Contents

Bank Handlowy w Warszawie S.A. Group

Opinion of the Independent Auditor

Financial Year ended 31 December 2010

This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation.

OPINION OF THE INDEPENDENT AUDITOR

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

We have audited the accompanying consolidated financial statements of Bank Handlowy w Warszawie S.A. Group, seated in Warsaw, 16 Senatorska St. ("the Group"), which comprise the consolidated balance sheet as at 31 December 2010, the consolidated income statement and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory information.

Management's and Supervisory Board's Responsibility

Management of the Parent Entity is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by European Union and with other applicable regulations and preparation of the Report on the Group's activities. Management of the Parent Entity is also responsible for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

According to the Accounting Act dated 29 September 1994 (Official Journal from 2009, No. 152, item 1223 with amendments) ("the Accounting Act"), Management of the Parent Entity and members of the Supervisory Board are required to ensure that the consolidated financial statements and the Report on the Group's activities are in compliance with the requirements set forth in the Accounting Act.

Auditor's Responsibility

Our responsibility, based on our audit, is to express an opinion on these consolidated financial statements. We conducted our audit in accordance with section 7 of the Accounting Act, national standards on auditing issued by Polish National Council of Certified Auditors and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the accompanying consolidated financial statements of Bank Handlowy w Warszawie S.A. Group have been prepared and present fairly, in all material respects, the financial position of the Group as at 31 December 2010 and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union, and are in compliance with the respective regulations that apply to the consolidated financial statements, applicable to the Group.

Other Matters

As required under the Accounting Act, we also report that the Report on the Group's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2009, No. 33, item 259 as later amended) and the information is consistent with the consolidated financial statements.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. registration number 3546
ul. Chłodna 51, 00-867 Warsaw

Signed on the Polish original	Signed on the Polish original
....	....
Certified Auditor No. 90115 Magdalena Szymańska-Serwa	Certified Auditor No. 9941 Limited Liability Partner with power of attorney Bożena Graczyk

Warsaw, 9 March 2011

Bank Handlowy w Warszawie S.A. Group

Report Supplementing the Auditor's Opinion on the Consolidated Financial Statements

Financial Year ended 31 December 2010

This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation.

Contents

1. General

1.1. Identification of the Group

1.1.1. Name of the Group

Bank Handlowy w Warszawie S.A. Group

1.1.2. Registered office of the Parent Company of the Group

ul. Senatorska 16
00-923 Warszawa
Polska

1.1.3. Registration of the Parent Company in the National Court Register

Registration court:	District Court in Warsaw, XII Commercial Department of the National Court Register
Date:	22 February 2001
Registration number:	KRS 0000001538
Initial capital as at balance sheet date:	PLN 522 638 400

1.1.4. Management of the Parent Company

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

At 31 December 2010, the Management Board of the Company was comprised of the following members:

• Sławomir S. Sikora	President of the Management Board,
• Robert Daniel Massey JR	Vice-president of the Management Board,
• Michał H. Mrożek	Vice-president of the Management Board,
• Sonia Wędrychowicz-Horbatowska	Vice-president of the Management Board,
• Witold Zieliński	Vice-president of the Management Board,
• Iwona Dudzińska	Member of the Management Board.

On 26 May 2010 the Supervisory Board passed a resolution on appointment of a new member of the Management Board – Robert Daniel Massey JR.

On 28 February 2011 Mr. Michał H. Mrożek, in connection with an offer of starting a job in the head office of Citibank in New York, ceased to function as Vice-president of the Management Board.

1.2. Information about companies comprising the Group

1.2.1. Companies included in the consolidated financial statements

As at 31 December 2010, the following companies were consolidated by the Group:
Parent Company:
• Bank Handlowy w Warszawie S.A.
Subsidiaries consolidated on the full consolidation basis:
• Dom Maklerski Banku Handlowego S.A.,
• Handlowy-Leasing Sp. z o.o.,
• Handlowy Investments S.A.,
• PPH Spomasz Sp. z o.o. w likwidacji.

1.2.2. Entities excluded from consolidation

As at 31 December 2010, the following subsidiaries of the Group were not consolidated:
• Bank Rozwoju Cukrownictwa S.A. w likwidacji,
• Handlowy Investments II S.a.r.l.,
• Handlowy Inwestycje Sp. z o.o. in liquidation.

The entities are immaterial in relation to the consolidated financial statement taken as a whole and represent 0.2% of the Group's total assets and 0.2% of the Group's net profit without elimination of intercompany transactions.

1.3. Auditor information

1.3.1. Key certified auditor information

Name and surname: Bożena Graczyk
Registration number: 9941

Name and surname: Magdalena Szymańska-Serwa
Registration number: 90115

1.3.2. Authorized auditor information

Name:	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Address:	ul. Chłodna 51, 00-867 Warsaw
Registration number:	KRS 0000339379
Registration court:	District Court for the Capital City Warsaw in Warsaw, XII Commercial Department of the National Court Register
NIP number:	527-26-15-362

KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. is entered in the register of entities authorised to audit financial statements under number 3546.

1.4. Prior period consolidated financial statements

The consolidated financial statements for the financial year ended 31 December 2009 were audited by KPMG Audyt Sp. z o.o. and received an unqualified opinion.

The consolidated financial statements were approved at the General Meeting on 28 June 2010.

The consolidated financial statements were submitted to the Registry Court on 2 July 2010 and were published in Monitor Polski B No. 85 on 25 January 2011.

1.5. Audit scope and responsibilities

This report was prepared for the General Meeting of Bank Handlowy w Warszawie S.A. seated in Warsaw, 16 Senatorska St. and relates to the consolidated financial statements comprising: the consolidated balance sheet as at 31 December 2010, the consolidated income statement and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory information.

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

The consolidated financial statements have been audited in accordance with the contract dated 9 November 2010, concluded on the basis of the resolution of Supervisory Board dated 24 September 2010 on the appointment of the auditor.

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

We have conducted the interim audit in the Parent Company's head office during the period from 9 November 2010 to 31 December 2010.

We audited the consolidated financial statements in the Parent Company's head office during the period from 23 January 2011 to 9 March 2011.

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

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

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

All required statements, explanations and information and all our requests for additional documents and information necessary for expressing our opinion and preparing the report have been fulfilled.

Key certified auditors and KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k., fulfill independence requirements from the companies included in the Group as described in Art. 56 points 3 and 4 of the Act on certified auditors and their government, audit firms and public oversight dated 7 May 2009 (Official Journal No. 77, item 649). The scope of the work planned and performed has not been limited in any way. The method and scope of our audit is detailed in working papers prepared by us and retained in the offices of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.

1.6. Information on audits of the financial statements of the consolidated companies

1.6.1. Parent Company

The financial statements of the Parent Company for the year ended 31 December 2010 were audited by KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k., certified auditor number 3546, and received an unqualified opinion.

1.6.2. Other consolidated entities

Entity's name	Authorised auditor	Financial year end	Type of auditor's opinion
Dom Maklerski Banku Handlowego S.A.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.	31.12.2010 r.	audit in progress
Handlowy-Leasing Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.	31.12.2010 r.	audit in progress
Handlowy Investments S.A.	KPMG Audit S.a.r.l.	28.02.2011 r.	audit not started yet
PPH Spomasz Sp. z o.o. w likwidacji			unaudited

The financial statements of Handlowy Investments S.A. are audited by certified auditors other than KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. The total assets presented in the financial statements of this entity as at 31 December 2010 amount to 0.08% of the total consolidated assets of the Group before consolidation eliminations and the revenues of this entity for the financial year ended 31 December 2010 amount to 0.09% of the consolidated revenues of the Group, before eliminations of intercompany transactions.

2. Financial analysis of the Group

2.1. Summary of the consolidated financial statements

2.1.1. Consolidated balance sheet

ASSETS	31.12.2010 PLN '000	% of total assets	31.12.2009 PLN '000	% of total assets
Cash and balances with Central Bank	3,206,554	8.6	4,113,355	10.9
Financial assets held for trading	3,995,916	10.7	5,397,125	14.3
Debt securities available-for-sale	13,029,254	34.7	8,290,225	22.0
Equity investments accounted for under the equity method	56,332	0.2	56,895	0.2
Other equity investments	23,949	0.1	24,140	0.1
Loans and advances	14,543,248	38.8	16,777,255	44.6
to financial sector	*2,949,839*	*7.9*	*4,802,562*	*12.8*
to non-financial sector	*11,593,409*	*30.9*	*11,974,693*	*31.8*
Property and equipment	475,373	1.3	505,192	1.3
land, buildings and equipment	*457,065*	*1.2*	*486,884*	*1.3*
investment property	*18,308*	*0.1*	*18,308*	*0.1*
Intangible assets	1,285,757	3.4	1,282,574	3.4
Income tax assets	321,669	0.9	476,372	1.3
Other assets	569,587	1.5	690,384	1.8
Non-current assets held-for-sale	9,901	0.0	19,546	0.1
TOTAL ASSETS	**37,517,540**	**100.0**	**37,633,063**	**100.0**

EQUITY AND LIABILITIES	31.12.2010 PLN '000	% of total assets	31.12.2009 PLN '000	% of total assets
Liabilities				
Due to Central Bank	-	-	980,446	2.6
Financial liabilities held for trading	2,804,437	7.5	3,108,493	8.3
Financial liabilities valued at amortized cost	27,308,344	72.8	26,359,837	70.0
deposits from	*26,430,223*	*70.5*	*25,307,218*	*67.3*
financial sector	*6,007,190*	*16.0*	*4,735,260*	*12.6*
non-financial sector	*20,423,033*	*54.4*	*20,571,958*	*54.7*
debt securities issued	*11,533*	*0.0*	*-*	*-*
other liabilities	*866,588*	*2.3*	*1,052,619*	*2.8*
Provisions	32,240	0.1	49,390	0.1
Other liabilities	879,584	2.3	935,508	2.5
Total liabilities	**31,024,605**	**82.7**	**31,433,674**	**83.5**
Equity				
Issued capital	522,638	1.4	522,638	1.4
Share premium	3,031,149	8.1	3,030,546	8.1
Revaluation reserve	(44,848)	0.1	(81,026)	0.2
Other reserves	2,248,707	6.0	2,225,712	5.9
Retained earnings	735,289	2.0	501,519	1.3
Total equity	**6,492,935**	**17.3**	**6,199,389**	**16.5**
TOTAL EQUITY AND LIABILITIES	**37,517,540**	**100.0**	**37,633,063**	**100.0**

2.1.2. Consolidated income statement

	1.01.2010 - 31.12.2010 PLN '000	1.01.2009 - 31.12.2009 PLN '000
Interest and similar income	1,972,045	2,098,938
Interest expense and similar charges	(474,593)	(593,557)
Net interest income	**1,497,452**	**1,505,381**
Fee and commission income	747,091	660,011
Fee and commission expense	(92,163)	(99,146)
Net fee and commission income	**654,928**	**560,865**
Dividend income	6,040	6,451
Net trading income and revaluation	281,154	269,248
Net gain on investment (deposit) securities	119,921	77,845
Net gain on investment (capital) instruments	3,888	3,437
Other operating income	68,907	208,635
Other operating expenses	(73,404)	(50,005)
Net other operating income	**(4,497)**	**158,630**
General administrative expenses	(1,313,006)	(1,305,059)
Depreciation expense	(62,479)	(78,847)
Profit/(loss) on sale of tangible fixed assets	1,031	2,698
Net impairment losses	(242,520)	(545,809)
Operating income	**941,912**	**654,840**
Share in profits/(losses) of undertakings accounted for under the equity method	666	426
Gross profit	**942,578**	**655,266**
Income tax expense	(187,767)	(150,867)
Net profit	**754,811**	**504,399**
Weighted average number of ordinary shares	130,659,600	130,659,600
Net profit per ordinary share (in PLN)	5.78	3.86
Diluted net profit per ordinary share (in PLN)	5.78	3.86
Net profit attributable to holders of the parent company	754,811	504,399
Net profit attributable to non-controlling interest	-	-

2.1.3. Consolidated statement of comprehensive income

Profit for the period	***754,811***	***504,399***
Other comprehensive income:		
Net change in fair value of available-for-sale financial assets	36,178	63,084
Foreign currency translation differences	(1,061)	(785)
Other comprehensive income for the period, net of income tax	***35,117***	***62,299***
Total comprehensive income for the period	***789,928***	***566,698***
Total comprehensive income attributable to holders of the parent company	789,928	566,698
Total comprehensive income attrributable to non-controlling interest	-	-

2.2. Selected financial ratios

	2010	2009	2008
Total assets (PLN '000)	37,517,540	37,633,063	42,550,345
Profit before income tax (PLN '000)	942,578	655,266	759,162
Profit for the period (PLN '000)	754,811	504,399	600,434
Shareholders' equity (PLN '000)*	5,738,124	5,694,990	5,025,375
Return on equity	13.15%	8.86%	11.95%
Receivables to total assets	38.76%	44.58%	41.32%
Income generating assets to total assets	92.90%	92.10%	93.73%
Interest bearing liabilities to total liabilities	80.26%	80.91%	84.96%

** excluding current-year net profit*

3. Detailed report

3.1. Accounting principles

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

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

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

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

3.2. Basis of preparation of the consolidated financial statements

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

The consolidated financial statements were prepared on the basis of the consolidation documentation.

3.3. Method of consolidation

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

3.4. Consolidation of equity and calculation of non-controlling interest

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

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

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

3.5. Consolidation eliminations

Intercompany balances within the Group were eliminated on consolidation.

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

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

3.6. Compliance with banking regulations

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

3.7. Notes to the consolidated financial statements

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

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

The Report of the Management Board of the Parent Company on the Group's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2009, No. 33, item 259 as later amended) and the information is consistent with the consolidated financial statements.

3.9. Information on the opinion of the independent auditor

Based on our audit of the consolidated financial statements of the Group as at and for the year ended 31 December 2010, we have issued an unqualified opinion.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. registration number 3546
ul. Chłodna 51, 00-867 Warsaw

Signed on the Polish original

Signed on the Polish original

....
Certified Auditor No. 90115
Magdalena Szymańska-Serwa

....
Certified Auditor No. 9941
Limited Liability Partner with power of attorney
Bożena Graczyk

Warsaw, 9 March 2011

Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. as at 31 December 2010

CONTENTS

Selected financial data

	In PLN '000		In EUR '000**	
	2010	2009	2010	2009
Interest income	1,972,045	2,098,938	492,470	483,559
Fee and commission income	747,091	660,011	186,568	152,055
Profit before tax	942,578	655,266	235,386	150,962
Net profit	754,811	504,399	188,495	116,205
Total comprehensive income	789,928	566,698	197,265	130,558
Increase/decrease of net cash	(831,602)	525,861	(207,672)	128,003
Total assets	37,517,540	37,633,063	9,473,409	9,160,475
Liabilities due to Central bank	-	980,446	-	238,656
Financial liabilities valued at amortized cost	27,308,344	26,359,837	6,895,524	6,416,396
Shareholders' equity	6,492,935	6,199,389	1,639,506	1,509,028
Share capital	522,638	522,638	131,969	127,218
Number of shares	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN/EUR)	49.69	47.45	12.55	11.55
Earnings per ordinary share (PLN/EUR)	5.78	3.86	1.44	0.89
Diluted net profit per ordinary share (in PLN/EUR)	5.78	3.86	1.44	0.89
Dividend declared or paid per share (in PLN/EUR)*	5.72	3.77	1.44	0.92

* *The presented ratios are related to declared dividend from the appropriation of the 2010 profit and dividend paid in 2010 from the appropriation of the 2009 profit.*

** *The following foreign exchange rates were applied to transfer PLN into EUR: for the balance sheet – NBP mid exchange rate as at 31 December 2010 - PLN 3.9603 (as at 31 December 2009: PLN 4.1082); for the income statement – the arithmetic average of month – end NBP exchange rates in 2010 – PLN 4.0044 (in 2009: PLN 4.3406).*

Consolidated income statement

For a period in thousands of PLN	Note	2010	2009
Interest and similar income	4	1,972,045	2,098,938
Interest expense and similar charges	4	(474,593)	(593,557)
Net interest income	4	**1,497,452**	**1,505,381**
Fee and commission income	5	747,091	660,011
Fee and commission expense	5	(92,163)	(99,146)
Net fee and commission income	5	**654,928**	**560,865**
Dividend income	6	6,040	6,451
Net income on financial instruments and revaluation	7	281,154	269,248
Net gain on investment debt securities	8	119,921	77,845
Net profit on investment equity instruments	9	3,888	3,437
Other operating income	10	68,907	208,635
Other operating expenses	10	(73,404)	(50,005)
Net other operating income	10	**(4,497)**	**158,630**
General administrative expenses	11	(1,313,006)	(1,305,059)
Depreciation expense	12	(62,479)	(78,847)
Profit/(loss) on sale of tangible fixed assets	13	1,031	2,698
Net impairment charges	14	(242,520)	(545,809)
Operating income		**941,912**	**654,840**
Share in profits/(losses) of undertakings accounted for under the equity method		666	426
Profit before tax		**942,578**	**655,266**
Income tax expenses	15	(187,767)	(150,867)
Net profit		**754,811**	**504,399**
Weighted average number of ordinary shares (in pcs)	16	130,659,600	130,659,600
Net profit per ordinary share (in PLN)	16	5.78	3.86
Diluted net profit per ordinary share (in PLN)	16	5.78	3.86
Including:			
Net profit for Bank's shareholders		**754,811**	**504,399**
Net profit for non-controlling shareholders		-	-

Explanatory notes on pages: 20-75 are integral parts of financial consolidated statement.

Consolidated statement of comprehensive income

For a period in thousands of PLN	Note	2010	2009
Net profit		**754,811**	**504,399**
Other comprehensive income:			
Valuation of net financial assets available-for-sale	17	36,178	63,084
Foreign exchange differences		(1,061)	(785)
Other comprehensive income after tax		**35,117**	**62,299**
Total comprehensive income		**789,928**	**566,698**
Including:			
Comprehensive incomes due to shareholders of predominant unit		789,928	566,698
Comprehensive income due to non-controlling shareholders		-	-

Notes on pages 20-75 are integral parts of consolidated financial statement.

Consolidated balance sheet

State on day in thousands of PLN	Note	31.12.2010	31.12.2009
ASSETS			
Cash and balances with central bank	18	3,206,554	4,113,355
Financial assets held-for-trading	19	3,995,916	5,397,125
Debt securities available-for-sale	20	13,029,254	8,290,225
Equity investments accounted for under the equity method	21	56,332	56,895
Other equity investments	22	23,949	24,140
Loans and advances	23	14,543,248	16,777,255
to financial sector		*2,949,839*	*4,802,562*
to non-financial sector		*11,593,409*	*11,974,693*
Property and equipment	25	475,373	505,192
land, buildings and equipment		*457,065*	*486,884*
investment property		*18,308*	*18,308*
Intangible assets	26	1,285,757	1,282,574
Income tax assets	28	321,669	476,372
current		*75,298*	*97,657*
deferred		*246,371*	*378,715*
Other assets	29	569,587	690,384
Non-current assets held-for-sale	30	9,901	19,546
Total assets		**37,517,540**	**37,633,063**
LIABILITIES			
Liabilities due to Central Bank	31	-	980,446
Financial liabilities held-for-trading	19	2,804,437	3,108,493
Financial liabilities valued at amortized cost	32	27,308,344	26,359,837
deposits from		*26,430,223*	*25,307,218*
financial sector		*6,007,190*	*4,735,260*
non-financial sector		*20,423,033*	*20,571,958*
own issuance		*11,533*	*-*
other liabilities		*866,588*	*1,052,619*
Provisions	33	32,240	49,390
Other liabilities	34	879,584	935,508
Total liabilities		**31,024,605**	**31,433,674**
EQUITY			
Share capital	36	522,638	522,638
Share premium	36	3,031,149	3,030,546
Revaluation reserve	36	(44,848)	(81,026)
Other reserves	36	2,248,707	2,225,712
Retained earnings		735,289	501,519
Total equity		**6,492,935**	**6,199,389**
Total liabilities and equity		**37,517,540**	**37,633,063**

Explanatory notes on pages: 20–75 are integral parts of financial consolidated statement.

Consolidated statement of changes in equity

In thousands of PLN	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	Shares without control performance	Total Equity
Balance as at 1 January 2010	**522,638**	**3,030,546**	**(81,026)**	**2,225,712**	**501,519**	**-**	**6,199,389**
Total comprehensive income	-	-	36,178	(1,061)	754, 811	-	789,928
Valuation of capital awards program, including:	-	-	-	(3,795)	-	-	(3,795)
- valuation changes	-	-	-	*(2,581)*	-	-	*(2,581)*
- deferred income tax	-	-	-	*(1,214)*	-	-	*(1,214)*
Dividends paid	-	-	-	-	(492,587)	-	(492,587)
Transfers to capital	-	603	-	27,851	(28,454)	-	-
Closing balance as at 31 December 2010	**522,638**	**3,031,149**	**(44,848)**	**2,248,707**	**735,289**	**-**	**6,492,935**

In thousands of PLN	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	Shares without control performance	Total equity
Balance as at 1 January 2009	**522,638**	**3,029,703**	**(144,110)**	**1,627,692**	**589,886**	**-**	**5,625,809**
Total comprehensive income	-	-	63,084	(785)	504,399	-	566,698
Valuation of capital awards program, including:	-	-	-	6,937	-	-	6,937
- valuation changes	-	-	-	*8,917*	-	-	*8,917*
- deferred income tax	-	-	-	*(1,980)*	-	-	*(1,980)*
Dividends paid	-	-	-	-	(55)	-	(55)
Transfers to capital	-	843	-	591,868	(592,711)	-	-
Closing balance as at 31 December 2009	**522,638**	**3,030,546**	**(81,026)**	**2,225,712**	**501,519**	**-**	**6,199,389**

Explanatory notes on pages: 20-75 are integral parts of financial consolidated statement.

