,000.
'Other benefits' include the gross amount of paid remuneration arising from indemnification for employment contract termination, management options, benefits in kind, lump-sum payment for the use of company car, insurance policy premium, holiday leave equivalent, dividend and any supplementary benefits consistent with the employment contracts of foreign employees.
'Capital assets granted' include Citigroup shares granted in the previous years and distributed in 2010 as well as value of options on Citigroup common stock for which exercise rights were granted in 2010.
The total amount of salaries, awards and benefits paid or payable to the current and former members of the Bank Management Board in respect of the year 2009 was as follows:

PLN '000	Salaries, awards and short term benefits		Capital assets granted
	Base salaries and awards	Other benefits	
Sławomir S. Sikora	3,354	291	107
Michał H. Mrożek	1,468	45	36
Sonia Wędrychowicz-Horbatowska	1,599	118	28
Witold Zieliński	1,361	113	30
Iwona Dudzińska	1,187	29	22
Former members of the Bank Management Board:			
Peter Rossiter [(1)]	1,205	165	34
Edward Wess [(2)]	-	479	-
Reza Ghaffari [(3)]	-	6	-
Sanjeeb Chaudhuri [(4)]	-	50	-
	10,174	**1,296**	**257**

(1) until 31 October 2009
(2) until 30 November 2008
(3) until 31 May 2006
(4) until *21 September 2006*

'Base salaries and awards' include gross salary paid and payable in respect of the year 2009 as well as awards granted in respect of 2009.
According to a decision of the Supervisory Board, the awards granted to members of the Bank Management Board in respect of 2008 paid in 2009 amounted to a total of PLN 4,488,000.
'Other benefits' include the gross amount of paid remuneration arising from indemnification for employment contract termination, benefits in kind, lump-sum payment for the use of company car, insurance policy premium, holiday leave equivalent, dividend and any supplementary benefits consistent with the employment contracts of foreign employees.

'Capital assets granted' include Citigroup shares granted in the previous years and distributed in 2009 as well as value of options on Citigroup common stock for which exercise rights were granted in 2009.

The total amount of salaries, awards and benefits paid or payable to the current and former members of the Bank Supervisory Board in respect of the year 2010 and 2009 was as follows:

PLN '000	**2010**	**2009**
Stanisław Sołtysiński	240	240
Mirosław Gryszka	168	168
Andrzej Olechowski	183	216
Wiesław Smulski	120	120
Krzysztof L. Opolski	45	119
Igor Chalupec	168	76
Former Members of the Bank Supervisory Board:		
Göran Collert	68	120
Aneta Polk	97	76
Sabine Hansen Peck	-	78
	1,089	**1,213**

2. Total number and nominal value of the Bank shares and shares in affiliated companies of the Bank held by Members of the Management Board and the Supervisory Board

The total number and nominal value of the Bank shares and shares in affiliated companies of the Bank held by members of the Management Board and the Supervisory Board as at 31 December 2010 is presented below in the table:

	Shares of the Bank Handlowy w Warszawie S.A.		Shares of the Citigroup Inc	
	Shares number (units)	Nominal value (in PLN)	Shares number (units)	Nominal value (in PLN)
Management Board				
Sławomir S. Sikora	-	-	44,460	1,318
Robert Daniel Massey JR	-	-	7,830	232
Sonia Wędrychowicz-Horbatowska	-	-	10,053	298
Witold Zieliński	-	-	10,751	319
Iwona Dudzińska	600	2,400	9,611	285
Supervisory Board				
Stanisław Sołtysiński	-	-	253,400	7,511
Shirish Apte	-	-	798,206	23,660
Andrzej Olechowski	1,200	4,800	-	-
Sanjeeb Chaudhuri	-	-	85,659	2,539
Frank Mannion	-	-	77,787	2,306
Stephen Simcock	-	-	46,700	1,384
Alberto Verme	-	-	1,600,000	47,426
Stephen Volk	-	-	1,128,195	33,441

The total number and nominal value of the Bank shares and shares in affiliated companies of the Bank held by members of the Management Board and the Supervisory Board as at 31 December 2009 is presented below in the table:

	Shares of the Bank Handlowy w Warszawie S.A.		Shares of the Citigroup Inc	
	Shares number (units)	Nominal value (in PLN)	Shares number (units)	Nominal value (in PLN)
Management Board				
Sławomir S. Sikora	-	-	21,866	623
Sonia Wędrychowicz-Horbatowska	-	-	4,068	116
Witold Zieliński	-	-	5,355	153
Iwona Dudzińska	600	2,400	3,667	105
Supervisory Board				
Stanisław Sołtysiński	-	-	141,000	4,019
Shirish Apte	-	-	118,283	3,371
Andrzej Olechowski	1,200	4,800	-	-
Sanjeeb Chaudhuri	-	-	33,640	959
Goran Collert	-	-	10,000	285
Stephen Simcock	-	-	10,302	294
Alberto Verme	-	-	2,734,513	77,942
Stephen Volk		-	1,166,370	33,245

As at 31 December 2010 and 31 December 2009 no member of the Management Board and Supervisor Board was a shareholder of an affiliated company of the Bank.

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

There is one instance of an agreement in which a Management Board Member is entitled to relevant cash compensation following termination of the employment contract.

Each of the Management Board Members signed a separate non-competition agreement with the Bank. The relevant paragraph in each of these agreements specifies that in the period of 12 months following termination of the employment contract with the Bank, the Management Board Member must refrain from conducting business activities competitive to the Bank and that the Bank will pay relevant compensation to the Management Board Member.

4. Corporate governance rules

In 2010 the corporate government rules did not change. The rules are presented in the additional information to the financial statements of the Bank.

VIII. Agreements concluded with the registered audit company

On 24 September 2010, the Supervisory Board of the Bank appointed a new auditor – KPMG Audyt Sp. z o.o. Sp.k. (KPMG) having its registered office in Warsaw at ul. Chłodna 51, a registered audit company No. 3546, to conduct an audit and a review of financial statements of the Bank and the Capital Group of the Bank for the year ended 31 December 2010. KPMG was selected in compliance with the applicable laws and auditing standards.

Earlier, with its resolution of 16 March 2010 the Supervisory Board of the Bank appointed KPMG Audyt Sp. z o.o. (KPMG), a registered audit company No. 458 (KPMG), to conduct an audit and a review of the financial statements of the Bank and the Capital Group of the Bank for the year ended 31 December 2010.

The contractual net fees of KPMG (paid or payable) for the years 2010 and 2009 are presented in the table below:

PLN '000	**For**	**2010**	**2009**
Audit fees (1)		607	607
Review fees (2)		255	300
Other assurance fees (3)		250	135
		1,112	**1,042**

(1) The contract fees for the audit include fees paid or payable to KPMG for audit of the annual standalone and consolidated financial statements of the Bank and its Capital Group (the agreement relating to the year 2010 signed on 9 November 2010).

(2) The contract fees for the review include fees paid or payable to KPMG for review of half-year standalone and consolidated financial statements of the Bank and its Capital Group (the agreement relating to the year 2010 signed on 14 April 2010).

(3) The fees for assurance services include all other fees paid or payable to KPMG. These fees include assurance services related to the audit and review of financial statements not mentioned in points (1) or (2) above.

Other information required by the Regulation of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and on the conditions under which the legally required information originating in a non-member state can be deemed equivalent thereof (Journal of Laws No. 33 item 259, as amended) is included in the financial statements of the Bank.

Signatures of the Management Board Members

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