Consolidated statement of cash flows

For a period in thousands of PLN	2010	2009
A. Cash flows from operating activities		
I. Net profit (loss)	**754,811**	**504,399**
II. Adjustments to reconcile net profit or loss to net cash provided by operating activities:	**(762,338)**	**710,789**
Current and deferred tax income, recognized in income statement	187,767	150,867
Share in net profits/(losses) of undertakings accounted for under the equity method	(666)	(426)
Amortization	62,479	78,847
Impairment	268,305	516,903
Net provisions (recoveries)	(25,786)	28,906
Income on sale of investments	(1,435)	(3,046)
Received interest	1,663,860	2,002,273
Retained interest	(487,137)	(595,009)
Other adjustments	(1,745,417)	(1,611,974)
Cash flows from operating profits before changes in operating assets and liabilities	**(78,030)**	**567,341**
Increase/decrease in operating assets (excl. cash and cash equivalents)	**(551,998)**	**5,245,301**
Increase/decrease in credit, loans and receivables	2,298,139	527,716
Increase/decrease in debt securities available for sale	(4,392,928)	2,424,202
Increase/decrease in equity investments	624	(13,631)
Increase/decrease in assets held-for-trading	1,397,210	2,530,234
Increase/decrease in assets held-for-sale	-	888
Increase/decrease in other assets	144,957	(224,108)
Increase/decrease in operating liabilities (excl. cash and cash equivalents)	**(132,310)**	**(5,101,853)**
Increase/decrease in advances from central bank	(973,058)	973,058
Increase/decrease in financial liabilities valued at amortized cost	1,196,969	(2,551,988)
Increase/decrease in liabilities in respect of own issue	11,533	-
Increase/decrease in liabilities held-for-trading	(304,056)	(3,779,851)
Increase/decrease in other liabilities	(63,698)	256,928
Cash flows from operating activities	**(7,527)**	**1,215,188**
Income taxes (paid) refunded	**(47,839)**	**(301,954)**
III. Net cash flows from operating activities	**(55,366)**	**913,234**
B. Cash flows from investing activities		
Cash payments to acquire tangible assets	(37,829)	(31,786)
Cash receipts from the sale of tangible assets	16,950	11,398
Cash payments to acquire intangible assets	(17,462)	(15,503)
Cash receipts from the disposal of tangible assets available-for-sale	9,801	15,679
Other income from investing activities	1,227	1
Net cash flows from investing activities	**(27,313)**	**(20,211)**
C. Cash flows from financing activities		
Dividends paid	(492,587)	(54)
Inflows from long-term loans from financial sector	10,365	21,530
Repayment of long-term loans from financial sector	(269,841)	(387,706)
Net cash flows from financing activities	**(752,063)**	**(366,230)**
D. Effect of exchange rate changes on cash and cash equivalent	**10,365**	**(932)**
E. Increase/(Decrease) in net cash	**(831,602)**	**525,861**
F. Cash at the beginning of reporting period	**4,133,391**	**3,607,530**
G. Cash at the end of reporting period (see note 43)	**3,301,789**	**4,133,391**

Explanatory notes on pages: 20–75 are integral parts of financial consolidated statement.

Explanatory notes to the consolidated financial statements

1. General information about the Issuer

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

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

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

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

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

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

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

- brokerage operations;
- lease services;
- investment operations.

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

Subsidiaries	Registered office	% of votes at the General Meeting of Shareholders	
		31.12.2010	31.12.2009
Entities fully consolidated			
Dom Maklerski Banku Handlowego S.A.	Warsaw	100.00	100.00
Handlowy-Leasing Sp. z o.o.	Warsaw	100.00	100.00
Handlowy Investments S.A.	Luxembourg	100.00	100.00
PPH Spomasz Sp. z o.o. w likwidacji	Warsaw	100.00	100.00
Entities accounted for under the equity method			
Handlowy Inwestycje Sp. z o.o.	Warsaw	100.00	100.00
Handlowy Investments II S.a.r.l.	Luxembourg	100.00	100.00
Bank Rozwoju Cukrownictwa S.A. w likwidacji	Poznań	100.00	100.00

Financial data of subsidiaries that are not fully consolidated are immaterial to the consolidated financial statements. As at 31 December 2010 the financial data amounted 0.2% of the Group's assets (as at 31 December 2009 – 0.2%) and 0.2% of Group's net profit (as at 31 December 2009 – 0.3%), excluding elimination of transactions inside the Group.

2. Significant accounting policies

Statement of compliance

Consolidated annual financial statements of Capital Group were prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by European Union and with other applicable regulations.

In addition, the annual unconsolidated financial statements have been prepared in accordance with accounting policies described in this note except for the principles of recognition and measurement of equity investments in subordinated and associated entities, which are described in Note 2 of the annual unconsolidated financial statements of the Bank.

Basis of preparation

These consolidated annual financial statements have been prepared for the period from 1 January 2010 to 31 December 2010. The comparable financial data is presented for the period from 1 January 2009 to 31 December 2009. The financial statements are presented in PLN, rounded to the nearest thousand.

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

In 2010 the Group changed the accounting policy in respect of recognizing the cost of securities sold.
So far the Group applied FIFO (first in, first out). The Group adopted the specific identification method which better reflects the way the Group manages its securities portfolio.

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

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

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

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

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

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

In order to maintain comparability of financial data with the approach of the current period, changes were made to the presentation of financial data for 2009 as compared to previously published data on "The Annual consolidated financial statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the period ending December 31, 2009". These changes affected the way of grouping and presentation of financial data and do not affect the balance sheet and financial results of the Group.

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

Consolidated profit and loss for the period from January 1 to December 31, 2009

	In thousands of PLN			
Position	**Report for 2009 - data presented previously**	**Report for 2010 - comparable data**	**Difference**	**Change in note**
Income from fees and commissions	660,011	660,011	-	
Fee and commission expense	(103,997)	(99,146)	4,851	Note 5 - position "The costs of fees and charges for payment and credit cards"
Net commission income	**556,014**	**560,865**	**4,851**	
The costs of bank and administrative expenses	(1,300,208)	(1,305,059)	(4,851)	Note 11 - position "General administrative expenses - Cost of consulting services, auditing, consulting and other external services"

Basis of consolidation

Subordinated entities comprise subsidiaries and associates.

Subsidiaries – definition

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

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

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

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

Associates – definition

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

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

Foreign currency translation

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

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

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

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

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

Financial assets and financial liabilities

Classification

The Group classifies its financial instruments into the following categories:

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

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

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

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

This category has two sub-categories: financial assets and liabilities held-for-trading and those designated to measurement at fair value through profit or loss at initial recognition.

Assets or liabilities are included in this category when they were purchased with the primary objective of selling or purchasing to generate short-term profits, are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of generating short-term profits, or when they are classified to this category at management's discretion. All derivative instruments and selected debt securities are also categorized as 'Held-for-trading'.

b) Loans and receivables

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

c) Available-for-sale financial assets

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

d) Other financial liabilities

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

Recognition and exclusions

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

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

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

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

Measurement

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

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

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

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

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

Finance lease receivables

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

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

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

Equity investments – stocks and shares in other entities

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

Derivative instruments

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

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

Hedge accounting

The Group does not apply hedge accounting.

Offsetting financial instruments

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

Cash pooling

The Group offers its clients cash management services, which consolidate balances within the structure of related accounts ('cash pooling'). Such transactions net the positive and negative balances of participants' current accounts on a designated account of the entity, which manages the settlements. The consolidation of balances is executed at the end of the working day and at the beginning of the next working day the transaction is reversed. Cash pooling transactions are presented on a net basis, if only meet the requirements of IAS 39 regarding derecognizing of financial assets and liabilities from the balance sheet. Conditions of transaction's dues presented on a gross basis – accounts receivable are presented in Financial Statement as loans and accounts payable as deposits.

Sale and repurchase agreements

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

Impairment of assets measured at amortized cost

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

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

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

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

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

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

Write-downs for impairment of individually significant assets

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

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

Write-downs for impairment of individually not significant assets

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

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

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

Impairment of financial assets available-for-sale

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

Impairment of financial assets valued at cost

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

Impairment of assets other than financial assets

The carrying amounts of the Group's assets, excluding deferred tax assets and goodwill and including in particular tangible and intangible assets, are reviewed at each balance sheet date to determine whether there is any evidence of impairment. If so, the asset's recoverable amount is estimated.

Revaluation write-downs for impairment are recognized if the book value of an asset or of its cash-generating unit exceeds the recoverable amount. Revaluation write-downs for impairment are measured through profit or loss.

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

Calculation of recoverable amount

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

Reversal of impairment losses

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

Goodwill

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

In respect of associates, goodwill is included in the carrying amount of the investment in the associate.

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

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

Property and equipment and intangible assets (excluding goodwill)

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

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

Depreciation and amortization are calculated using the straight-line method over the expected useful life of an asset on the basis of rates that are approved in the depreciation and amortization plan for 2010.

Annual depreciation and amortization rates applied by the Bank are presented in the table below:	
Buildings and structures	1.5 - 4.5%
Motor vehicles	14.0 - 20.0%
Computers	34.0%
Office equipment	20.0%
Other tangible fixed assets	7.0 - 20.0%
Computer software and licenses (except the main operating system, which is depreciated at the rate of 20%)	34.0%
Other intangible fixed assets	20.0%

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

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

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

Property and equipment includes rights to perpetual usufruct of land.

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

Investment properties

Properties classified by the Group as investment properties are presented in the financial statements as part of property and equipment. The Group applies the fair value model to their valuation.

The valuation of investment properties is based on the research of independent experts with appropriate professional qualifications. The changes in value of investment properties are recognized in the profit and loss account.

Employee benefits

Short-term employee benefits

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

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

Short-term employee benefits are recognized as an expense in the period when they were incurred.

Share-based payments

The Group's employees are entitled to participate in Citigroup equity compensation plans. In accordance with these plans the Group's employees may receive awards under stock option programs based on stock options granted on Citigroup common stock and also under stock award programs based on shares of Citigroup common stock in the form of deferred stock. These programs are deemed to be settled up in capital instruments according to IFRIC 11 and IFRS 2. According to requirements of a standard, the fair value of award is determined at the grant date and is recognized in profit and loss account over the vesting period. At the same time, according to agreement between Group and Citigroup, which regulates the principles of program settlements, a provision is created for the Group future payments, which is presented in 'Other liabilities' position of consolidated financial statements. The provision amount is determined on the basis of the fair value of the award as at the settlement date and is remeasured on every balance sheet date.

Long-term employee benefits

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

Defined contribution plans

The Group enables its employees to join a pension plan, which is described in detail in Note 45. The Group pays contributions for employees who participate in the plan into a separate fund and has no subsequent obligation to pay further contributions. Hence, this is a defined contribution plan in accordance with IAS 19 (Employee Benefits). Contributions are recognized as an expense in the period to which they relate.

Provisions

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

Restructuring provision

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

Equity

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

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

Calculating net income

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

Accruals and prepayments

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

Interest income and interest expenses

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

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

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

Fee and commission income and expenses

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

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

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

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

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

The Bank distributes insurance products. Insurance agency commissions are recognized as revenue on the effective commencement or renewal of the related insurance policies because the Bank is not required to render further significant services after the sale is completed.

Moreover for some products, the Bank is entitled to additional remuneration which represents the portion of the insurance company's profit from the product. Such remuneration is recognized on accrual basis.

Other operating income and expenses

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

Income tax

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

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

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

Segmental reporting

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

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

Non-current assets held-for-sale

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

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

Accounting estimates and judgments

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

Fair value of derivatives

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

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

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

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

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

Impairment of loans

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

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

Impairment of available-for-sale assets

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

Impairment of financial assets valued at cost

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

Impairment of goodwill

The Group carried out impairment tests of goodwill as at 31 December 2009 and 31 December 2010. The estimate of goodwill has been performed on the basis of the provisions of IAS 36 concerning determination of the value in use of cash generating units. The tests did not show any impairment.

Employee benefits

Provisions for future payments in respect of employee benefits guaranteed by the Company Collective Labor Agreement are subject to periodic estimation by an independent actuary.

At each balance sheet date, the Group estimates the level of the provision related to bonuses granted to employees in the form of Citigroup stock option programs and stock award programs. The amount of the provision is determined on the basis of the methodology described in IFRS 2, using an option-pricing model. Determination of the provision amount requires application of estimates relating to the expected level of employee turnover, the expected level of dividends paid by Citigroup and expected option exercise dates.

3. Segmental reporting

An operating segment is a separable component of the Group that engages in business activities from which it earns revenues and incurs expenses (including intragroup transactions between segments), whose operating results are regularly reviewed by the Management Board, as chief operating decision maker of the Group, in order to allocate resources and assess its performance.
The Group is managed in respect of two main operating segments – Corporate Banking and Consumer Banking. The valuation of assets and liabilities as well as calculation of financial results of the segment complies with the Group's accounting policies, including intragroup transactions between segments.
The allocation of assets, liabilities, revenues and expenses of the Group to operating segments was performed using the internal information prepared for the management purposes. Transfer of funds between the Group segments is based on market prices. The transfer prices are calculated using the same rules for both segments and any difference results only from maturity and currency structure of assets and liabilities.

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

- Corporate Bank

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

- Consumer Bank

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

The Group's operating activity is led only in Poland.

Income statement by business segment

For the period in thousands of PLN	2010			2009		
	Corporate Bank	Consumer Bank	Total	Corporate Bank	Consumer Bank	Total
Net interest income	709,585	787,867	1,497,452	746,038	759,343	1,505,381
Internal net interest income, including:	*18,196*	*(18,916)*	-	*40,227*	*(40,227)*	-
internal incomes	*18,916*	-	*18,916*	*40,227*	-	*40,227*
internal costs	-	*(18,916)*	*(18,916)*	-	*(40,227)*	*(40,227)*
Net fee and commission income	305,093	349,835	654,928	248,199	312,666	560,865
Internal net fee and commission income, including:	-	-	-	*14,945*	*(14,945)*	-
internal incomes	-	-	-	*14,945*	-	*14,945*
internal costs	-	-	-	-	*(14,945)*	*(14,945)*
Dividend income	2,899	3,141	6,040	3,715	2,736	6,451
Net income on financial instruments and revaluation	251,498	29,656	281,154	229,907	39,341	269,248
Net gain on investment (deposit) securities	119,921	-	119,921	77,845	-	77,845
Net gain on investment (capital) instruments	428	3,460	3,888	3,437	-	3,437
Other operating income	24,974	(29,471)	(4,497)	63,647	(29,660)	33,987
General administrative expenses	(590,865)	(722,141)	(1,313,006)	(564,587)	(740,472)	(1,305,059)
Depreciation expense	(29,935)	(32,544)	(62,479)	(47,394)	(31,453)	(78,847)
Profit/(loss) on sale of tangible fixed assets	(71)	1,102	1,031	1,881	817	2,698
Net impairment losses	27,293	(269,813)	(242,520)	(294,293)	(251,516)	(545,809)
Other incomes unattributed to segments*	-	-	-	-	-	124,643
Operating income	**820,820**	**121,092**	**941,912**	**468,395**	**61,802**	**654,840**
Share in profits/(losses) of undertakings accounted for under the equity method	666	-	666	426	-	426
Profit before tax	**821,486**	**121,092**	**942,578**	**468,821**	**61,802**	**655,266**
Income tax expenses			(187,767)			(150,867)
Net profit			**754,811**			**504,399**

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

As at in thousands of PLN	31.12.2010			31.12.2009		
	Corporate Bank	Consumer Bank	Total	Corporate Bank	Consumer Bank	Total
Assets, including:	**31,735,154**	**5,782,386**	**37,517,540**	**31,608,909**	**6,024,154**	**37,633,063**
Assets valuated by equity method	*56,332*	-	*56,332*	*56,895*	-	*56,895*
Non-current assets held-for-sale	-	*9,901*	*9,901*	*2,999*	*16,547*	*19,546*
Liabilities, including:	**28,916,979**	**8,600,561**	**37,517,540**	**28,364,849**	**9,268,214**	**37,633,063**
obligations	*24,594,934*	*6,429,671*	*31,024,605*	*24,369,661*	*7,064,013*	*31,433,674*

4. Interest income

In thousands of PLN	2010	2009
Interest and similar income from:		
Central Bank	26,957	41,173
Placements in banks	26,897	59,362
Loans and advances, of which:	1,193,934	1,288,664
financial sector	*29,019*	*34,561*
non-financial sector	*1,164,915*	*1,254,103*
Debt securities available-for-sale	618,450	564,025
Debt securities held-for-trading	105,807	145,714
	1,972,045	**2,098,938**
Interest expense and similar charges for:		
Central Bank	(14,565)	(32,442)
Deposits from banks	(28,402)	(32,169)
Deposits from financial sector (excl. banks)	(62,981)	(102,863)
Deposits from non-financial sector	(359,501)	(408,705)
Loans and advances received	(9,144)	(17,378)
	(474,593)	**(593,557)**
	1,497,452	**1,505,381**

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

5. Net fee and commission income

In thousands of PLN	2010	2009
Fee and commission income:		
Insurance and investment products	136,334	142,163
Payment and credit cards	237,022	183,986
Payment services	122,628	122,410
Custody services	82,427	63,468
Cash loan fees	11,975	14,484
Brokerage operations	76,101	51,646
Cash management	30,617	32,410
Off-balance sheet guarantee liabilities	15,363	16,002
Off-balance sheet financial liabilities	7,499	8,237
Other	27,125	25,205
	747,091	**660,011**
Fee and commission expense:		
Payment and credit cards	(49,937)	(59,521)
Brokerage operations	(20,440)	(19,072)
Fees paid to the National Depository for Securities (KDPW)	(12,544)	(8,615)
Brokers fees	(3,270)	(3,997)
Other	(5,972)	(7,941)
	(92,163)	**(99,146)**
	654,928	**560,865**

The net commission result for 2010 comprises commission incomes (other than incomes covered by the calculation of the effective interest rate process), which are related to financial assets and liabilities not valued at their fair value through profit and loss account in amount of PLN 246,354 thousand (for 2009: PLN 193,714 thousand) and commission expenses in amount of PLN 49,937 thousand (for 2009: PLN 59,521 thousand).

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

6. Dividend income

In thousands of PLN	2010	2009
Securities available-for-sale	5,586	6,166
Securities held-for-trading	454	285
	6,040	**6,451**

7. Net gain on financial instruments and revaluation

In thousands of PLN	2010	2009
Net income on financial instruments valued at fair value through profit and loss account:		
Debt instruments	(28,343)	45,077
Capital instruments	530	(1,705)
Derivative instruments, including:	39	367
Interest rate	*(3,707)*	*(1,452)*
Equity	*1,387*	*1,698*
Commodity	*2,359*	*121*
	(27,774)	**43,739**
Net income on FX operations		
Operations on FX derivative instruments	118,844	(88,167)
FX gains and losses (revaluation)	190,084	313,676
	308,928	**225,509**
	281,154	**269,248**

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

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

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

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

8. Net gain on investment debt securities

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

9. Net gain on investment equity securities

In thousands of PLN	2010	2009
Net gain on investment equity securities available-for-sale	**3,888**	**3,437**

10. Net other operating income

In thousands of PLN	2010	2009
Other operating income:		
Data processing for related parties	45,502	58,516
Income from office rent	2,371	3,414
Investment property	106	1,206
Income from settlement of tax on goods and services for previous years (VAT)	-	124,643
Other	21,028	20,856
	68,907	**200,635**
Other operating expenses:		
Amicable procedure and vindication expenses	(17,229)	(10,016)
Reserve on settlement of tax on goods and services for previous years (VAT)*	(12,500)	-
Reserve for recognition of Lehman Brothers Treasury Co. B.V. bonds from customers**	(9,571)	-
Costs related to compensation paid	(3,000)	-
Investment property	(2,912)	(768)
Fixed assets held-for-sale	-	(12,945)
Other	(28,192)	(26,276)
	(73,404)	**(50,005)**
	(4,497)	**158,630**

** Cost of a provision for VAT in respect of the re-invoiced insurance of leased assets created by Handlowy-Leasing Sp. z o.o.*

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

11. General administrative expenses

In thousands of PLN	2010	2009
Staff expenses*		
Remuneration costs, including:	(558,321)	(528,665)
Provisions for retirement benefits	*(23,095)*	*(15,864)*
Perks and rewards, including:	(108,093)	(117,314)
Payments related to own equity instruments	*(13,307)*	*(9,305)*
*Rewards for long time employment***	*11,708*	*-*
	(666,414)	**(645,979)**
Administrative expenses		
Telecommunication fees and hardware purchases costs	(156,018)	(165,344)
Advisory, audit, consulting and other services costs	(91,666)	(110,655)
Building maintenance and rent costs	(112,724)	(130,565)
Transaction costs	(59,300)	(56,339)
Marketing	(44,569)	(38,557)
Costs of external services for the distribution of banking products (see note 5)	(42,522)	(38,684)
Postal services costs	(33,640)	(37,362)
Training and education costs	(9,413)	(9,592)
Banking supervisory expenses	(3,496)	(4,072)
Other expenses	(92,244)	(67,910)
	(646,592)	**(659,080)**
	(1,313,006)	**(1,305,059)**

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

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

12. Depreciation expense

In thousands of PLN	2010	2009
Depreciation of tangible assets	(48,845)	(63,883)
Depreciation of intangible assets	(13,634)	(14,964)
	(62,479)	**(78,847)**

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

In thousands of PLN	2010	2009
Profits on:		
Sale of tangible fixed assets	1,324	2,805
Sale of assets held-for-sale	179	1,114
	1,503	**3,919**
Losses on:		
Sale of tangible fixed assets	(449)	(954)
Sale of assets held-for-sale	(23)	(267)
	(472)	**(1,221)**
	1,031	**2,698**

14. Net impairment losses

Net impairment write-downs of financial assets

In thousands of PLN	2010	2009
Impairment write-downs:		
Loans and receivables valued at amortized cost	(620,791)	(761,272)
Amounts due from matured transactions on derivative instruments	(15,040)	(104,163)
Other	(26,649)	(19,560)
	(662,480)	**(884,995)**
Reversals of impairment write-downs:		
Loans and receivables valued at amortized cost	368,955	368,091
Amounts due from matured transactions on derivative instruments	25,218	-
	394,173	**368,091**
	(268,307)	**(516,904)**

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

In thousands of PLN	2010	2009
Charges to provisions for off-balance sheet commitments	(53,560)	(83,254)
Releases of provisions for off-balance sheet commitments	79,347	54,349
	25,787	**(28,905)**
Net impairment losses	**(242,520)**	**(545,809)**

15. Income tax expense

Recognized in the income statement

In thousands of PLN	2010	2009
Current tax:		
Current year	(193,729)	(215,697)
Adjustments for prior years	5,453	(640)
	(188,276)	**(216,337)**
Deferred tax:		
Origination and reversal of temporary differences	609	68,822
Movement in receivables arising from tax deductions	(100)	(1,352)
	509	**65,470**
Income tax expense	**(187,767)**	**(150,867)**

Reconciliation of effective tax rate

In thousands of PLN	2010	2009
Profit before tax	942,578	655,266
Income tax at the domestic tax rate of 19%	(179,090)	(124,500)
Non-deductible expenses, including:	(15,855)	(20,574)
- loss on sale of receivables disposal	-	*(6,262)*
- updating deduction expenses	-	*(8,240)*
Deductible income not in income statement, including:	(396)	(4,244)
- income from conversion of debt on share	-	*(3,870)*
Deductible expenses not in income statement	1,789	157
Non taxable income	516	338
Other	5,269	(2,044)
Income tax expense	**(187,767)**	**(150,867)**
Effective tax rate	**19.92%**	**23.02%**

Deferred tax recognized directly in equity

Deferred tax recognized directly in equity as at 31 December 2010 is related to debt and capital instruments available-for-sale and capital award program and amounts to PLN 551 thousand (31 December 2009: PLN 17,184 thousand).

16. Earnings per share

As at 31 December 2010 earnings per share amounted to PLN 5.78 (31 December 2009: PLN 3.86).

The calculation of earnings per share as at 31 December 2010 was based on the consolidated profit attributable to owners of ordinary shares of PLN 754,811 thousand (31 December 2009: PLN 504,399 thousand) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2010 of 130,659,600 (31 December 2009: 130,659,600).

The Bank does not have any ordinary shares that may have a dilution impact.

17. Comparison of changes in other total revenue

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

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

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

18. Cash and balances with the Central Bank

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

On the current account in the National Bank of Poland (NBP), the Group maintains an obligatory reserve with the declared balance as at 31 December 2010 of PLN 842,441 thousand (31 December 2009: PLN 776,347 thousand). The Group may use the obligatory reserve provided that the sum of the average monthly balance on the current account in NBP is not lower than the declared balance.

19. Financial assets and liabilities held-for-trading

Financial assets held for trading

In thousands of PLN	31.12.2010	31.12.2009
Debt securities held for trading		
Bonds and notes issued by:		
Banks	37,577	40,729
Financial sector	63,111	-
Government	1,495,597	2,235,064
	1,596,285	**2,275,793**
Including:		
Listed	*1,461,545*	*2,274,966*
Unlisted	*134,740*	*827*
Equity instruments held for trading	**1,758**	**27,483**
Including:		
Listed	*1,758*	*27,483*
Derivatives	**2,397,873**	**3,093,849**
	3,995,916	**5,397,125**

Financial liabilities held-for-trading

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

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

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

Derivative financial instruments as at 31 December 2010

In thousands of PLN	Notional amount of derivatives with remaining life of				Total	Fair values	
	less than three months	between three months and one year	between one year and five years	more than five years		Assets	Liabilities
Interest rate instruments	**41,433,445**	**70,139,648**	**59,349,977**	**16,361,845**	**187,284,915**	**2,000,498**	**2,142,072**
FRA - purchase	19,079,500	22,150,000	1,650,000	-	42,879,500	2,129	11,421
FRA - sale	16,250,000	22,150,000	1,650,000	-	40,050,000	11,011	1,826
Interest rate swaps (IRS)	5,162,459	21,614,707	48,607,127	14,504,988	89,889,281	1,733,129	1,869,777
Currency - interest rate swaps (CIRS)	847,391	994,510	5,810,840	1,856,857	9,509,598	251,565	256,330
Interest rate options purchased	-	-	816,005	-	816,005	2,152	-
Interest rate options sold	-	-	816,005	-	816,005	-	2,152
Future contracts - purchase*	94,095	1,174,800	-	-	1,268,895	379	198
Future contracts - sale*	-	2,055,631	-	-	2,055,631	133	368
Currency instruments	**9,998,641**	**9,698,311**	**1,843,113**	**17,156**	**9,998,641**	**374,947**	**360,340**
FX forward	1,691,918	1,403,638	816,314	17,156	1,691,918	69,382	98,878
FX swap	6,527,372	4,765,592	612,453	-	6,527,372	140,204	95,768
Foreign exchange options purchased	855,241	1,690,132	197,971	-	855,241	165,324	37
Foreign exchange options sold	924,110	1,838,949	216,375	-	924,110	37	165,657
Securities transactions	**643,560**	**22,516**	**33,386**	**-**	**699,462**	**4,554**	**4,807**
Share options (purchase)	3,040	11,258	16,693	-	30,991	3,416	640
Share options (sale)	3,040	11,258	16,693	-	30,991	640	3,416
Future contracts	1,438	-	-	-	1,438	-	-
Securities purchased pending delivery	194,702	-	-	-	194,702	70	278
Securities sold pending delivery	441,340	-	-	-	441,340	428	473
Commodity transactions	**1,023,475**	**842,383**	**-**	**-**	**1,865,858**	**17,874**	**17,874**
Swap	376,175	221,747	-	-	597,922	15,424	15,424
Purchase options	323,650	310,318	-	-	633,968	2,450	-
Sold options	323,650	310,318	-	-	633,968	-	2,450
Derivative instruments total	**53,099,121**	**80,702,858**	**61,226,476**	**16,379,001**	**211,407,456**	**2,397,873**	**2,525,093**

** Exchange-traded products.*

Derivative financial instruments as at 31 December 2009

In thousands of PLN	Notional amount of derivatives with remaining life of				Total	Fair values	
	less than three months	between three months and one year	between one year and five years	more than five years		Assets	Liabilities
Interest rate instruments	**11,356,209**	**45,658,001**	**51,760,004**	**23,799,938**	**132,574,152**	**2,317,902**	**2,418,582**
FRA - purchase	250,000	10,919,000	2,750,000	-	13,919,000	1,522	12,251
FRA - sale	250,000	11,219,000	2,250,000	-	13,719,000	21,995	1,253
Interest rate swaps (IRS)	10,544,158	21,720,494	41,436,942	21,509,491	95,211,085	1,910,645	2,031,785
Currency - interest rate swaps (CIRS)	273,585	1,034,327	3,667,864	2,290,447	7,266,223	377,912	367,735
Interest rate options purchased	-	-	827,599	-	827,599	5,237	-
Interest rate options sold	-	-	827,599	-	827,599	-	5,237
Future contracts - purchase*	25,172	-	-	-	25,172	-	278
Future contracts - sale*	13,294	765,180	-	-	778,474	591	43
Currency instruments	**9,204,422**	**4,772,425**	**3,611,725**	**732,273**	**18,320,845**	**769,890**	**673,672**
FX forward	1,935,529	1,474,572	589,667	374,937	4,374,705	223,123	58,684
FX swap	5,089,683	804,332	201,325	-	6,095,340	105,279	142,806
Foreign exchange options purchased	1,088,061	1,265,370	1,460,024	169,122	3,982,577	441,429	59
Foreign exchange options sold	1,091,149	1,228,151	1,360,709	188,214	3,868,223	59	472,123
Securities transactions	**153,350**	**12,000**	**51,640**	**-**	**216,990**	**5,751**	**5,521**
Share options (purchase)	-	6,000	25,820	-	31,820	4,848	657
Share options (sale)	-	6,000	25,820	-	31,820	657	4,848
Future contracs	28,642	-	-	-	28,642	-	-
Securities purchased pending delivery	44,887	-	-	-	44,887	120	14
Securities sold pending delivery	79,821	-	-	-	79,821	126	2
Commodity transactions	**-**	**13,176**	**-**	**-**	**13,176**	**306**	**306**
Purchase options	-	6,588	-	-	6,588	228	78
Sold options	-	6,588	-	-	6,588	78	228
Derivative instruments total	**20,657,856**	**50,602,252**	**55,423,369**	**24,532,211**	**151,125,163**	**3,093,849**	**3,098,081**

* *Exchange-traded products.*

20. Debt securities available-for-sale

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

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

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

21. Equity investments valuated by the equity method

In thousands of PLN	31.12.2010	31.12.2009
Stocks and shares in subordinated entities	**56,332**	**56,895**
Including:		
Unlisted instruments	*56,332*	*56,895*

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

In thousands of PLN	2010	2009
As at 1 January	**56,895**	**56,469**
Increases (in respect of)		
Revaluation	714	702
Decrease (in respect of)		
Revaluation	(1,277)	(276)
As at 31 December	**56,332**	**56,895**

22. Other equity investments

In thousands of PLN	31.12.2010	31.12.2009
Stocks and shares in other entities	66,464	52,194
Impairment	(42,515)	(28,054)
	23,949	**24,140**
Including:		
Listed instruments	*25*	*3,803*
Unlisted instruments	*23,924*	*20,337*

The change in other equity investments is as follows:

In thousands of PLN	2010	2009
As at 1 January	**24,140**	**11,095**
Increases (in respect of)		
Take-over for receivables*	18,074	14,259
Decreases (in respect of):		
Sales	(3,803)	(1,214)
Revaluation	(14,462)	-
As at 31 December	**23,949**	**24,140**

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

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

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

Financial information on subordinated entities as at 31 December 2010

Subordinated entities consolidated under the full method

In thousands of PLN

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY-LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	97.47	908,223	760,756	147,467	53,854	(10,720)
HANDLOWY INVESTMENTS S.A. 1)	Luxembourg	Investment activity	Subsidiary undertaking	100.00	29,574	127	29,447	1,859	1,516
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary undertaking	100.00	535,042	428,192	106,850	115,643	23,443
PPH SPOMASZ Sp. z o.o. w likwidacji	Warsaw	-	Subsidiary undertaking	100.00	Entity under liquidation				

Other entities

In thousands of PLN

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
BANK ROZWOJU CUKROWNICTWA S.A. w likwidacji*	Poznań	Banking	Subsidiary undertaking	100.00	41,451	Entity under liquidation				
HANDLOWY INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	80.97	7,134	7,151	192	6,959	433	308
HANDLOWY INWESTYCJE Sp. z o.o. 2)	Warsaw	Investment activity	Subsidiary undertaking	100.00	7,747	15,860	4,922	10,938	2,299	103

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

The explanation of indirect relationships:

1) Indirect relationship via Handlowy Investments S.A.

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	19.03	32	7,151	192	6,959	433	308

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

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY-LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	2.53	3,125	908,233	760,756	147,467	53,854	(10,720)

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

Financial data concerning subordinated entities as at 31 December 2009

Subordinated entities consolidated under the full method

In thousands of PLN

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY-LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	97.47	1,165,776	1,007,589	158,187	168,362	(15,730)
HANDLOWY INVESTMENTS S.A. 1)	Luxembourg	Investment activity	Subsidiary undertaking	100.00	29,230	239	28,991	1,755	1,588
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary undertaking	100.00	652,791	562,543	90,248	62,736	7,542
PPH SPOMASZ Sp. z o.o. w likwidacji	Warsaw	-	Subsidiary undertaking	100.00	Entity under liquidation				

Other entities

In thousands of PLN

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
BANK ROZWOJU CUKROWNICTWA S.A. w likwidacji*	Poznań	Banking	Subsidiary undertaking	100.00	40,738	Entity under liquidation				
HANDLOWY INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	80.97	7,135	7,138	211	6,927	290	104
HANDLOWY INWESTYCJE Sp. z o.o. 2)	Warsaw	Investment activity	Subsidiary undertaking	100.00	9,022	16,830	5,650	11,180	512	345

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

The financial data of these entities is based on audited financial information available at the time of preparation of these statements except: Handlowy Investments S.A., Handlowy Investments II S.a.r.l. and PPH Spomasz Sp. z o.o. w likwidacji and Bank Rozwoju Cukrownictwa S.A. w likwidacji.

The explanation of indirect relationships:

1) Indirect relationship via Handlowy Investments S.A.

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

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

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

The financial data of these entities is based on audited financial information available at the time of preparation of these statements except: Handlowy Investments S.A., Handlowy Investments II S.a.r.l. and PPH Spomasz Sp. z o.o. w likwidacji and Bank Rozwoju Cukrownictwa S.A. w likwidacji.

23. Loans and advances

Loans and advances (by category)

In thousands of PLN	31.12.2010	31.12.2009
Loans and advances to the financial sector:		
Current accounts of banks	95,235	20,036
Loans, placements and advances, including:	2,505,873	3,769,573
placements in banks	*1,977,502*	*3,380,479*
Purchased receivables	15,522	14,774
Realized guarantees	-	-
Receivables subject to securities sale and repurchase agreements	316,086	992,911
Other receivables	39,144	27,588
Total gross value	**2,971,860**	**4,824,882**
Impairment write-offs	(22,021)	(22,320)
Total net value	**2,949,839**	**4,802,562**
Loans and advances to the non-financial sector:		
Loans and advances	11,182,107	11,882,677
Unlisted debt securities	141,459	-
Purchased receivables	685,624	359,982
Realized guarantees	3,574	18,733
Other receivables	918,038	1,152,736
Total gross value	**12,930,802**	**13,414,128**
Impairment write-offs	(1,337,393)	(1,439,435)
Total net value	**11,593,409**	**11,974,693**
Loans and advances	**14,543,248**	**16,777,255**

Finance lease receivables

The Group operates on the leasing market through its subordinated entity Handlowy-Leasing Sp. z o.o. The Group provides finance leases of vehicles, machines and equipment.

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

In thousands of PLN	31.12.2010	31.12.2009
Gross finance lease receivables	1,019,459	1,253,065
Unearned finance income	(76,593)	(102,501)
Net finance lease receivables	**942,866**	**1,150,564**

As at 31 December 2010 impairment for unrecoverable finance lease receivables amounted to PLN 80,534 thousand (as at 31 December 2009 amounted PLN 73,600 thousand).

Finance lease income is presented in interest income.

24. Impairment of loans and advances

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

In thousands of PLN	2010	2009
Balance as at 1 January	**1,461,755**	**1,464,793**
Related to:		
Receivables from banks	766	4,041
Receivables from other customers of financial and non-financial sector	1,460,989	1,460,752
Change in impairment write-downs	(102,341)	(3,038)
Creation of write-off for loans and advances	620,792	761,272
Creation of write-off in the period for receivables in respect of matured derivative instrument transactions	(10,178)	104,163
Write-off receivables	(187,807)	(103,287)
Amounts released for loans and advances	(368,956)	(368,091)
Sale of receivables	(167,053)	(425,596)
Transfer from other group of assets	1,236	32,280
Other	9,625	(3,779)
Balance as at 31 December	**1,359,414**	**1,461,755**
Related to:		
Receivables from banks	493	766
Receivables from other customers of financial and non-financial sector	1,358,921	1,460,989

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

In thousands of PLN	31.12.2010	31.12.2009
Portfolio impairment loss	730,955	547,973
Individual impairment loss	457,215	771,034
Incurred but not reported losses (IBNR)	171,244	142,748

25. Property and equipment

Land, buildings and equipment

In thousands of PLN	Land and buildings	Machines and equipment	Vehicles	Other	Under construction	Total
Gross value:						
Balance as at 1 January 2009	**721,768**	**981**	**71,852**	**560,339**	**13,531**	**1,368,471**
Additions:						
Purchases	393	-	6,136	10,912	14,377	31,818
Reclassification	17,300	-	-	5,433	(22,733)	-
Other increases	-	-	-	411	-	411
Decreases:						
Disposals	(5,989)	-	(18,925)	(1,831)	-	(26,745)
Liquidation	(9,120)	-	(99)	(31,548)	-	(40,767)
Classified as investment property/fixed assets held-for-sale	(17,267)	-	-	(514)	-	(17,781)
Other decreases	(2,416)	(78)	(249)	(5,961)	(3,778)	(12,482)
Balance as at 31 December 2009	**704,669**	**903**	**58,715**	**537,241**	**1,397**	**1,302,925**
Balance as at 1 January 2010	**704,669**	**903**	**58,715**	**537,241**	**1,397**	**1,302,925**
Additions:						
Purchases	88	5	14,632	12,080	11,075	37,880
Reclassification	4,023	-	-	2,466	(6,489)	-
Other increases	-	-	-	-	-	-
Decreases:						
Disposals	(16,886)	(12)	(9,761)	(6,036)	-	(32,695)
Liquidation	(9,417)	-	-	(65,343)	-	(74,760)

Other decreases	(196)	-	-	(3,692)	(1,139)	(5,027)
Balance as at 31 December 2010	**682,281**	**896**	**63,586**	**476,716**	**4,844**	**1,228,323**
Depreciation and amortization						
Balance as at 1 January 2009	**290,841**	**929**	**21,854**	**501,208**	**-**	**814,832**
Increases:						
Depreciation charge for the period	27,311	23	8,659	27,892	-	63,885
Other increases	-	-	-	266	-	266
Decreases:						
Disposals	(2,210)	(3)	(13,664)	(1,739)	-	(17,616)
Liquidation	(8,084)	-	-	(31,009)	-	(39,093)
Classified as investment property/fixed assets held-for-sale	(5,271)	-	-	(454)	-	(5,725)
Other decreases	-	(48)	(120)	(340)	-	(508)
Balance as at 31 December 2009	**302,587**	**901**	**16,729**	**495,824**	**-**	**816,041**
Balance as at 1 January 2010	**302,587**	**901**	**16,729**	**495,824**	**-**	**816,041**
Increases:						
Depreciation charge for the period	20,205	5	8,436	20,198	-	48,844
Other increases	-	-	-	183	-	183
Decreases:						
Disposals	(5,435)	(11)	(5,672)	(6,007)	-	(17,125)
Liquidation	(8,241)	-	-	(64,752)	-	(72,993)
Other decreases	-	-	-	(3,692)	-	(3,692)
Balance at 31 December 2010	**309,116**	**895**	**19,493**	**441,754**	**-**	**771,258**
Carrying amounts						
As at 1 January 2009	430,927	52	49,998	59,131	13,531	553,639
As at 31 December 2009	402,082	2	41,986	41,417	1,397	486,884
As at 1 January 2010	402,082	2	41,986	41,417	1,397	486,884
As at 31 December 2010	373,165	1	44,093	34,962	4,844	457,065

Investment properties

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

26. Intangible assets

In thousands of PLN	Goodwill	Patents and trademarks	Software	Other intangible assets	Prepayments	Total
Gross amount						
Balance as at 1 January 2009	**1,245,976**	**2,582**	**252,003**	**18,857**	**3,660**	**1,523,078**
Additions:						
Purchases	-	519	5,763	1	9,219	15,502
Disposals:						
Reclassification	-	-	6,474	-	(6,505)	(31)
Other	-	(333)	(1,275)	-	-	(1,608)
Balance as at 31 December 2009	**1,245,976**	**2,768**	**262,965**	**18,858**	**6,393**	**1,536,960**
Balance as at 1 January 2010	**1,245,976**	**2,768**	**262,965**	**18,858**	**6,393**	**1,536,960**
Additions:						
Purchases	-	-	4,700	1	12,778	17,479
Disposals:						
Reclassification	-	-	14,388	-	(14,436)	(48)
Other	-	(614)	(8,412)	-	-	(9,026)
Balance as at 31 December 2010	**1,245,976**	**2,154**	**273,641**	**18,859**	**4,735**	**1,545,365**
Depreciation and amortization						
Balance as at 1 January 2009	**-**	**1,674**	**221,375**	**16,703**	**-**	**239,752**
Increases:						
Depreciation charge for the period	-	198	13,061	1,705	-	14,964
Other increases	-	-	4	-	-	4
Decreases:						
Other decreases	-	(333)	(1)	-	-	(334)
Balance as at 31 December 2009	**-**	**1,539**	**234,439**	**18,408**	**-**	**254,386**
Balance as at 1 January 2010	**-**	**1,539**	**234,439**	**18,408**	**-**	**254,386**
Increases:						
Depreciation charge for the period	-	105	13,103	427	-	13,635
Other increases	-	-	-	-	-	-
Decreases:						
Other decreases	-	(2)	(8,411)	-	-	(8,413)
Balance as at 31 December 2010	**-**	**1,642**	**239,131**	**18,835**	**-**	**259,608**
Carrying amounts						
As at 1 January 2009	1,245,976	908	30,628	2 154	3,660	1,283,326
As at 31 December 2009	1,245,976	1,229	28,526	450	6,393	1,282,574
As at 1 January 2010	1,245,976	1,229	28,526	450	6,393	1,282,574
As at 31 December 2010	1,245,976	512	34,510	24	4,735	1,285,757

As at 31 December 2010, goodwill includes the amount of PLN 1,243,645 thousand arising from the merger of Bank Handlowy w Warszawie S.A. and Citibank (Poland) S.A. as at 28 February 2001 and the amount of PLN 2,331 thousand as a result of the purchase of an organized part of the enterprise from ABN AMRO Bank (Poland) S.A. as at 1 March 2005.

27. Impairment test for goodwill

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

The allocation of goodwill to cash generating units is presented in the table below.

Book value of goodwill allocated to unit

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

The basis of valuation of the recoverable amount is the value in use, assessed on the basis of financial plan. The plan is based on assumptions about future facts that reflect the future economic conditions and expected results of the Bank. The plan is periodically updated.

The discount rate, which is equivalent to the required rate of return, has been used in the valuation. The required rate of return is assessed on the basis of the capital assets pricing model using a beta coefficient for the banking sector, bonus for risk and Treasury bond yield curves. In 2010 the discount rate amounted to 12.9% (in 2009: 11.3%).

Extrapolation of cash flows, which exceed the five-year period covered by the financial plan, has been based on growth rates reflecting the long-term NBP inflation target that amounted to 2.5 pp as at 31 December 2010.

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

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

28. Income tax assets and liabilities

In thousands of PLN	31.12.2010	31.12.2009
Income tax assets*		
Current tax	75,298	97,657
Deferred tax	246,371	378,715
	321,669	**476,372**

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

Positive and negative taxable and deductible temporary differences are presented below

Deferred tax assets are attributable to the following:

In thousands of PLN	31.12.2010	31.12.2009
Interest accrued and other expense	11,048	10,384
Impairment	158,778	178,322
Unrealized premium	2,393	15,993
Unrealized financial instruments valuation expenses	384,595	445,998
Negative pricing of securities	1,435	25,541
Income collected in advance	17,546	21,487
Valuation of shares	6,982	4,186
Commissions	9,644	7,475
Debt securities available-for-sale	551	17,184
Cost related to asymmetric transaction	-	69,399
Staff expenses and other cost due to pay	47,695	48,530
Other	28,952	40,338
Deferred tax assets	**669,619**	**884,837**

Deferred tax liabilities are attributable to the following:

In thousands of PLN	31.12.2010	31.12.2009
Accrued interest (income)	30,031	36,910
Unrealized premium from options	263	490
Unrealized financial instruments valuation income	339,991	373,646
Unrealized securities discount	2,713	11,428
Incomes to receive	5,534	7,724
Positive valuation of securities	376	29,339
Investment relief	17,796	18,646
Valuations of shares	889	633
Differences between balance sheet and tax value of leases	13,955	22,273
Other	11,700	5,033
Deferred tax provisions	**423,248**	**506,122**

Net assets from deferred tax liability	**246,371**	**378,715**

Movement in temporary differences during the year 2010

Movement in temporary differences concerning to deferred tax assets:

In thousands of PLN	Balance 1 January 2010	Adjustment of opening balance	Balance as at 1 January 2010 after adjustment of opening balance	Adjustments recognised in income	Adjustments recognised in equity	Balance 31 December 2010
Interest accrued and other expense	10,384	-	10,384	664	-	11,048
Impairment	178,322	(49,298)	129,024	29,754	-	158,778
Unrealised premium	15,993	-	15,993	(13,600)	-	2,393
Unrealised financial instruments valuation expenses	445,998	-	445,998	(61,403)	-	384,595
Negative valuation of securities	25,541	-	25,541	(24,106)	-	1,435
Income collected in advance	21,487	-	21,487	(3,941)	-	17,546
Valuation of shares	4,186	-	4,186	2,796	-	6,982
Commission	7,475	-	7,475	2,169	-	9,644
Debt securities available-for-sale	17,184	-	17,184	-	(16,633)	551
Cost related to asymmetric transaction	69,399	(69,399)	-	-	-	-
Staff expenses and other cost due to pay	48,530	-	48,530	(835)	-	47,695
Other	40,338	-	40,338	(10,730)	(656)	28,952
	884,837	**(118,697)**	**766,140**	**(79,232)**	**(17,289)**	**669,619**

Movement in temporary differences concerning to deferred tax liabilities:

In thousands of PLN	Balance 1 January 2010	Adjustment of opening balance	Balance as at 1 January 2010 after adjustment of opening balance	Adjustments recognised in income	Adjustments recognised in equity	Balance 31 December 2010
Interest accrued (income)	36,910	-	36,910	(6,880)	-	30,030
Unrealised premium from options	490	-	490	(227)	-	263
Unrealised financial instruments valuation income	373,646	-	373,646	(33,655)	-	339,991
Unrealised securities discount	11,428	-	11,428	(8,715)	-	2,713
Incomes to receive	7,724	-	7,724	(2,190)	-	5,534
Positive valuation of securities	29,339	-	29,339	(28,963)	-	376
Investment relief	18,646	-	18,646	(850)	-	17,796
Valuation of shares	633	-	633	256	-	889
Differences between balance sheet and tax value of leases	22,273	-	22,273	(8,318)	-	13,955
Other	5,033	-	5,033	6,668	-	11,701
	506,122	**-**	**506,122**	**(82,874)**	**-**	**423,248**
Change in net assets for deferred income tax income tax	**378,715**	**(118,697)**	**260,018**	**3,643**	**(17,289)**	**246,371**

Movement in temporary differences during the year 2009

Movement in temporary differences concerning to deferred tax assets:

In thousands of PLN	Balance as at 1 January 2009	Adjustments recognized in income	Adjustments recognized in equity	Balance as at 31 December 2009
Interest accrued and other expense	10,619	(235)	-	10,384
Impairment	105,945	72,377	-	178,322
Unrealized premium	19,258	(3,265)	-	15,993
Unrealized financial instruments valuation expense	648,872	(202,874)	-	445,998
Negative valuation of securities	2,524	23,017	-	25,541
Income collected in advance	24,148	(2,661)	-	21,487
Valuation of shares	5,436	(1,250)	-	4,186
Commission	5,878	1,597	-	7,475
Debt securities available-for-sale	33,721	-	(16,537)	17,184
Cost related to asymmetric transaction	69,399	-	-	69,399
Staff expenses and other cost due to pay	48,657	(127)	-	48,530
Other	58,080	(17,742)	-	40,338
	1,032,537	**(131,163)**	**(16,537)**	**884,837**

Movement in temporary differences concerning to deferred tax liabilities:

In thousands of PLN	Balance as at 1 January 2009	Adjustments recognized in income	Adjustments recognised in equity	Balance as at 31 December 2009
Interest accrued (income)	64,643	(27,733)	-	36,910
Unrealized premium from options	212	278	-	490
Unrealized financial instruments valuation income	569,540	(195,894)	-	373,646
Unrealized securities discount	2,940	8,488	-	11,428
Incomes to receive	9,046	(1,322)	-	7,724
Positive valuation of securities	6,005	23,334	-	29,339
Investment relief	19,835	(1,189)	-	18,646
Valuation of shares	571	62	-	633
Differences between balance sheet and tax value of leases	22,866	(593)	-	22,273
Other	8,451	(3,418)	-	5,033
	704,109	**(197,987)**	**-**	**506,122**
Change in net assets for deferred income tax	**328,428**	**66,824**	**(16,537)**	**378,715**

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

29. Other assets

In thousands of PLN	31.12.2010	31.12.2009
Interbank settlements	879	600
Interbranch settlements	1,710	-
Settlements related to brokerage activity	359,131	479,836
Accounts receivable	55,415	64,452
Staff loans out of the Social Fund	25,941	24,970
Sundry debtors	114,105	107,347
Prepayments	12,373	13,151
Other assets	33	28
	569,587	**690,384**

30. Non-current assets held-for-sale

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

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

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

31. Liabilities due to Central Bank

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

32. Financial liabilities valued at amortized cost

Financial liabilities valued at amortized cost (by category)

In thousands of PLN	31.12.2010	31.12.2009
Deposits from financial sector:		
Current accounts, including:	1,492,350	2,240,998
current accounts of banks	*755,445*	*1,474,356*
Deposits, including:	4,512,158	2,490,436
term deposits of banks	*2,089,216*	*157,871*
Accrued interest	2,682	3,826
	6,007,190	**4,735,260**
Deposits from non-financial sector:		
Current accounts, including:	11,912,332	10,611,554
corporate customers	*5,617,986*	*3,523,963*
individual customers	*4,320,530*	*4,545,352*
budgetary units	*1,973,816*	*1,957,517*
Deposits, including:	8,493,723	9,939,696
corporate customers	*6,428,113*	*7,052,771*
individual customers	*1,397,084*	*1,790,952*
budgetary units	*668,526*	*690,391*
Accrued interest	16,978	20,708
	20,423,033	**20,571,958**
Total deposits	**26,430,223**	**25,307,218**
Liabilities due to own issuance*	**11,533**	**-**
Other liabilities:		
Loans and advances received	574,780	828,585
Securities sold under repurchase agreements	113,534	-
Other liabilities, including:	176,054	221,452
cash collateral	*96,716*	*150,976*
Accrued interest	2,220	2,582
	866,588	**1,052,619**
	27,308,344	**26,359,837**

**** Liabilities due to own issuance.***

In thousands of PLN

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

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

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

33. Provisions

In thousands of PLN	31.12.2010	31.12.2009
For disputes	21,702	11,963
For off-balance sheet commitments	10,538	37,427
	32,240	**49,390**

The movement in provisions is as follows:

In thousands of PLN	2010	2009
Balance as at 1 January	**49,390**	**24,578**
Concerning:		
Disputes	11,963	5,439
Restructuring	-	10,619
Off-balance sheet commitments	37,427	8,520
Increases:		
Creation of provisions in the period, including:	66,039	95,823
Disputes	12,479	12,568
Off-balance sheet commitments	53,560	83,255
Decreases:		
Use of provisions for restructuring	-	(10,619)
Release of provisions:	(82,087)	(60,392)
for disputes	(2,740)	(6,044)
for off-balance sheet liabilities	(79,347)	(54,348)
Transfer to another group of assets – off-balance sheet liabilities	(1,102)	-
Balance as at 31 December	**32,240**	**49,390**

34. Other liabilities

In thousands of PLN	31.12.2010	31.12.2009
Fund of social service	57,789	62,307
Interbank settlements	42,667	26,047
Interbranch settlements	-	735
Settlements related to brokerage activity	356,820	494,061
Settlements with Tax Office and National Insurance (ZUS)	23,277	11,214
Sundry creditors	114,599	52,258
Accruals	249,353	247,970
Provision for employee payments	*78,621*	*67,064*
Provision for employees retirement and jubilee payments	*38,557*	*44,230*
IT services and bank operations support	*45,242*	*40,726*
Consultancy services and business support	*33,061*	*23,292*
Other	*53,872*	*72,658*
Deferred income	35,079	40,916
	879,584	**935,508**

35. Assets and liabilities according to expire date

As at 31 December 2010

In thousand of PLN	Note	Total	Less than 1 month	Between 1 and 3 moths	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
Financial assets held for trading							
Debt securities available-for-sale	19	1,596,285	-	-	567,994	882,220	146,071
Financial assets available-for-sale							
Debt securities available-for-sale	20	13,029,254	6,159,215	-	-	5,117,820	1,752,219
Loans and advances (Gross)							
Loans, placements and advances from financial sector, including:	23	2,971,860	2,664,640	6,928	40,471	245,000	14,821
from banks and other monetary financial institutions	23	*2,272,395*	*2,261,935*	*6,928*	*3,532*	-	-
from other financial institutions	23	*699,465*	*402,705*	-	*36,939*	*245,000*	*14,821*
Loans, placements and advances from non-financial sector	23	12,930,802	6,911,997	550,050	1,764,519	3,278,466	425,770
Financial liabilities valued at amortized cost							
Financial sector, including:	32	6,701,651	5,885,122	198,601	519,913	65,545	32,470
from banks and other monetary financial institutions	32	*3,437,744*	*2,632,708*	*190,109*	*519,213*	*63,849*	*31,865*
from other financial institutions	32	*3,263,907*	*3,252,414*	*8,492*	*700*	*1,696*	*605*
Non-financial sector	32	20,606,693	19,376,573	708,134	471,013	50,906	67

As at 31 December 2009

In thousand of PLN	Note	Total	Less than 1 month	Between 1 and 3 moths	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
Financial assets held for trading							
Debt securities available-for-sale	19	2,275,793	10,743	1,344,611	73,092	791,478	55,869
Financial assets available-for-sale							
Debt securities available-for-sale	20	8,290,225	-	-	1,542,926	3,941,319	2,805,980
Loans and advances (Gross)							
Loans, placements and advances from financial sector, including:	23	4,824,882	3,757,398	61,481	991,751	-	14,252
from banks and other monetary financial institutions	23	*3,481,974*	*3,414,497*	*61,481*	*5,996*	-	-
from other financial institutions	23	*1,342,908*	*342,901*	-	*985,755*	-	*14,252*
Loans, placements and advances from non-financial sector	23	13,414,128	6,963,244	773,332	1,378,974	3,854,361	444,217
Financial liabilities valued at amortized cost							
Financial sector, including:	32	5,567,570	4,627,120	69,947	766,169	6,617	97,717
from banks and other monetary financial institutions	32	*2,473,851*	*1,616,745*	*3,616*	*753,723*	*2,050*	*97,717*
from other financial institutions	32	*3,093,719*	*3,010,375*	*66,331*	*12,446*	*4,567*	-
Non-financial sector	32	20,792,267	19,077,658	1,193,358	493,477	27,709	65

36. Capital and reserves

Share capital

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

Par value of 1 share = PLN 4.00

As at 31 December 2010, the Bank's share capital amounted to PLN 522,638,400 divided into 130,659,600 common bearer shares nominal value of PLN 4 each, which has not changed since 31 December 2009.

The Bank has not issued preference shares.

Principal shareholders

As at 31 December 2009 and as at 31 December 2010 the list of shareholders who held at least 5% of the total number of votes in the General Assembly or at least 5% of the Bank's share capital is as follows:

	Value of stocks ('000 PLN)	Number of stocks	% stocks	Number of votes at GA	% votes at GA
Citibank Overseas Investment Corporation, USA	391,979	97,994,700	75.0	97,994,700	75.0
Other shareholders	130,659	32,664,900	25.0	32,664,900	25.0
	522,638	**130,659,600**	**100.0**	**130,659,600**	**100.0**

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

In 2009 the structure of major shareholdings underwent following changes:

- according to notification placed on 20 February 2009 by Pioneer Pekao Investment Management S.A. ("PPIM") the total shareholding of PPIM clients reached the level of 5.01% of the total number of votes at the General Meeting of the Bank,
- according to notification received on 17 April 2009 from PPIM the total shareholding of PPIM clients fell below 5% of the total number of votes at the General Meeting of the Bank and has reached the level of 4.55%.

Supplementary capital

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

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

Revaluation reserve

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

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

Other reserves

In thousands of PLN	31.12.2010	31.12.2009
Reserve capital	1,746,107	1,750,757
General risk reserve	497,500	465,000
Capital from valuation of employee equity benefits	3,142	6,937
Foreign currency translation adjustment	1,958	3,018
	2,248,707	**2,225,712**

Reserve capital

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

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

General risk fund

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

Dividends

Dividends paid for 2009

In accordance with Resolution No. 29/2010 of the Ordinary General Meeting of the Bank of 28 June 2010 the profit for 2009 was distributed, a resolution for the payment of dividends was adopted, the dividend date and the date of dividend payment were determined. The Bank proposed to pay out PLN 492,586,692.00 as dividend. This means that the dividend per one ordinary share amounts to PLN 3.77. The number of ordinary shares covered by the dividend was 130,659,600.

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

Declared dividends

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

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

37. Repurchase and reverse repurchase agreements

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

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

As at 31 December 2010 assets sold under repurchase agreements were as follows:

In thousands of PLN	Fair value of underlying assets	Carrying amount of corresponding liabilities*	Repurchase dates	Repurchase price
Trading instruments				
Debt securities	113,558	113,544	to 1 month	113,675

** Including interest.*

As at 31 December 2009, there sold under repurchase agreements were as follows:

In thousands of PLN	Fair value of underlying assets	Carrying amount of corresponding liabilities*	Repurchase dates	Repurchase price
Trading instruments				
Debt securities	1,086,167	980,446	› 3 to 6 months	991,997

** Including interest.*

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

As at 31 December 2010 assets sold through repo can't be further traded.

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

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

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

In thousands of PLN	Carrying amount of liabilities*	Fair value of assets constituted as indemnity	Repurchase dates	Repurchase price
Loans and other receivables				
from financial sector	316,086	315,511	to 1 month	316,271

** Including interest.*

As at 31 December 2009 assets purchased under resell agreements were as follows:

In thousands of PLN	Carrying amount of liabilities*	Fair value of assets constituted as indemnity	Repurchase dates	Repurchase price
Loans and other receivables				
from financial sector	980,830	1,086,167	3 to 6 months	992,981
from financial sector	12,082	12,060	to 1 month	12,084

** Including interest.*

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

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

38. Fair value information

Fair value of financial assets and liabilities

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

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

As at 31 December 2010

In thousands of PLN	Note	Held for trading	Credit, loans and other receivables	Available for sale	Other financial assets/liabilities	Total balance value	Fair value
Assets							
Cash, balances with central bank	18	-	-	-	3,206,554	3,206,554	3,206,554
Financial assets held for trading	19	3,995,916	-	-	-	3,995,916	3,995,916
Debt securities available for sale	20	-	-	13,029,254	-	13,029,254	13,029,254
Capital investment valued at equity method	21	-	-	56,332	-	56,332	56,332
Other capital investment	22	-	-	23,949	-	23,949	23,949
Credit, loans and other receivables	23	-	14,543,248	-	-	14,543,248	14,574,330
		3,995,916	**14,543,248**	**13,109,535**	**3,206,554**	**34,855,253**	**34,886,335**
Liabilities							
Financial liabilities held for trading	19	2,804,437	-	-	-	2,804,437	2,804,437
Financial liabilities valued at amortized cost	32	-	-	-	27,308,344	27,308,344	27,310,106
		2,804,437	**-**	**-**	**27,308,344**	**30,112,781**	**30,114,543**

As at 31 December 2009

In thousands of PLN	Note	Held for trading	Credit, loans and other receivables	Available for sale	Other financial assets/liabilities	Total balance value	Fair value
Assets							
Cash, balances with central bank	18	-	-	-	4,113,355	4,113,355	4,113,355
Financial assets held for trading	19	5,397,125	-	-	-	5,397,125	5,397,125
Debt securities available for sale	20	-	-	8,290,225	-	8,290,225	8,290,225
Capital investment valued at equity method	21	-	-	56,895	-	56,895	56,895
Other capital investment	22	-	-	24,140	-	24,140	24,140
Credit, loans and other receivables	23	-	16,777,255	-	-	16,777,255	16,770,830
		5,397,125	**16,777,255**	**8,371,260**	**4,113,355**	**34,658,995**	**34,652,570**
Liabilities							
Liabilities due to Central Bank	31	-	-	-	980,446	980,446	980,446
Financial liabilities held for trading	19	3,108,493	-	-	-	3,108,493	3,108,493
Financial liabilities valued at amortized cost	32	-	-	-	26,359,837	26,359,837	26,358,390
		3,108,493	**-**	**-**	**27,340,283**	**30,448,776**	**30,447,329**

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

- Level I: financial assets/liabilities valued directly on the basis of prices quoted in an active market;
- Level II: financial assets/liabilities valued on the basis of a valuation technique based on assumptions, using information from an active market or market-based observations;
- Level III: financial assets/liabilities valued on the basis of valuation techniques using relevant parameters not market-based (credit risk of contractor).

For derivatives Group changed the classification for level III. At 31 December 2010 were presented these transactions for which the Bank created provision for counterparty credit risk based on the individual analysis. At 31 December 2009, the Group classify level III in addition to derivative transactions for which the provision was created in the collective basis. Accordingly, comparative figures have been converted to appropriate.

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

As at 31 December 2010

In thousand of PLN	Note	Level I	Level II	Level III
Assets				
Financial assets held for trading	19			
- derivatives		1,313	2,341,960	54,600
- debt securities		1,533,174	63,111	-
- capital instruments		1,758	-	-
Debt securities held for trading	20	6,870,039	5,994,140	165,075
Liabilities				
Financial liabilities held for trading	19			
- short sale of valuable paper		279,344	-	-
- derivatives		1,486	2,523,579	28

As at 31 December 2009

In thousand of PLN	Note	Level I	Level II	Level III
Assets				
Financial assets held for trading	19			
- derivatives		2,507	2,931,273	160,069
- debt securities		2,275,793	-	-
- capital instruments		27,483	-	-
Debt securities held for trading	20	8,236,979	-	53,246
Liabilities				
Financial liabilities held for trading	19			
- short sale of valuable paper		10,412	-	-
- derivatives		3,749	3,020,236	74,096

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

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

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

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

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

In thousand of PLN	Financial assets held for trading			Financial assets available-for-sale	Financial assets in total	Financial liabilities held for trading
	Derivatives	Debt securities	Capital instruments	Debt securities		Derivatives
As at 1 January 2009	**284,909**	**29,250**	**28,000**	**21,929**	**364,088**	**45,417**
Increases and decreases in total:						
in income statement	164,710	7,429	-	4,372	176,511	46,368
in other comprehensive income	-	-	-	(183)	(183)	-
Acquisition	-	36,551,802	-	362,515	36,914,317	-
Clearance	(510,635)	(36,588,481)	(28,000)	(335,387)	(37,462,503)	(25,959)
Other	221,085	-	-	-	221,085	8,270
As at 31 December 2009	**543,286**	**-**	**-**	**53,246**	**213,315**	**74,096**
Increases and decreases in total in the period in the income statement for assets/liabilities possessed at the end of the period	(62,774)	-	-	2,548	(60,226)	73,436

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

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

Fair Value Definition

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

Equity Investments

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

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

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

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

In 2009 the Group disposed off its non-controlling shareholding in MTS-CeTO S.A., which in prior periods, the fair value of investment could not be reliably measured. The balance value of sold MTS-CeTO S.A. shares amounted PLN 31 thousand and profit on sale amounted PLN 1,440 thousand.

Loans and advances

In the balance sheet loans are valued at amortized cost less impairment. The fair value of fixed interest rate loans is calculated as the discounted value of expected future principal payments and takes into account fluctuations in market interest rates as well as the changes in the Bank's margins during the financial period.

In particular, these changes in the Bank's margins on the loans are based on the concluded transactions.

It is assumed that loans will be paid back on their contractual date. Exceptions are retail cash loans, where the maturity profile is determined on the basis of historical analysis of actual repayments of these loans. In the case of loans for which repayment dates are not fixed (e.g. overdrafts), fair value is the repayment that would be required if the amount were due on the balance sheet date. Expected future cash flows connected with homogenous loan categories, particularly credits for individuals, are assessed on the basis of the loan portfolio and discounted using the current interest rate taking into account current margins.

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

Financial liabilities valued at amortized cost

In the case of demand deposits, as well as deposits without any pre determined maturity date, fair value is an amount that would be paid out if demanded on the balance sheet date. The fair value of fixed maturity deposits is estimated on the basis of cash flows discounted with current interest rates taking into account the Bank's current margins , in a similar way adopted for the valuation of loans.

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

39. Contingent liabilities

Information on pending proceedings

As at 31 December 2010, no proceedings relating to the liabilities or receivables of the Bank or its subsidiaries, the value of which would correspond to at least 10% of the Bank's shareholders' equity, were pending before any court, administrative authority or an arbitration court.

The total value of all pending court proceedings involving the Bank or its subsidiaries and related to their receivables exceeded 10% of the Bank's shareholders' equity and amounted to PLN 657,834 thousand.

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

Parties to Proceedings	Litigation Value (in thousands of PLN)	Proceedings Commencement Date	Description of Case
Creditor:			
Bank Handlowy w Warszawie S.A.	74,024	In April 2009 – the Court has declared the debtor's bankruptcy with option of liquidation.	In January 2010 the Bank submitted the receivable of the credit agreements. Case pending.
Creditor:			
Bank Handlowy w Warszawie S.A.	65,431	On 30 June 2009, the court has declared the debtor's secondary bankruptcy including liquidation of debtor's property and has appointed syndic.	Court has called creditors for reporting receivables. The Bank's receivable concerns future transactions. Case pending.

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

As at 31 December 2010, the total value of liabilities of the Bank or its subsidiaries resulting from pending court proceeding has not exceeded 10% of the Bank's shareholder's equity.

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

The Bank is a party to proceedings initiated by the President of UOKiK against the operators of payment systems Visa Europay, and banks – issuers of Visa and Europay/Eurocard/Mastercard.

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

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

Off-balance sheet commitments

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

In thousands of PLN	31.12.2010	31.12.2009
Off-balance sheet commitments granted		
Letters of credit	147,312	136,476
Guarantees granted	1,771,282	1,902,396
Credit lines granted	10,333,933	11,428,560
Issue guarantees	359,650	300,000
Other granted commitments	14,220	-
	12,626,397	**13,767,432**

In thousands of PLN	31.12.2010	31.12.2009
Letters of credit by categories		
Import letters of credit issued	145,665	128,453
Export letters of credit confirmed	1,647	8,023
	147,312	**136,476**

As at 31 December 2010 and 31 December 2009 the Group did not have any contingent liabilities granted to subordinated entities.

The Group makes specific provisions for off-balance sheet commitments. As at 31 December 2010, the specific provisions created for off balance sheet commitments amounted to PLN 10,538 thousand (31 December 2009: PLN 37,427 thousand).

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

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

40. Assets pledged as collateral

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

In thousands of PLN	31.12.2010	31.12.2009
Assets pledged		
Debt securities available-for-sale	111,385	108,763
Loan and advantages		
Guarantee funds of stock transactions	36,172	25,521
Settlements related to operations on derivative instruments	58,962	5,164
	206,519	**139,448**

As at 31 December 2010 and 31 December 2009, the debt securities available for sale presented in the table constituted a reserve against the funds guaranteed to the Bank Guarantee Fund. Other assets disclosed above secure settlement of their respective transactions, including derivatives transactions. The terms and rules of the transactions executed to date are standard and typical for such dealings.

41. Trust activities

The Bank is the leader on the market of depositaries banks in Poland. It offers both custody services connected with securities accounts for foreign institutional investors and depositary services for Polish financial institutions, including pension, investment and equity insurance funds. As at 31 December 2010 the Bank maintained 13,602 securities accounts (31 December 2009: 13,401 accounts).

42. Operating leases

Leases where the Group is the lessee

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

In thousands of PLN	31.12.2010	31.12.2009
Less than 1 year	38,461	40,487
Between 1 and 5 years	79,711	99,581
More than 5 years	8,330	6,445
	126,502	**146,513**
Total operating leasing rentals for unspecified period of time	**1,583**	**1,596**

The Group uses office space under operating lease contracts.

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

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

Leases where the Group is the lessor

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

In thousands of PLN	31.12.2010	31.12.2009
Less than 1 year	1,387	1,250
Between 1 and 5 years	6,062	3,512
More than 5 years	83	477
	7,532	**5,239**
Total operating leasing rentals for unprescribed time	**723**	**595**

Part of the Group's office space is leased.

Most of the agreements are signed for an unspecified period of time. Other agreements are signed for a period of between 2 and 10 years. Lease payments are under one year indexation. In 2010 the income related to these contracts amounted to PLN 2,641 thousand (in 2009: PLN 3,431 thousand).

The Group leases cars under contracts with subordinate entities. Agreements are signed for two years or for an unspecified period of time. Lease payments are determined at a fixed interest rate for the entire lease period. The total amount of lease payments in 2010 amounted to PLN 19 thousand (in 2009: PLN 101 thousand).

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

43. Cash flow statement

Additional information:

In thousands of PLN	31.12.2010	31.12.2009
Cash related items		
Cash at hand	475,227	478,114
Nostro current account in Central Bank	2,731,327	3,635,241
Current accounts in other banks	95,235	20,036
	3,301,789	**4,133,391**

44. Related parties

Transactions with related parties

Within its normal course of business activities the Group enters into transactions with related entities, in particular with entities of Citigroup Inc., associates (see Note No. 22) and members of the Bank's supervisory board, management and employees.

The transactions with related entities mainly include loans, deposits, guarantees and derivatives transactions. All transactions of the Group with related parties are concluded at market terms.

Transactions with Citigroup Inc. entities

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

In thousands of PLN	31.12.2010	31.12.2009
Receivables, including:	1,818,886	1,232,030
Placements	*1,721,961*	*1,201,701*
Liabilities, including:	2,162,963	1,735,533
Deposits	*1,379,962*	*78,175*
Loans received	*479,066*	*637,999*
Balance valuation of derivative transactions		
Assets held-for-trading	1,858,531	2,081,387
Liabilities held-for-trading	2,121,780	2,619,218
Off-balance sheet guarantee liabilities granted	336,526	226,595
Off-balance sheet guarantee liabilities received	24,524	19,007
Off-balance sheet liabilities in respect of derivative instruments, including:	121,339,749	100,091,111
Interest rate instruments	108,855,418	90,797,786
FRA	*40,929,500*	*13,919,000*
Interest rate swaps (IRS)	*56,358,641*	*70,334,884*
Currency - interest rate swaps (CIRS)	*7,426,746*	*4,912,657*
Interest rate options	*816,005*	*827,599*
Future contracts	*3,324,526*	*803,646*
Currency instruments	11,387,763	9,174,229
FX forward/spot	*1,586,634*	*1,879,276*
FX swap	*6,948,605*	*3,600,661*
Foreign exchange options	*2,852,524*	*3,694,292*
Securities transactions	163,639	112,508
Share options	*28,791*	*29,620*
Securities purchased pending delivery	*10,426*	*7,919*
Securities sold pending delivery	*124,422*	*74,969*
Commodity transactions	932,929	6,588
Swaps	*298,961*	-
Options	*633,968*	*6,588*
Interest and commission income in 2010/2009	40,412	47,554
Interest and commission expense in 2010/2009	10,311	25,906

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

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

The costs arising and accrued in 2010 from concluded agreements amounted in total to PLN 103,858 thousand (in 2009: PLN 124,102 thousand) and related in operational expenses of the Group particular to the costs arising from the provision of services related to the maintenance of the Group's information systems and advisory support for the Group; income of PLN 47,939 thousand (in 2009: PLN 53,668 thousand) concerning to operating incomes from data processing and other services provided by the Group.

Transactions with subordinated entities

In thousands of PLN	31.12.2010	31.12.2009
Loans, advances and other receivables*		
Current accounts	**252,157**	**267,100**
Loans, advances and other receivables		
Opening balance	267,100	220,096
Closing balance	252,157	267,100
Deposits		
Current accounts (in respect of):	18,746	13,866
consolidated subordinated undertakings	*10,108*	*94*
subordinated undertakings accounted under for the equity method	*8,637*	*13,772*
Term deposits (in respect of):	206,089	198,319
consolidated subordinated undertakings	*162,278*	*159,713*
subordinated undertakings accounted under for the equity method	*43,811*	*38,606*
	224,835	**212,185**
Deposits		
Opening balance	212,185	231,488
Closing balance	224,835	212,185
Contingent liabilities granted**		
Credit lines granted	**204,699**	**176,192**
Interest and commission income in 2010/2009 (in respect of):	10,198	9,504
consolidated subordinated undertakings	*10,188*	*9,493*
subordinated undertakings accounted for under the equity method	*10*	*11*
Interest and commission expenses in 2010/2009 (in respect of):	7,231	6,816
consolidated subordinated undertakings	*5,678*	*5,066*
subordinated undertakings accounted for under the equity method	*1,553*	*1,750*

* *On 31 December 2010 and 31 December 2009 loans, advances and other receivables were related to taken advantage credits in current account of consolidation included units.*

** *On 31 December 2010 and 31 December 2009, contingent liabilities granted to dependent units concerned obligations granted to consolidation included units.*

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

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

In thousands of PLN	31.12.2010			31.12.2009		
	Employees	Members of the Management Board	Members of the Supervisory Board	Employees	Members of the Management Board	Members of the Supervisory Board
Loans, advances and other receivables						
Loans granted	58,717	59	-	73,112	52	-
Staff benefits	25,942	-	-	24,970	-	-
Prepayments	27	-	-	9	-	-
	84,686	**59**	**-**	**98,091**	**52**	**-**
Deposits						
Current accounts	102,717	2,686	4,184	117,417	231	3,689
Term deposits	28,427	500	146	37,846	2,152	1,192
	131,145	**3,186**	**4,331**	**155,263**	**2,383**	**4,881**

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

45. Employee benefits

Employee benefits are divided into the following categories:

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

  A provision is created for future pension severance pay that is shown in the balance sheet in 'Other liabilities'. An independent actuary in accordance with IFRS rules verifies the provision.

  The Group's pension plan is a pre-determined-premium program in accordance with IAS 19. The Group pays contributions for its staff to a separate organization and, after they are paid, has no other payment liabilities. Premiums are shown as employee benefit expenses in the period they concern.

  Description of Employee Pension Plan

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

  The current Plan, which is a continuation of PPE Polskie Towarzystwo Emerytalne 'Diament', was implemented on 19 March 2004 under an agreement with Legg Mason Senior Specjalistyczny Fundusz Inwestycyjny Otwarty (LM Senior SFIO) and is registered in the District Court for Warsaw under number RFJ-8.

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

  The basic premium for Plan participants is paid out of the Group's own funds. Each employee who participates in the Plan can also make additional premium contributions to the Plan. The total of premiums paid to Plan is invested in units of LM Senior SFIO.
- other long-term employee benefits – jubilee and other long service awards. Information about jubilee awards is described in Note 2. These are paid under a pre-determined benefit scheme and their valuation is carried out by actuarially method according to IAS no 19.
- employee equity benefits – in the form of stock options granted on Citigroup common stock and also under stock award programs based on shares of Citigroup common stock in the form of deferred stock. Valuation and presentation principles of these programs are described in Note 2. Detailed information concerning the employee equity benefits are presented in the further part of this note.

Provisions for the above employee benefits are as follows:

In thousands of PLN	31.12.2010	31.12.2009
Provision for remuneration	68,232	62,768
Provision for employees' retirement and jubilee payments	38,557	44,230
Provision for employees' equity compensation	10,390	4,296
	117,179	**111,294**

In 2010, the Group's expenses in respect of premiums for the employee pension plan amounted to PLN 16,876 thousand (in 2009: PLN 15,981 thousand).

Employment in the Group:

	2010	2009
Mid employment during a year	5,721	5,330
At the end of the year	6,039	5,260

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

Description and principles of employee stock benefits

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

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

Deferred shares within the framework of the CAP are granted at the NYSE average closing price as at the 5 days prior to the grant date. Deferred shares give the right to equivalents of dividends, but without voting rights, and must not be sold prior to their conversion into stocks. Deferred shares are converted into stocks after the end of a period that is determined in the Program Rules, which commences on the CAP award allocation date, provided, however, that an eligible employee is still with Citigroup. Options granted during 2005-2008 will be transferred partially in 25% every year for the next four years, starting from the first anniversary of the option to acquire.

Assumptions of valuation of the employee equity benefit programs

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

SOP Program	Grant date	Exercise price/stock price at grant date	Number of eligible employees	Number of options/shares
1	13.02.2002	42.11 or 41.90	206	76,147
2	18.01.2005	47.50	3	1,212
3	20.09.2005	45.36	1	1,500
4	17.01.2006	48.92	1	1,538
5	16.01.2007	54.38	1	436
6	22.01.2008	24.45	8	21,180
7	29.10.2009	4.08	207	1,073,676

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

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

** Varies depending on the date of exercise.*

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

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

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

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

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

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

46. Subsequent events

After 31 December 2010 there were no major events after the balance sheet date not included in the financial statement that could have a significant influence on the net result of the Group.

47. Risk management

Risk management structure and process

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

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

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

Management Board of the Group by way of a resolution:

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

Processes of credit, market and operational risk management are implemented in Group based upon written strategies and principles of identification, measurement, mitigation, monitoring, reporting and risk control accepted by the Management Board or appropriately nominated Committees, including the Assets and Liabilities Management Committee (ALCO), the Risk and Capital Management Committee with Business Risk and Control and Compliance Commissions (BRCC).

Management Board of Group has nominated an independent Chief Risk Officer (CRO) reporting directly to President of the Management Board and responsible for the management and control of credit, market and operational families of risk, and especially for:

- Introducing in the Group the principles of risk management organization, measurement methods as well as credit, market, liquidity and operational risk control systems,
- Shaping the risk policy and developing systems for assessing and controlling credit risk, market risk, liquidity and operational risk,
- Making credit decisions in compliance with the principles resulting from the credit procedures as well as documents determining the Group's credit policy,
- Ensuring the proper security level of the credit portfolio,
- Managing the problem loans portfolio (including collections and debt restructurings).

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

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

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

Risk management in the Group is supported by the IT systems in the following areas:

- Obligor and facility credit risk assessment,
- Measurement, reporting and monitoring of credit, market, liquidity and operational risk,
- Monitoring and reporting of collateral,
- Calculation and reporting of credit provisions,
- Realization support of Basel II requirements.

Main types of credit risk

Credit risk including also counterparty credit risk results from the credit exposure or other related to concluding and settling below listed transactions which is defined as the potential for financial loss resulting from the failure of a borrower or counterparty to honor its financial or contractual obligations. It may also relate to the downgrade of debt securities issuer rating. Credit risk arises in many of the Group's business activities, called further as "products", including:

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

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

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

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

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

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

Credit risk

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

Principles of the Credit Risk Management Policy

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

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

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

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

- Credit policies define customer minimum acceptance criteria (minimum net income, permitted income source, exposure etc.), method of evaluation of creditworthiness (multipliers, debt burden, maximum exposure limits etc.), personnel authorized to make credit decisions and limits assigned to personnel, cutoff score used, application verification process, documents required and other criteria;
- The credit policy defines principles for single product unsecured exposure as well as aggregated maximum unsecured exposure by customer. In range of internal limits, admitted are:
  - Credit authority can be given to authorized, trained and experienced staff based upon their professional experience and tested qualifications concerning the risk assessment and making credit decisions. Credit competences are subject to periodic verification. Results of credit decisions taken by credit analysts are analyzed and relevant revisions of the limits assigned are executed;
  - Effectiveness of scorecards used in risk assessment process is monitored on a regular basis by Score Unit with use of population stability reports, KS reports, performance reports by scoreband (delinquencies and losses ratios). Each scorecard has an annual validation process;
  - Group maintains written procedures for each product covering all aspects related to product: legal documentation, pricing, terms and conditions, operational procedures (risk assessment, disbursal, maintenance), accounting, collection process, credit policy rules, identification of impaired exposures and methods for calculation of credit losses, etc.

Each portfolio has annual stress testing performed.

Credit assessment and Risk Rating

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

Obligor Risk Rating and Obligor Limit Rating are elements of the assessment of credit risk associated with granted products. Obligor Risk Rating reflects an estimated probability of default for an obligor within 1 year, and is derived primarily through the use of statistical models, external rating agencies (in certain situations), or scoring methodologies.

Obligor Limit Rating (OLR) as a measure of medium to long-term risk of the obligor is subject to assessment in terms of qualitative factors including: cyclicality, management, strategy, sustainability, vulnerability to regulatory environment, transparency and quality of control processes.

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

Credit Risk is measured at a number of levels, including:

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

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

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

Credit Risk Monitoring

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

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

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

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

Risk mitigation

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

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

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

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

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

Management of the impaired exposures

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

The Group used two separate approaches for impaired loans. There is portfolio of loans managed on a basis of classification (individually assessed) and portfolio managed on a basis of days past due of a loan. The selection depends on the amount of aggregated exposure towards the customer.

For individually assessed accounts, managed on a basis of classification, loans are treated as impaired when there is factual confirmation that an impairment loss has been made. The criteria used by the Group to determine that there is, in a specific case, such evidence include, among others:

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

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

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

Classifiably managed Accounts managed on case-by-case analysis

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

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

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

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

The tables below present direct exposure of the Group to credit risk, whereas the accounts payable to customers, with established value loss, have been grouped for presentation purposes into risk categories using classification and without impairment has been presented using the internal risk ratings, and the accounts payable. There are also presented the details of provisions made for impaired receivables and receivables with incurred but not recognized (IBNR) losses. The receivables are linked with risk categories from I to IV, where I and IA means receivables without impairment, III and IV means receivables with impairment while receivables with risk category II may be characterized as impaired, however part of them may be treated as receivables without impairment. Exposure without impairment are classified based on risk ratings with value form 1 to 7, where risk category 1 is the best category.

In order to define the maximum exposure of the Group to the credit risk, it is necessary to account also for the off-balance sheet exposure (discussed in Note 39), the debt securities available for sale (discussed in Note 20), the financial assets provided for trading (discussed in Note 19) and other assets (discussed in Note 29).

In thousand PLN	31.12.2010		31.12.2009	
	Receivables from customers	Receivables from banks	Receivables from customers	Receivables from banks
Receivables with established value loss				
Individually Assessed receivables				
Risk category II	102,543	-	445,631	-
Risk category III	433,151	-	379,375	-
Risk category IV	426,602	-	607,205	-
Gross value	**962,296**	**-**	**1,432,211**	**-**
Impairment	457,215	-	771,034	-
Net value	**505,081**	**-**	**661,177**	**-**
Collectively Assessed receivables				
Risk category II	19,124	-	40,981	-
Risk category III	28,129	-	31,948	-
Risk category IV, including:	980,966	-	752,573	-
retail receivables	*879,030*	-	*634,356*	-
Gross value	**1,028,219**	**-**	**825,502**	**-**
Impairment	730,955	-	547,973	-
Net value	**297,264**	**-**	**277,529**	**-**
Not impaired receivables				
from corporate clients and banks (exlc. individuals), by risk rating				
Risk rating 1-4	4,540,428	2,180,155	4,884,513	3,330,097
Risk rating 5-6	1,633,556	93,477	1,711,223	148,398
Risk rating 7	227,426	-	367,081	-
Receivables from individuals by delinquency				
0-30 days	5,107,052	-	5,448,834	-
31-90 days	130,053	-	91,151	-
Gross value	**11,638,515**	**2,273,632**	**12,502,802**	**3,478,495**
Impairment	170,751	493	141,982	766
Net value	**11,467,764**	**2,273,139**	**12,360,820**	**3,477,729**
Total net value	**12,270,109**	**2,273,139**	**13,299,526**	**3,477,729**

In thousand PLN	31.12.2010		31.12.2009	
	Receivables from customers	Receivables from banks	Receivables from customers	Receivables from banks
Impairment value for receivables with established value loss				
Impairment value for receivables assessed individually				
Risk category II	20,512	-	52,136	-
Risk category III	70,436	-	153,524	-
Risk category IV	366,267	-	565,374	-
	457,215	**-**	**771,034**	**-**
Impairment value for receivables assessed collectively				
Risk category II	4,268	-	7,783	-
Risk category III	8,484	-	9,014	-
Risk category IV, including:	718,203	-	531,176	-
receivables from individuals	*649,669*	-	*446,519*	-
	730,955	**-**	**547,973**	**-**
IBNR provisions				
from corporate clients and banks (exlc. individuals), by risk rating				
Risk rating 1-4	1,542	183	1,061	523
Risk rating 5-6	12,389	310	12,081	243
Risk rating 7	9,276	-	12,073	-
receivables from individuals by delinquency				
0-30 days	73,939	-	71,158	-
31-90 days	73,939	-	45,609	-
	170,751	**493**	**141,982**	**766**
Total net value	**1,358,921**	**493**	**1,460,989**	**766**

In thousand PLN	31.12.2010	31.12.2009
Receivables with incurred but not recognized (IBNR) losses		
Regular receivables		
0-30 days	13,753,007	15,814,978
Overdue receivables		
31-90 days	137,728	161,678
91-180 days	2,714	2,368
181-365 days	1,228	227
over 366 days	17,470	322
Gross value	**13,912,147**	**15,979,573**

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

In thousand PLN	31.12.2010	31.12.2009
Gross value		
Receivables with recognized impairment, including:	1,990,515	2,257,713
Individually estimated receivables	*962,296*	*1,432,211*
Portfolio estimated receivables	*1,028,219*	*825,502*
Receivables without recognized impairment	13,912,147	15,984,297
Gross value in total	**15,902,662**	**18,239,010**
Impairment		
Receivables with recognized impairment, including:	1,188,170	1,319,007
Individually estimated receivables	*457,215*	*771,034*
Portfolio estimated receivables	*730,955*	*547,973*
Receivables without recognized impairment	171,244	142,748
Impairment in total	**1,359,414**	**1,461,755**
Net value		
Receivables with recognized impairment, including:	802,345	938,706
Individually estimated receivables	*505,081*	*661,177*
Portfolio estimated receivables	*297,264*	*277,529*
Receivables without recognized impairment	13,740,903	15,838,549
Net value in total	**14,543,248**	**16,777,255**
Reserve cover ratio for receivables with recognized impairment	**59.7%**	**58.4%**

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

The policies for collateral and other risk mitigation acceptance

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

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

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

- For individual clients the most common type of collateral is residential real estate,
- For companies from corporate and commercial banking the following types of collateral are mainly accepted:
  - Bank/personal/company guarantees,
  - Cash,
  - Various types of Securities,
  - Receivables,
  - Inventory,
  - Real estate,
  - Equipment and machines (including vehicles).

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

- Criteria for acceptance and valuation of collateral,
- Documentation standards,
- Rules of collateral monitoring process (including inspections).

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

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

The Group periodically checks whether the current structure of the portfolio securities of Corporate Banking is compatible with the objectives and whether the value of the collateral is sufficient.

Within the Corporate Banking the expected value of the loan to collateral value shall be determined in each case by the credit decision. This relationship is also subject to periodic inspection/monitoring.

Concentration of exposure

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

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

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

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

Obligor concentration risk

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

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

In thousand PLN	31.12.2010			31.12.2009		
	Balance Outstanding*	Off-Balance Outstanding	Total Outstanding	Balance Outstanding*	Off-Balance Outstanding	Total Outstanding
Group 1	572,962	228,113	801,074	284,984	351,906	636,890
Group 2	232,922	336,395	569,318	251,321	312,657	563,978
Group 3	253,504	224,849	478,353	252,989	226,951	479,940
Group 4	15,413	348,278	363,691	4,515	144,917	149,432
Group 5	6	327,527	327,533	211,117	102,983	314,100
Client 6	60,903	239,097	300,000	229,803	20,197	250,000
Client 7	250,000	-	250,000	79,523	-	79,523
Client 8	109,611	139,034	248,645	8,590	69,908	78,498
Group 9	30,123	215,746	245,869	53,371	171,922	225,293
Client 10	23,902	213,493	237,395	7,512	469,583	477,095
Total	**1,549,346**	**2,272,532**	**3,821,878**	**1,383,725**	**1,871,024**	**3,254,749**

** Excluding outstanding on commercial papers and subsidiaries.*

The Banking Act of 29 August 1997 and its executive regulations issued by the Commission for Banking Supervision define maximum exposure limits for the Group. Under article 71 paragraph 1 of the Act, which came into force as of 1 January 2002, total balance sheet and off-balance sheet exposure from one or more capital and organizationally related entities cannot exceed 20% of the Group's equity when one of the entities is a parent entity or subsidiary undertaking of the Group or is a subsidiary undertaking to a parent entity of the Group or cannot exceed 25% of the Group's equity when there is no such relationship between the Group and the borrower. Maintaining the conditions laid down by Resolution No. 76/2010 Financial Supervision Commission dated 10 March 2010 on the scope and detailed procedures for determining capital requirements for individual risks. Pursuant to provisions of the Resolution No. 382/2008 of the Polish Financial Supervision Authority dated 17 December 2008 regarding specific rules for calculating capital requirements for banking risk categories (...) the Group is allowed to maintain exposure exceeding concentration limits, as defined in article 71 paragraph 1 of the Banking Act, on condition that the excess exposure relates only to transactions classified to trading portfolio. Equity for the purpose of setting concentration limits specified in the Banking Act, has been established in accordance with Resolution No. 367/2010 of the Financial Supervision Commission of 12 October 2010, amending Resolution 381/2008 of the Polish Financial Supervision Authority dated 17 December 2008 regarding specific rules for other reductions for calculating Group's primary funds (...).

As at 31 December 2010, the Group had an exposure to a related party from the banking sector exceeding the statutory debt concentration limits. The excess exposure arose by virtue of derivative transactions. As a consequence, an additional capital requirement for excess exposure was factored into the calculation of the Group's capital adequacy ratio as at 31 December 2010.

Concentration of exposure in individual industries

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

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

Sector of the economy according to Polish Classification of Economic Activity (PKD)	31.12.2010	31.12.2009
	in %	in %
Wholesale and sale on commission basis, except for trade with vehicles and motorcycles	22.3	18.9
Financial intermediation, except for insurance and retirement fund business	8.5	6.1
Production of food and beverages	7.1	7.0
Retail trade, except for trade with vehicles and motorcycles; servicing and repair of personal commodities	6.1	7.6
Provision of power, gas, steam and hot water	5.4	7.9
Production, sale and service of vehicles and motorcycles; retail sale of fuel for car vehicles	4.5	3.7
Production of machines and equipments	4.4	1.9
Fabricating of coke, petroleum products and nuclear fuels	3.8	3.6
Telecommunication	3.8	3.6
Construction of buildings	2.5	2.7
Top 10 business sectors	**68.4**	**63.0**
Manufacture of chemicals and chemical products	2.4	4.0
Public administration and defence, compulsory social security	2.2	1.9
Production of metallic goods, except for machines and equipment	2.0	2.5
Production of other electronic equipment	2.0	3.7
Production of goods out of other non-metallic resources	1.8	1.6
Manufacture of rubber and plastic products	1.8	3.6
Activities of head offices, management consultancy activities	1.6	2.9
Organizations and extraterritorial groups	1.2	1.6
Manufacture of computer, electronic and optical	1.1	0.3
Manufacture of basic metal	1.1	1.0
Top 20 business sectors	**85.6**	**86.1**
Other sectors	**14.4**	**13.9**
Total	**100.0**	**100.0**

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

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

In thousand PLN	31.12.2010	31.12.2009
Gross receivables from economic entity and banks		
Financial	2,884,302	4,697,387
Production	2,541,473	2,799,801
Services	983,509	1,359,136
Other	3,373,098	3,204,188
	9,782,382	**12,060,512**
Gross receivables from individuals	**6,120,280**	**6,178,498**
(see note 23)	**15,902,662**	**18,239,010**

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

Market risk

The processes and organization of market risk management

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

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

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

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

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

- Requirements of Polish regulatory institutions and especially resolutions of the Polish Financial Supervision Authority,
- Rules of prudent and stable management of the Capital Group of Bank Handlowy in Warsaw S.A., as well general risk levels approved by Supervisory Board of the Bank with the consideration of the best practices used in Citigroup a parent company of the Bank.

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

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

Liquidity risk management

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

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

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

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

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

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

Liquidity risk management in the entities of the Bank's Group is ensured by the management boards of these entities and appropriate application of the 'Risk management principals'. Liquidity oversight for entities from the Bank's Group is performed by ALCO.

Funding and Liquidity Plan

The Head of Bank's Treasury is responsible for preparing a Funding and Liquidity Plan (the 'Plan') for the Group and obtaining the Bank's ALCO approval. Once approved by Bank's ALCO it is then provided for opinions to the Regional Market Risk Manager and the Head of Corporate Finance and Treasury of the Citigroup.

The Plan addresses any funding or liquidity issues resulting from businesses plans especially in the customer deposits and loan portfolios area as defined in annual budgets of particular business entities, as well any material changes in regulatory requirements and market dynamics.

Liquidity risk management tools

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

Internal liquidity risk management tools

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

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

Stress scenarios

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

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

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

Contingency Funding Plan

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

Contingency Funding Plan defines:

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

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

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

In thousands of PLN	Up to 1 month	More than 1 to 3 months	More than 3 months to 1 year	More than 1 year to 2 years	More than 2 years
Assets	10,693,376	-	-	-	26,824,164
Liabilities	7,842,179	206,035	303,820	25,521	29,139,985
Balance sheet gap in the period	2,851,197	(206,035)	(303,820)	(25,521)	(2,315,821)
Off-balance sheet transactions - inflows	5,919,901	3,382,720	7,337,541	1,619,644	7,909,760
Off-balance sheet transactions - outflows	5,675,807	3,339,918	7,423,915	1,641,163	8,254,485
Off-balance sheet gap in the period	244,094	42,802	(86,374)	(21,519)	(344,725)
Cumulative gap	3,095,291	2,932,058	2,541,864	2,494,824	(165,722)

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

In thousands of PLN	Up to 1 month	More than 1 to 3 months	More than 3 months to 1 year	More than 1 year to 2 years	More than 2 years
Assets	6,299,562	28,303	-	-	31,305,198
Liabilities	5,929,337	92,777	733,525	17,102	30,860,322
Balance sheet gap in the period	370,225	(64,474)	(733,525)	(17,102)	444,876
Off-balance sheet transactions - inflows	4,944,444	2,756,240	4,595,140	2,746,777	3,386,498
Off-balance sheet transactions - outflows	4,860,474	2,783,460	4,575,245	2,728,165	3,594,798
Off-balance sheet gap in the period	83,970	(27,220)	19,895	18,612	(208,300)
Cumulative gap	454,195	362,501	(351,129)	(349,619)	(113,043)

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

In thousands of PLN	31.12.2010	31.12.2009	Change
Liquid assets, including:	17,519,892	14,358,026	3,161,866
obligatory reserve in NBP and stable part of cash	2,894,352	3,792,008	(897,656)
debt securities held for trade	1,596,286	2,275,793	(679,508)
debt securities available for sale	13,029,254	8,290,225	4,739,029
Cumulative liquidity gap up to 1 year	2,541,864	(351,129)	2,892,993
Coverage of the gap with liquid assets	Positive gap	4,089%	Not applicable

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

As at 31 December 2010

In thousand of PLN	Note	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Interests
Financial liabilities held for trading								
Short positions in financial assets	19	279,344	279,344	-	-	-	-	-
Financial liabilities valued at amortized cost								
Deposits from financial sector	32	6,007,194	5,763,098	198,261	40,847	1,696	605	2,687
Including banks	*32*	*2,845,935*	*2,614,407*	*190,109*	*40,147*	-	-	*1,272*
Deposits from non-financial sector	32	20,423,038	19,249,479	680,665	427,719	48,127	67	16,981
Commitments arising from own debt issuance	32	11,533	-	-	10,856	673	-	4
Other liabilities	32	866,597	227,232	27,810	511,504	65,955	31,865	2,231
		27,308,362	25,239,809	906,736	990,926	116,451	32,537	21,903
Financial liabilities held for trading								
Derivative financial instruments	19	2,074,117	46,879	84,789	380,630	1,119,744	442,075	-
Unused credit lines liabilities	39	10,333,933	9,644,869	8,670	209,739	294,243	176,412	-
Guarantee lines	39	1,785,502	106,002	119,576	1,124,411	398,321	37,192	-
		41,781,258	**35,316,903**	**1,119,771**	**2,705,706**	**1,928,759**	**688,216**	**21,903**
Gross derivatives								
Inflows		25,230,851	5,640,606	3,426,075	7,303,075	6,987,082	1,874,013	
Outflows		25,208,109	5,634,407	3,400,832	7,309,500	6,995,023	1,868,347	
		22,742	**6,199**	**25,243**	**(6,425)**	**(7,941)**	**5,666**	

As at 31 December 2009

In thousand of PLN	Note	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Interests
Financial liabilities held for trading								
Short positions in financial assets	19	10,412	10,412	-	-	-	-	-
Financial liabilities valued at amortized cost								
Deposits from financial sector	32	4,735,264	4,619,908	69,609	37,202	4,704	11	3,830
Including banks	*32*	*1,632,656*	*1,603,718*	*3,616*	*24,756*	*137*	*-*	*429*
Deposits from non-financial sector	32	20,571,961	18,881,508	1,164,520	477,533	27,625	64	20,711
Other liabilities	32	1,052,815	176,396	29,176	744,911	1,997	97,707	2,628
		26,360,040	23,677,812	1,263,305	1,259,646	34,326	97,782	27,169
Financial liabilities held for trading								
Derivative financial instruments	19	2,528,856	96,139	171,480	418,153	1,137,079	706,005	-
Unused credit lines liabilities	39	11,428,560	11,014,695	2,221	232,763	161,753	17,128	-
Guarantee liabilities	39	1,902,396	112,140	183,577	805,396	765,636	35,647	
		42,230,264	**34,911,198**	**1,620,583**	**2,715,958**	**2,098,794**	**856,562**	**27,169**
Gross derivatives								
Inflows		17,483,742	4,521,371	2,777,426	3,313,231	4,206,331	2,665,383	
Outflows		17,310,581	4,502,375	2,804,959	3,222,380	4,131,948	2,648,919	
		173,161	**18,996**	**(27,533)**	**90,851**	**74,383**	**16,464**	

Pricing risk management

Scope of risk

The price risk management applies to all portfolios generating income prone to the negative impact of the market factors, in that interest rates, exchange rates, commodity prices and the parameters of their fluctuations. Two types of portfolios have been defined for the purpose of the pricing risk management, i.e. the trading portfolios and the bank portfolios.

The trading portfolios include transactions with financial instruments (namely the balance sheet and off-balance sheet instruments), expected to generate income owing to the change in market parameters over a short period. The trading portfolios include balance sheet items, in that debt securities provided for trading, i.e. acquired to be further traded and meeting the preset liquidity criteria. The trading portfolios further include all derivative instrument positions, broken down into the portfolios acquired purely for trading and the transactions executed in order to provide the economic hedge of the bank portfolio positions. The trading portfolios are evaluated directly at market prices, using the market pricing-based valuation models. The trading portfolio operations are performed by the Bank's Treasury Division in respect of the interest rate risk portfolios and the FX risk portfolios. The trading portfolio includes as well options, first of all foreign exchange and interest rate options. In this area Banks acts as intermediate i.e. concludes the transaction in a way which ensures concurrent (each time and immediate) conclusion of offsetting transaction with the same parameters, and as consequence the option portfolio is excluded from the computation and monitoring of price risk. The only item related to the conclusion of option transactions which is reflected in price risk measurement, and in particular in the foreign exchange risk, is the option premium being paid/received in a foreign currency.

The banking portfolios include all other balance sheet and off-balance sheet positions not assigned to any of the trading portfolios. The transactions are executed to realize profit over the entire contracted transaction period. The Bank's Treasury Division takes over the interest rate risk positions held in the bank portfolios of all other organizational units of the Group. The mechanism of transfer of the interest rate risk positions is based on the funds transfer price system.

Measurement of the pricing risk of the bank portfolios

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

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

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

It is assumed that:

- transactions with fixed interest (such as term deposits, interbank deposits, portfolio of debt securities available for sale with fixed interest rate, granted loans both repaid in full at maturity and repaid in instalments) are classified into appropriate revaluation bands in accordance with their maturity dates;

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

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

Method of Interest Rate Exposure (IRE), serve for estimation of potential influence specific parallel shift in yield curves of interest rates on interest income from the banking portfolio before tax, which can be gotten in the specific period of time. This is a prospective indicator, equivalent to sensitivity factors in the case of trading portfolios. An assumption is made that under standard conditions interest rate shifts are identical for every currency and stand at 100 basis points upwards. IRE measures are calculated separately for positions in each currency in the time horizon of 10 years, however, for purposes of current monitoring and limiting interest rate risk positions in bank portfolios the Group normally applies IRE measures with one- and five-year time horizon.

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

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

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

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

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

- management of the Group's liquidity;
- hedging against the risk transferred to the Treasury Division from the other organizational units of the Bank or Group's entities;
- opening of own interest rate risk positions on the Bank's books by the Treasury Division.

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

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

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

Pricing risk of the trading portfolios

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

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

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

In the case of interest rates, the applicable sensitivity measure is DV01 (Dollar Value of 1 basis point), which determines the potential change in value of the risk positions on a given interest rate curve at a specific nodal point (which brings together all the cash flows in a given timeframe), which is caused by a shift in the market rate of interest by 1 basis point up.

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

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

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

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

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

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

The values of significant exposures of the bank portfolios to the interest rates risk in terms of DV01, net of the exposures derived from the economic hedging of the portfolios of the securities available for sale in the year 2009 have been listed in the table below:

In thousands of PLN	31.12.2010	31.12.2009	Overall between 1.01.2010 and 31.12.2010		
			Average	Maximum	Minimum
PLN	316	(192)	96	552	(281)
EUR	34	54	42	290	(50)
USD	(84)	1	(35)	74	(252)

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

Over the period, the Treasury Division, which trades financial instruments within the Group, has continue the strategy of very active managing exposures exposed to FX risk and interest rate risk, i.e. by adjusting the volume and direction of these exposures depending on the fluctuating market, which is depicted by the range of these exposures (the minimum and the maximum column of the table above).

The table below shows the levels of risk measured using the VaR (net of the economic hedges of the portfolio of securities available for sale) broken down into the FX risk and the interest rate risk positions in the year 2010:

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

In the year 2010, the overall, average level of the pricing risk of the trading portfolios was much lower than medium level in year 2009 of about PLN 3.5 million, mainly as a result of exposures levels decreasing of FX exposure levels, interest risk position in LCY and lower variability of main market factor. Maximum price risk level gain amount of PLN 12.4 million, compared to amount of PLN 17.6 million in the same period of the year 2009.

Capital instruments risk

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

Currency structure of the Group

Currency structure of assets and liabilities of the Group with main currency is presented in the following table:

31 December 2010

In thousand of PLN	Balance sheet transactions		Off balance sheet transactions		Net item
	Assets	Liabilities	Assets	Liabilities	
EUR	4,908,347	4,799,218	8,564,644	8,564,808	108,965
USD	1,907,398	3,815,166	7,132,875	5,246,970	(21,863)
GBP	625,237	653,453	31,217	3,058	(57)
CHF	398,555	316,634	264,884	355,770	(8,965)
Other currencies	471,810	387,703	826,979	879,376	31,710
	8,311,347	**9,972,174**	**16,820,599**	**15,049,982**	**109,790**

31 December 2009

In thousand of PLN	Balance sheet transactions		Off balance sheet transactions		Net item
	Assets	Liabilities	Assets	Liabilities	
EUR	3,669,009	4,489,670	8,122,778	7,287,217	14,900
USD	1,772,201	2,276,786	3,256,814	2,728,730	23,499
GBP	574,394	614,258	71,514	33,561	(1,911)
CHF	429,129	340,517	183,229	271,488	353
Other currencies	265,233	283,362	1,058,431	1,032,462	7,840
	6,709,966	**8,004,593**	**12,692,766**	**11,353,458**	**44,681**

Operational risk

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

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

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

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

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

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

- the senior management is responsible for management of operational risk in pursuance of the Policy for the Operational Risk Management;
- management of operational risk is based on the following six key elements:

- risk identification;
- risk limitation;
- risk self-assessment (RCSA);
- risk monitoring;
- risk measurement; and
- reporting of the areas exposed to operational risk;

- the processes of risk identification, self-assessment and reporting, in all principal aspects, are uniform and generally adopted by all organizational units;
- the processes of mitigation, monitoring and measurement of risk are set for each and every organizational unit and can differ across those units;

- the processes of calculation and reporting of the regulatory capital requirement on account of operational risk and the statutory reporting are regulated by an order entitled Procedure for Calculation of the Capital Requirement on Account of Operational Risk in accordance with the Standard Method and Reporting Data on Operational Risk.

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

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

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

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

Arrangement and execution of effective operational risk management process in subsidiaries rests with subsidiaries Management Boards. Management Boards of subsidiaries assure adequacy of organizational structures and implementation of processes and procedures aligned with undertaken operational risk. Supervisory Boards of subsidiaries maintain surveillance over operational risk management system and assess it's effectiveness and adequacy. Cohesion of standards is provided by relevant units in subsidiaries, supported by Bank operational risk management unit. Effectiveness of operational risk management in subsidiaries and Bank is audited and assessed against unified criteria.

Risk measurement and control mechanisms

Risk identification, self-assessment and reporting processes, in main aspects, are standardized and generally accepted by all organizational units.

Risk mitigation, monitoring, and measurement processes are defined by each Business Unit and may differ between Business Units.

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

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

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

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

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

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

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

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

Monitoring and Reporting

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

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

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

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

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

Stress tests

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

Financial result risk

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

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

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

The equity management

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

The Group's equity amounted to PLN 6.5 bn. as at 31 December 2010 (as at 31 December 2009 – PLN 6.2 bn.). Regulatory capital, which included increases and decreases set by the Polish Financial Supervision Authority (KNF), amounted to PLN 4.4 bn. (as at 31 December 2009 – PLN 4.3 bn.). Such capital level is regarded as sufficient for conducting business activity and therefore the Bank plans to preserve current capital structure. The capital level is regularly monitored using capital adequacy ratio.

Beginning from 2008 the Group has launched the process of estimating internal capital. The Bank identifies significant risks and assesses the capital required for coverage of these risks.

The Bank determines policy of future dividend's payment in the process of capital management.

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

48. Statement of the Bank's Management Board

Accuracy and fairness of the statements presented

To the best knowledge of the Bank's Management Board, which members are: Mr. Sławomir S. Sikora - President of the Management Board, Mr. Robert Daniel Massey JR – Vice-President of the Management Board, Mr. Michał H. Mrożek – Vice-President of the Management Board, Mrs. Sonia Wędrychowicz-Horbatowska – Vice-President of the Management Board, Mr. Witold Zieliński – Vice-President of the Management Board and Mrs. Iwona Dudzińska - Member of the Management Board, the annual financial data and the comparative data presented in the "The Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. as at 31 December 2010" were prepared consistently with the accounting standards in force and reflect the accurate, true and fair view of assets and financial position as well as the financial profit or loss of the Bank. "The Report on Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in 2010" contained in this document a true representation of the development, achievements and situation (together with a description of the main kind risks) of the Group in 2010.

Selection of the auditor authorized to examine financial statements

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

Signatures of all Management Board Members

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

Report on Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in 2010

CONTENTS

Poland's Economy in 2010

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.

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.

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.

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.

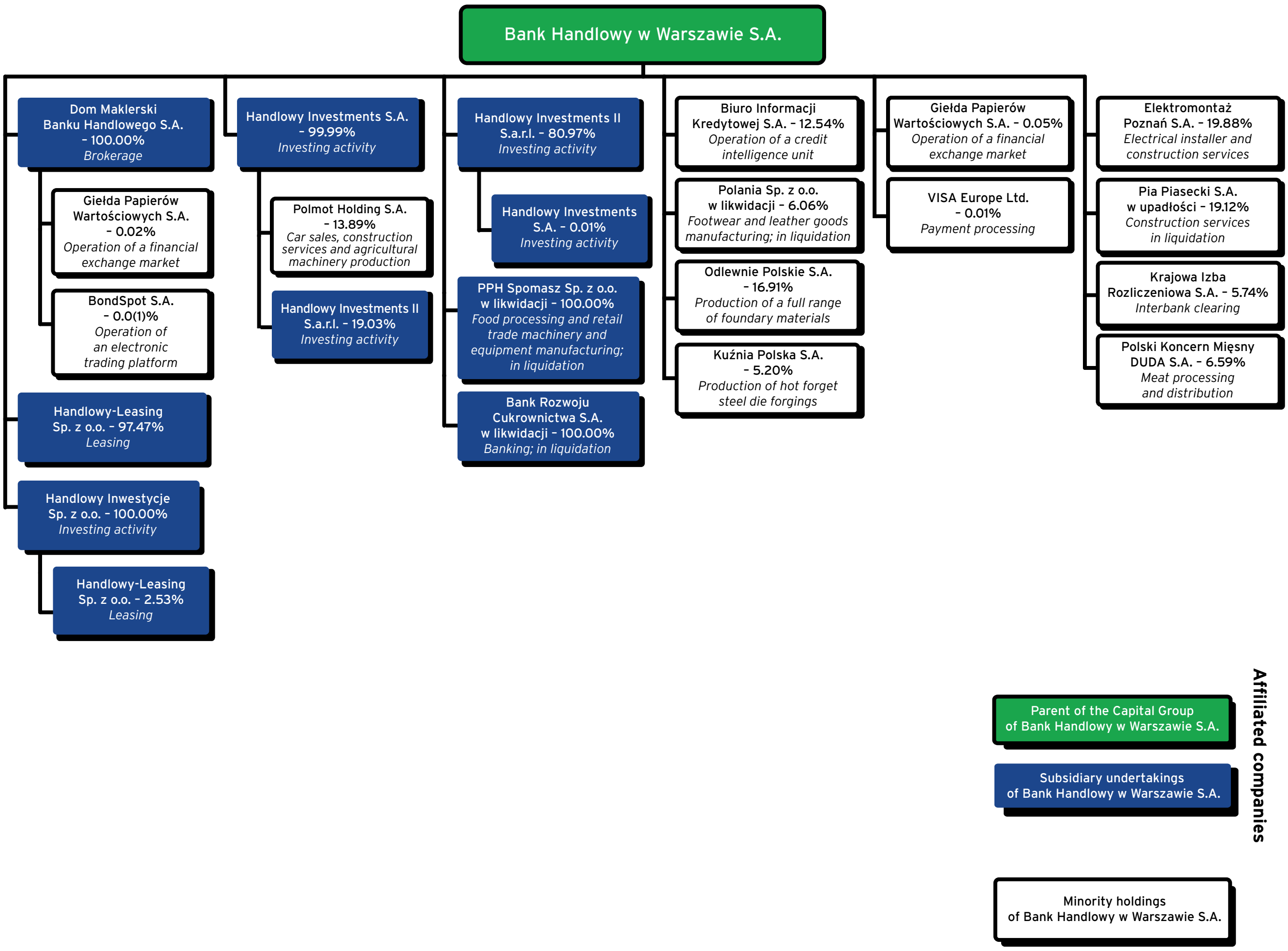
Despite continuing global market turbulence, the Polish banking sector is stable (equity of the sector exceeded PLN 116 billion at the end of 2010) and capital adequacy ratios of banks are maintained at safe levels.

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.

Organisational chart of the Capital Group of Bank Handlowy w Warszawie S.A.

The organisational chart below depicts the corporate entities which jointly formed the Capital Group of Bank Handlowy w Warszawie S.A. ("Bank") as at 31 December 2010; the Bank's share interest in each specified.



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

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

Group entities fully consolidated

Entity	Core business	Capital relationship	% of authorized capital held	Accounting method	Equity (PLN '000)
Bank Handlowy w Warszawie S.A.	Banking	parent	-	-	6,422,092*
Dom Maklerski Banku Handlowego S.A. (DMBH)***	Brokerage	subsidiary	100.00%	full consolidation	106,850
Handlowy-Leasing Sp. z o.o.***	Leasing	subsidiary	100.00%**	full consolidation	147,467
Handlowy Investments S.A.***	Investing activity	subsidiary	100.00%	full consolidation	29,447
PPH Spomasz Sp. z o.o. w likwidacji***	Ceased operations	subsidiary	100.00%	full consolidation	in liquidation

* *Equity of Bank Handlowy w Warszawie S.A. as per stand-alone balance sheet of the Bank for 2010.*
** *Including indirect participations.*
*** *Pre-audit data.*

Group entities not fully consolidated

Entity	Core business	Capital relationship	% of authorized capital held	Accounting method	Equity (PLN '000)
Handlowy Inwestycje Sp. z o.o.***	Investing activity	subsidiary	100.00%	equity valuation	10,938
Handlowy Investments II S.a.r.l.***	Investing activity	subsidiary	100.00%**	equity valuation	6,959
Bank Rozwoju Cukrownictwa S.A. w likwidacji***	Banking	subsidiary	100.00%	equity valuation	in liquidation

** *Including indirect participations.*
*** *Pre-audit data.*

In May 2010 as a result of a receivables conversion entitled to the Bank towards Odlewnie Polskie S.A. on entity shares, the Bank took up 3,495,248 shares of Odlewnie Polskie S.A. with nominal value of PLN 3 per share and total nominal value of PLN 10,485,744.00 which represented 16.91% of its share capital.

In October 2010 the Bank took up 1,122,996 shares of Kuźnia Polska S.A. with nominal value of PLN 1 per share and total nominal value of PLN 1,122,996.00 which represented 5.20% of its share capital. Shares were taken up as a result of a receivables conversion entitled to the Bank towards Kuźnia Polska S.A. on entity shares.

In addition, in 2010 the Bank sold 30,526 shares of Visa Inc. with nominal value of 0.0001 USD per share, which represented around 0.01% of its share capital.

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

Highlights of the year 2010

The year 2010 – the first year in which the Bank was implementing its strategy for 2010-2012 – was successful for the Group as regards both the business and financial achievements. The most significant achievements are:

- Net **profit higher** by almost 86% against 2009 (excluding an effect of a one-off event on net income for 2009);
- Stable **revenues and operating margin** (higher by 10.6% and 4.1%, respectively, against 2009, excluding an effect of a one-off event on net income for 2009);
- Keeping the **cost discipline** – cost/income ratio of 54%;
- **Improvement** of key **efficiency** ratios:
  - ROE of 12.8% (higher by 3.9 p.p. against 2009),
  - ROA of 1.9% (higher by 0.7 p.p. against 2009).
- Net **interest margin** increased to 3.8%;
- Significantly **reduced credit risk costs** from 4.6% in 2009 to 2.1% in 2010;
- Higher nonfinancial deposit balance (higher by 12.3%);
- Introduction of numerous **innovative** products, including an Integrated Citibank Payment and City Travelcard (Miejska Karta Płatnicza Citibank) and a mobile version of internet banking (CitiMobile), and processes – issue of contactless cards directly in branches;
- Launch of the **Investment Banking** Team in Warsaw and participation in key capital market transactions in Poland, including privatization of the Warsaw Stock Exchange;
- **Dom Maklerski Banku Handlowego S.A. still the leader on the market** (market share in overall WSE shares and block transactions trading on the secondary market);
- **Successes in transaction servicing**: leader on share in the Polish prepaid cards market and MicroPayments (Mikrowpłaty) market; top number of direct debit transactions processed by the Bank; twice in a row the Bank received the Top Rated status in the Leading Clients (the biggest

and demanding clients) category, which formed part of a prestigious survey among professional clients by Global Custodian;

- Further **optimization of the branch network**: significant increase in the number of alternative customer contact points (e.g. at the airports, shopping centers, etc.).

Summary financial data of the Group

PLN million	2010	2009
Total assets	37,517.5	37,633.1
Equity	6,492.9	6,199.4
Loans*	11,593.4	11,974.7
Deposits*	20,423.0	20,572.0
Net profit	754.8	504.4
Capital adequacy ratio	18.8%	16.7%

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

Financial results of the Group for the year ended 31 December 2010

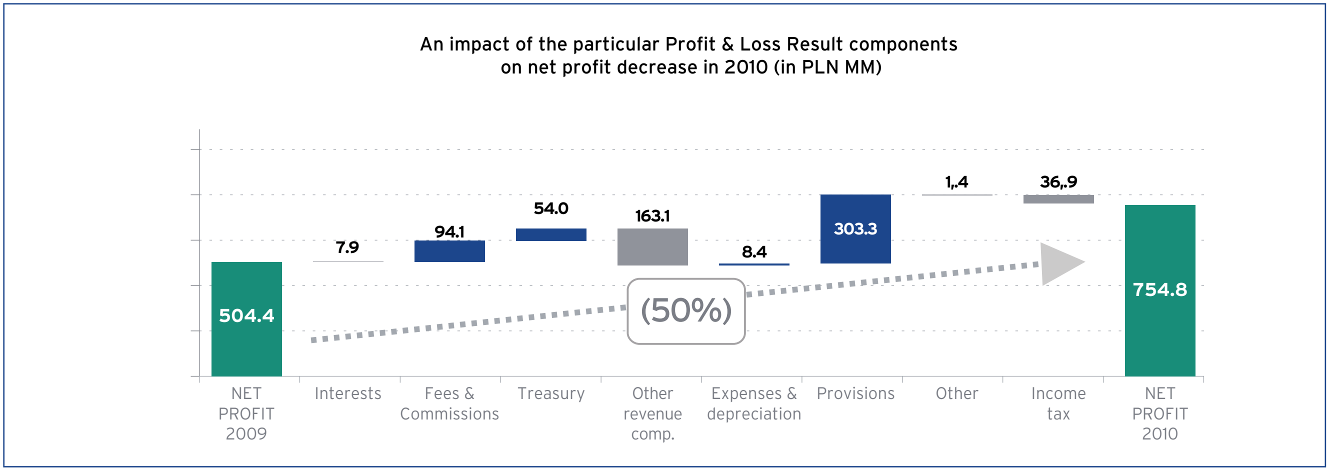
Income statement

The Group's gross profit for 2010 reached PLN 942.6 million and was PLN 287.3 million or 43.8% higher than a year earlier. Its consolidated net profit for the year 2010 reached PLN 754.8 million, which means an increase of PLN 250.4 million or almost 50% against 2009.

Selected income statement items

PLN '000	2010	2009	Change	
			PLN '000	%
Net interest income	1,497,452	1,505,381	(7,929)	(0.5%)
Net commission income	654,928	560,865	94,063	16.8%
Dividend income	6,040	6,451	(411)	(6.4%)
Net gains on financial instruments held for trading and on revaluation	281,154	269,248	11,906	4.4%
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	(4,497)	158,630	(163,127)	(102.8%)
Total income	**2,558,886**	**2,581,857**	**(22,971)**	**(0.9%)**
Overheads and general administrative expenses and depreciation, including:	(1,375,485)	(1,383,906)	8,421	0.6%
Overheads and general administrative expenses	(1,313,006)	(1,305,059)	(7,947)	(0.6%)
Depreciation/amortization of tangible and intangible fixed assets	(62,479)	(78,847)	16,368	20.8%
Net gains on sale of fixed assets	1,031	2,698	(1,667)	(61.8%)
Net change in impairment losses	(242,520)	(545,809)	303,289	55.6%
Share in net profits/(losses) of entities valued by equity method	666	426	240	56.3%
Profit before taxation	**942,578**	**655,266**	**287,312**	**43.8%**
Income tax expense	(187,767)	(150,867)	(36,900)	(24.5%)
Net profit for the year	**754,811**	**504,399**	**250,412**	**49.6%**

Depicted below is the impact of individual income statement (P&L) items on net profit:



One of the key factors contributing to the reduced financial result for 2010 was lower net impairment losses of PLN 242.5 million against PLN 545.8 million in 2009. Such a significant decline in impairment losses resulted primarily from improved financial standing of corporate clients. Net commission income increased by PLN 94 million, or 16.8%, and treasury income by PLN 54.0 million, or 15.6%.

Operating income – which includes net interest and commission income, dividend income, net gains on financial instruments held for trading and on revaluation, net gains on investment debt securities and on equity securities and net other operating income – was PLN 2,558.9 million in 2010 against PLN 2,581.9 million in 2009. Slightly lower income than in 2009 was primarily an effect a significant decline in net other operating income and resulted primarily from a one-off event of 2009 (settlement of overpaid VAT) as described below.

At the same time costs of Group operating activity, overheads and general administrative expenses, and depreciation were almost the same as in 2009 and amounted to PLN 1,375.5 million in 2010.

Numerous material one-off events were posted in both 2010 and 2009, which had an impact on the Group's financial result.

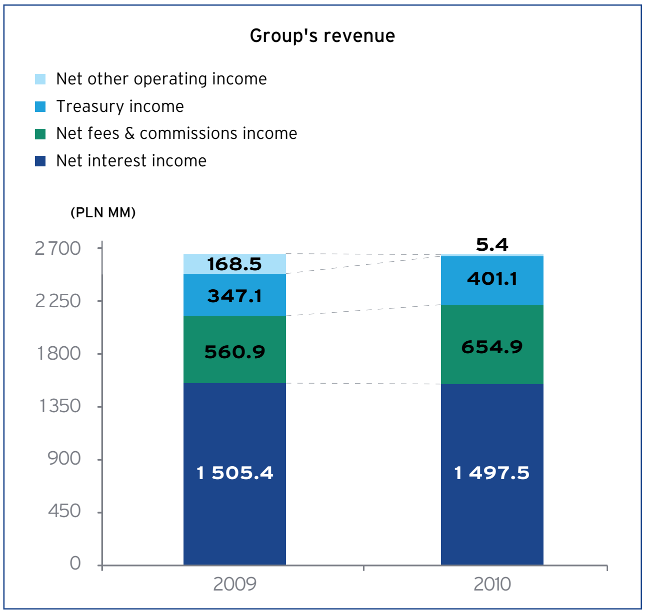
The financial result for 2009 was materially affected by a one-off event of settlement of overpaid VAT in consequence of which the annual income grew by PLN 128 million (income higher by PLN 125 million and depreciation lower by PLN 3 million). The financial result for 2010 was adversely affected by two one-off events for the total amount of PLN 23.2 million (net other operating income).

At netting out of these transactions, 2010 gross profit grew by PLN 427.5 million or 81% YOY, net profit grew by 358.7 million or 88% YOY, and operating income increased by PLN 114.2 million or 5% YOY.

Revenue

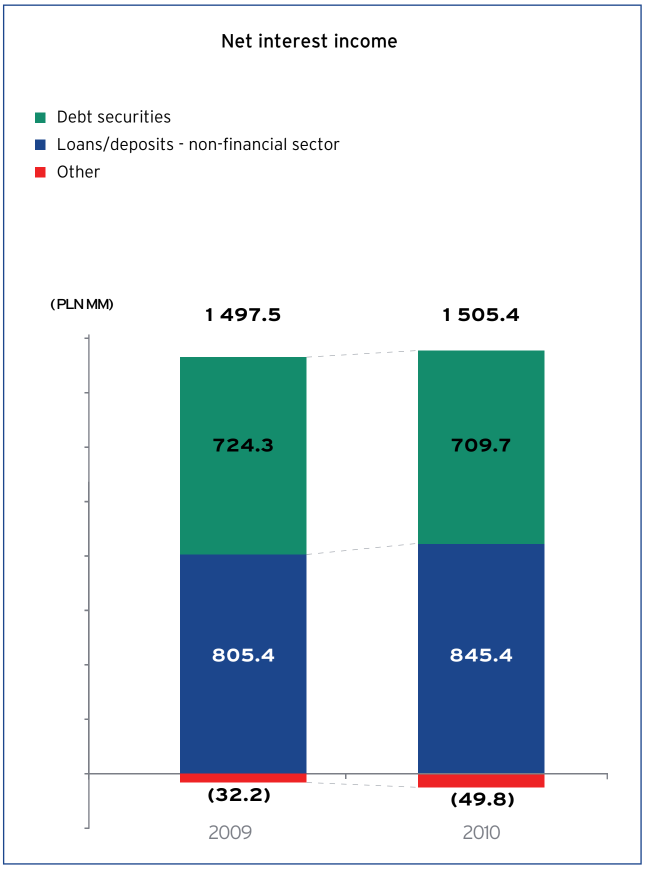
Operating income reached PLN 2,558.9 million in 2010 against PLN 2,581.9 million in 2009, which represents a 0.9% decrease.

The decrease in income compared to 2009 resulted primarily from a one-off event of settlement of overpaid VAT 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). At netting out of that factor the annual income of the Group increased by PLN 97.0 million i.e. 4.0%.

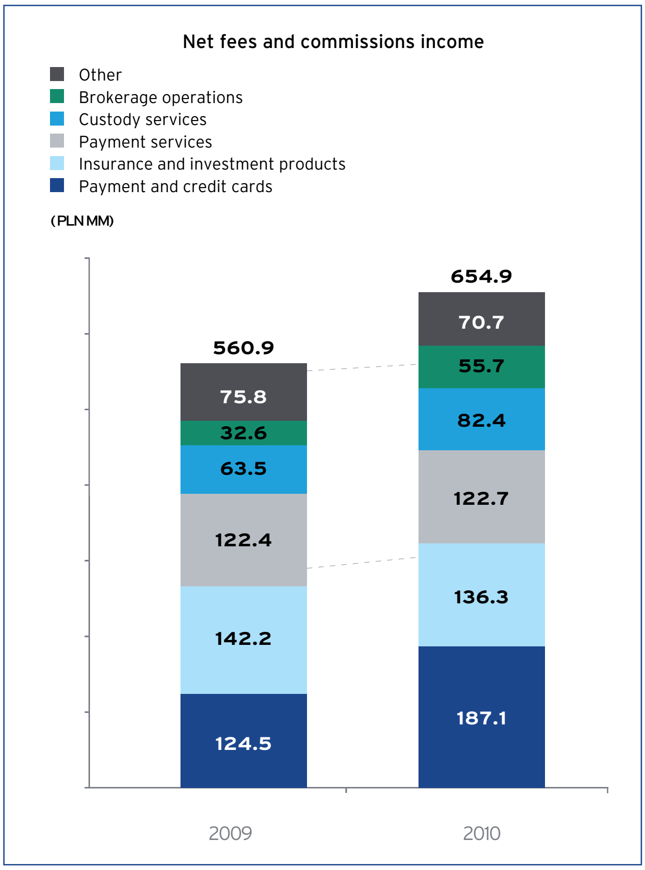


Moreover, operating income in 2010 was affected by the following primary factors:

- Net interest income of PLN 1,497.5 million in 2010 against PLN 1,505.4 million in 2009. Insignificant decrease – by PLN 7.9 million or 0.5% resulted primarily from lower income on non-financial sector loans. At the same time income on debt securities (primarily on AFS portfolio) increased and deposit costs, both on non-financial and financial sector, declined.



- Net commission income of PLN 654.9 million in 2010 against PLN 560.9 million in 2009, representing a growth of PLN 94.1 million or 16.8% primarily as a result of increased net income on credit and payment cards in the effect of sales structure changes (more foreign transactions), positive effect of renegotiated partner program agreements and lower acquisition expenses. Net commission income improved also in the result of growing income on custody services and brokerage activity in consequence of higher stock exchange turnovers and a higher share of DMBH in the same. DMBH also played a significant role in transactions of share sale by the State Treasury, including privatization of the Warsaw Stock Exchange.



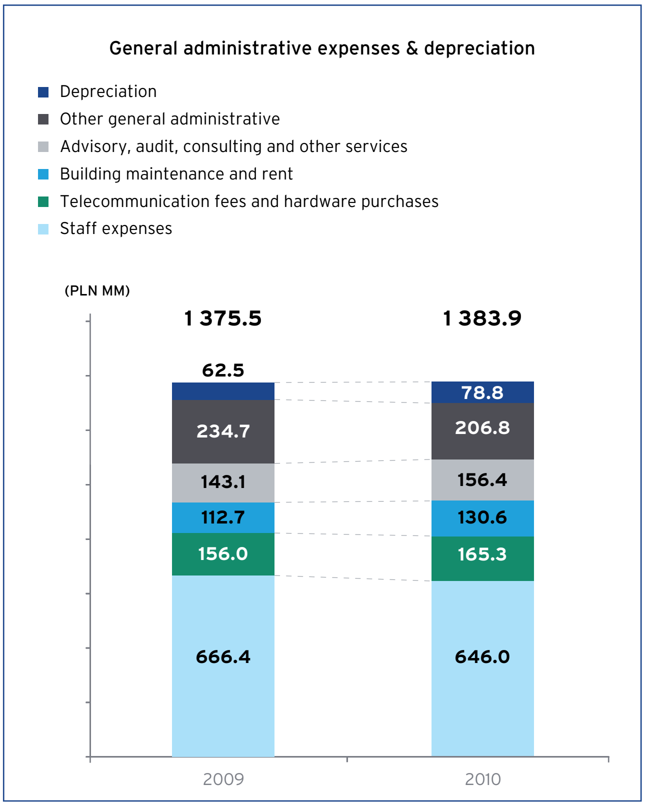
- Treasury income of PLN 401.1 million, including net gains on financial instruments held for trading and on revaluation of PLN 281.2 million and net gains on investment debt securities of PLN 119.9 million. It grew by PLN 54.0 million or 15.6% against 2009 where it stood at PLN 347.1 million, primarily due to higher income on sale of investment debt securities and improved net gains on currency exchange instruments.
- Net other operating income of PLN (-4.5) million. In 2010 that item was charged with costs of provisioning: in the first quarter a provision of PLN 10.7 million was made for buying back bonds of a bankrupt bank – Lehman Brothers; bonds were bought by clients through the Bank. In the fourth quarter a provision was made for VAT on charged back insurance on assets leased from Handlowy-Leasing Sp. z o.o. in consequence of changed interpretation of tax regulations. The leasing corrections reduced both gross profit and net profit of the Group by PLN 12.5 million.

Expense

PLN '000	2010	2009	Change	
			PLN '000	%
Personnel costs	**666,414**	**645,979**	**20,435**	**3.2%**
General administrative expenses, including	**646,592**	**659,080**	**(12,488)**	**(1.9%)**
Telecommunication fees and IT hardware	156,018	165,344	(9,326)	(5.6%)
Building maintenance and rent	112,724	130,565	(17,841)	(13.7%)
Advisory, audit, consulting and other external services	91,666	110,655	(18,989)	(17.2%)
Total overheads	**1,313,006**	**1,305,059**	**7,947**	**0.6%**
Depreciation	62,479	78,847	(16,368)	(20.8%)
Total expenses	**1,375,485**	**1,383,906**	**(8,421)**	**(0.6%)**

Throughout the year 2010 the Group continued to pursue its cost discipline policy. Compared to 2009 expenses were reduced by PLN 8.4 million or 0.6% in 2010, a result of lower costs of banking activity and general administrative expenses and lower depreciation. The Group's headcount growth, driven by expansion of activities by operations so far outsourced by the Bank, increased personnel costs by PLN 20.4 million or 3.2%. At the same time general administrative expenses declined by PLN 12.5 million or 1.9%, primarily due to reduced costs of building maintenance and rent, advisory, audit, consulting and other external services, telecommunication fees and computer hardware.

Depreciation/amortization of tangible and intangible fixed assets declined by PLN 16.4 million or 20.8%.



Net impairment losses on 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)	(22,802)	(74,942)	52,140	69.6%
Net impairment losses on loans and off-balance sheet liabilities	(219,717)	(470,867)	251,150	53.3%
accounted for individually	26,865	(262,350)	289,215	110.2%
accounted for collectively, on a portfolio basis	(246,582)	(208,517)	(38,065)	(18.3%)
Total change in impairment losses	**(242,520)**	**(545,809)**	**303,290**	**55.6%**

Total impairment losses of PLN 242.5 declined significantly - by PLN 303.3 million or 55.6% - compared to 2009, which was primarily a result of reversed provisions of PLN 27.3 million in the Commercial Bank as a consequence of clients' improved financial standing. In the Consumer Bank impairment losses increased slightly to PLN 269.8 million as a consequence of the effect - particularly in the first half of 2010 - of deteriorated market conditions on the quality of loan and credit cards portfolios. In the second half of the year impairment losses gradually decreased in that segment.

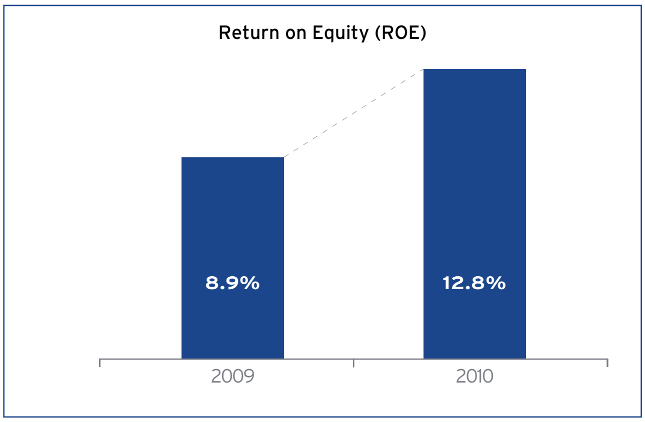
Ratio analysis

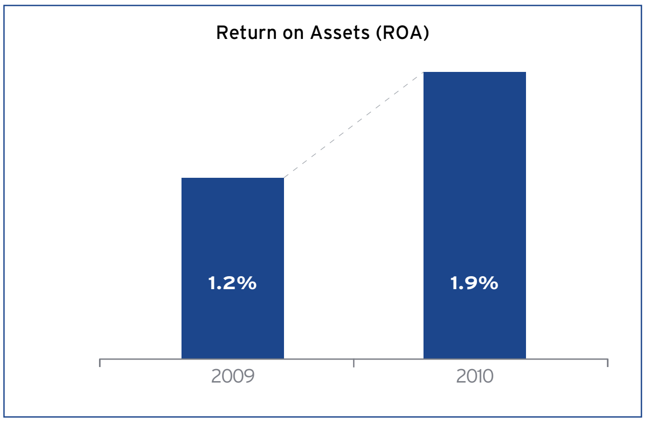
Group profitability and cost efficiency ratios

	2010	2009
Return on equity (ROE)*	12.8%	8.9%
Return on assets (ROA)**	1.9%	1.2%
Net interest margin (NIM)***	3.8%	3.7%
Earnings per share in PLN	5.78	3.86
Cost/income****	54%	54%
Non-financial sector loans to non-financial sector deposits	57%	58%
Non-financial sector loans to total assets	31%	32%
Net interest income to total revenue	59%	58%
Net commission income to total revenue	26%	22%

** Net profit to average equity (excluding net profit for the current year) calculated on a quarterly basis.*
*** Net profit to average total assets calculated on a quarterly basis.*
**** Net interest income to average total assets calculated on a quarterly basis.*
***** Overheads, general administrative expenses, depreciation and amortization to operating income.*

In the cost efficiency scope, the Bank achieved significant improvement. At the end of December 2010 return on equity (ROE) was 12.8% and it grew by 3.9 p.p. YOY. Return on assets (ROA) improved significantly as well and reached 1.9% at the end of 2010.





The cost/income ratio was 54%. At netting out of the one-off transaction in 2009 cost efficiency improved by 2 p.p. (i.e. from 56% to 54%).

The further increase of interest margin to 3.8% – one of the highest in the sector – is worth noted.

In 2010 the Group maintained high liquidity. Non-financial sector loans to non-financial sector deposits did not change and amounted to 57%. Non-financial sector loans to total assets declined slightly and amounted to 31%.

Balance sheet

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

Balance sheet

PLN '000	As at		Change	
	31.12.2010	31.12.2009	PLN '000	%
ASSETS				
Cash and balances with central bank	3,206,554	4,113,355	(906,801)	(22.0%)
Financial assets held for trading	3,995,916	5,397,125	(1,401,209)	(26.0%)
Debt securities available-for-sale	13,029,254	8,290,225	4,739,029	57.2%
Equity investments, held at equity value	56,332	56,895	(563)	(1.0%)
Equity investments	23,949	24,140	(191)	0.8%
Loans and advances	14,543,248	16,777,255	(2,234,007)	(13.3%)
to financial sector	2,949,839	4,802,562	(1,852,723)	(38.6%)
to non-financial sector	11,593,409	11,974,693	(381,284)	(3.2%)
Property and equipment	475,373	505,192	(29,819)	(5.9%)
land, building and equipment	457,065	486,884	(29,819)	(6.1%)
investment property	18,308	18,308	-	-
Intangible assets	1,285,757	1,282,574	3,183	0.2%
Deferred income tax assets	321,669	476,372	(154,703)	(32.5%)
Other assets	569,587	690,384	(120,797)	(17.5%)
Non-current assets available-for-sale	9,901	19,546	(9,645)	(49.3%)
Total assets	**37,517,540**	**37,633,063**	**(115,523)**	**(0.3%)**
LIABILITIES				
Liabilities towards central bank	-	980,446	(980,446)	-
Financial liabilities held for trading	2,804,437	3,108,493	(304,056)	(9.8%)
Financial liabilities valued at amortized cost	27,308,344	26,359,837	948,507	3.6%
Deposits	26,430,223	25,307,218	1,123,005	4.4%
from financial sector	6,007,190	4,735,260	1,271,930	26.9%
from non-financial sector	20,423,033	20,571,958	(148,925)	(0.7%)
Issued liabilities	11,533	-	11,533	-
Other liabilities	866,588	1,052,619	(186,031)	(17.7%)
Provisions	32,240	49,390	(17,150)	(34.7%)
Other liabilities	879,584	935,508	(55,924)	(6.0%)
Total liabilities	**31,024,605**	**31,433,674**	**(409,069)**	**(1.3%)**
EQUITY				
Issued capital	522,638	522,638	-	-
Supplementary capital	3,031,149	3,030,546	603	0.0%
Revaluation reserve	(44,848)	(81,026)	36,178	44.6%
Other reserves	2,248,707	2,225,712	22,995	1.0%
Retained earnings	735,289	501,519	233,770	46.6%
Total equity	**6,492,935**	**6,199,389**	**293,546**	**4.7%**
Total liabilities and equity	**37,517,540**	**37,633,063**	**(115,523)**	**(0.3%)**

Assets

Gross loan receivables (reverse repo transactions included)*

PLN '000	As at		Change	
	31.12.2010	31.12.2009	PLN 000	%
Banks and other monetary financial institutions	2,273,632	3,478,494	(1,204,862)	(34.6%)
Non-banking financial institutions	698,228	1,346,388	(648,160)	(48.1%)
Non-financial sector entities	6,693,528	7,143,749	(450,221)	(6.3%)
Individuals	6,119,157	6,177,923	(58,766)	(1.0%)
Public entities	96,625	86,947	9,678	11.1%
Other receivables	21,492	5,509	15,983	290.1%
Total	**15,902,662**	**18,239,010**	**(2,336,348)**	**(12.8%)**

** Receivables with payable interest.*

In 2010 gross receivables declined by PLN 2.3 billion or 12.8%, primarily in the financial sector in consequence of lower deposits with banks.

In gross terms, receivables of non-financial sector fell by PLN 0.5 billion or 3.7% in 2010, primarily in non-financial sector corporate entities. Receivables of individuals recorded a slight decline as well (by 1.0%) primarily in cash loans in consequence of more stringent credit policy.

Debt securities portfolio stood at PLN 14.6 billion, remaining the second largest constituent of the Group's assets. Compared to 2009 the portfolio grew by PLN 4.1 billion or 38.4%, primarily in the effect of a growth in positions in NBP bills. At the same time Treasury bonds portfolio declined by PLN 2.7 billion or 25.4% (among others, due to expected increase in interest rates).

Debt securities portfolio

PLN '000	As at		Change	
	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 deposit 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%**

Liabilities

Financial liabilities valued at amortized cost

PLN '000	As at		Change	
	31.12.2010	31.12.2009	PLN 000	%
Due to financial sector, including:	**6,004,508**	**4,731,434**	**1,273,074**	**26.9%**
- banks and other monetary institutions	2,844,661	1,632,227	1,212,434	74.3%
- due to non-banking financial sector	3,159,847	3,099,207	60,640	2.0%
Due to non-financial sector, including:	**20,406,055**	**20,551,250**	**(145,195)**	**(0.7%)**
- corporate clients	12,046,099	10,576,734	1,469,365	13.9%
- individuals	5,717,614	6,336,304	(618,690)	(9.8%)
Other liabilities, including accrued interest	**897,781**	**1,077,153**	**(179,372)**	**(16.7%)**
Total	**27,308,344**	**26,359,837**	**948,507**	**3.6%**

The key item funding the Group's assets are liabilities due to non-financial sector clients, which declined slightly – by PLN 145 million or 0.7% – in 2010 in consequence of a decrease in individual deposits. On the other hand liabilities due to corporate clients grew by 14% as well as financial sector deposits (by PLN 1,273.1 million or 26.9%).

Sources and uses of funds

PLN '000	31.12.2010	31.12.2009
Source of funds		
Funds of banks and other monetary financial institutions	3,437,761	2,474,630
Funds of customers and government units	23,870,583	23,885,207
Own funds with net income	6,492,935	6,199,389
Other external funds	3,716,261	5,073,837
Total source of funds	**37,517,540**	**37,633,063**
Use of funds		
Receivables from banks and other monetary financial institutions	2,273,138	3,477,729
Receivables from customers and government units	12,270,110	13,299,526
Securities, shares and other financial assets	17,105,451	13,768,385
Other uses of funds	5,868,841	7,087,423
Total use of funds	**37,517,540**	**37,633,063**

Equity and capital adequacy ratio

Compared to 2009 equity of the Group at the end of 2010 increased by PLN 43.1 million or 0.8%. Revaluation reserve grew by PLN 36.2 million and the general risk reserve was supplied with PLN 32.5 million from profit for 2009.

Equity*

PLN '000	As at		Change	
	31.12.2010	31.12.2009	PLN '000	%
Issued capital	522,638	522,638	-	-
Supplementary capital	3,031,149	3,030,546	603	0.0%
Other reserves	1,746,107	1,750,757	(4,650)	(0.3%)
Revaluation reserve	(44,848)	(81,026)	36,178	44.6%
General risk reserve	497,500	465,000	32,500	7.0%
Other equity	(14,422)	7,075	(21,497)	303.8%
Total equity	**5,738,124**	**5,694,990**	**43,134**	**0.8%**

* *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 capital adequacy ratio based on the consolidated financial statements of the Group.

Capital adequacy ratio

	PLN '000	31.12.2010*	31.12.2009**
I	**Own funds for the calculation of capital adequacy ratio, including:**	**4,384,927**	**4,329,257**
	less core and supplementary funds		
	- interest in financial entities	56,332	56,895
	- intangible assets, including:	1,285,757	1,282,574
	goodwill	*1,245,976*	*1,245,976*
II	**Risk-weighted assets and off-balance sheet liabilities (bank portfolio)**	**15,766,225**	**17,536,950**
III	**Total capital requirement, of which:**	**1,865,353**	**2,072,350**
	- credit risk capital requirements (II*8%)	1,261,298	1,402,956
	- counterparty risk capital requirement	98,223	131,142
	- excess concentration and large exposures risk capital requirement	44,066	54,387
	- total market risks capital requirements	72,382	106,772
	- operational risk capital requirements	361,165	345,885
	- other capital requirements	28,219	31,208
	Capital adequacy ratio (I/III*12.5)	**18.81%**	**16.71%**

* *Capital Adequacy Ratio calculated according to the rules stated in Resolution No. 76/2010 of the Polish Financial Supervision Authority of 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 of 17 December 2008 regarding the extent and detailed rules of calculation of capital requirements in respect of particular risks (...) (NBP Official Journal No. 8, item 34).*

As at 31 December 2010 the Group's capital adequacy ratio stood at 18.81%, up 2.1 percentage points YOY. This resulted primarily from a 10% decline in credit risk capital requirements, primarily in consequence of a smaller portfolio of risk-weighted assets and off-balance sheet liabilities. Own funds remained unchanged.

Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in 2010

Lending and other risk exposures

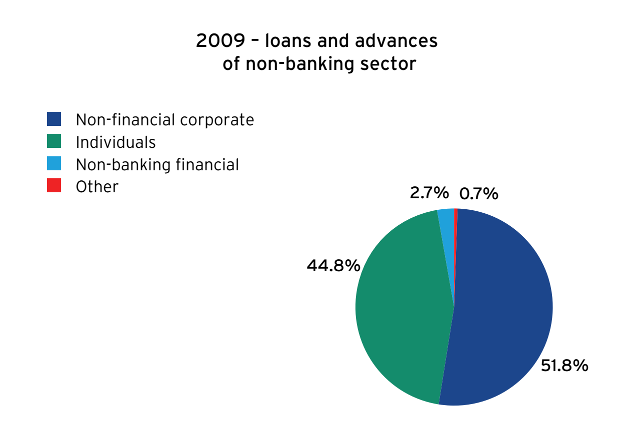
Lending

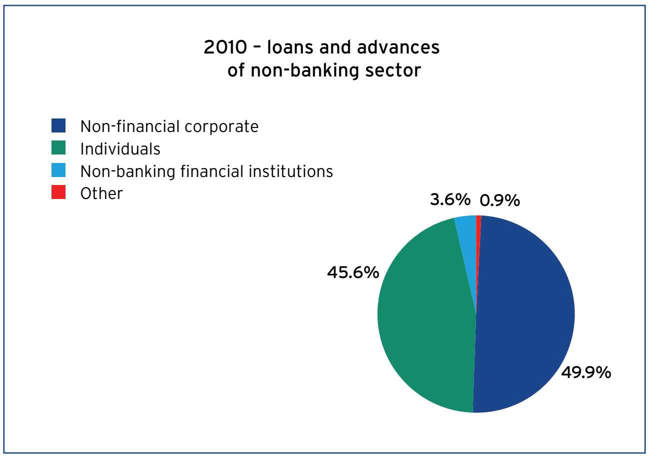
The Group's lending policy is based on active portfolio management and precisely specified target markets, designed to facilitate exposure and credit risk analysis within a given industry of each client. In addition, individual borrowers are continuously monitored so that any signs of deterioration in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

Lending to non-bank customers, gross

PLN '000	As at		Change	
	31.12.2010	31.12.2009	PLN '000	%
Loans in PLN	11,705,368	11,891,745	(186,377)	(1.6%)
Loans in foreign currency	1,713,170	1,887,942	(174,772)	(9.3%)
Total	**13,418,538**	**13,779,687**	**(361,149)**	**(2.6%)**
Loans to non-financial sector	12,834,177	13,327,181	(493,002)	(3.7%)
Loans to financial sector	487,736	365,559	122,177	33.4%
Loans to public sector	96,625	86,947	9,678	11.1%
Total	**13,418,538**	**13,779,687**	**(361,149)**	**(2.6%)**
Non-financial corporate entities	6,693,528	7,143,749	(450,221)	(6.3%)
Individuals	6,119,157	6,177,923	(58,766)	(1.0%)
Non-bank financial entities	487,736	365,559	122,177	33.4%
Public entities	96,625	86,947	9,678	11.1%
Other non-financial receivables	21,492	5,509	15,983	290.1%
Total	**13,418,538**	**13,779,687**	**(361,149)**	**(2.6%)**

As at 31 December 2010 gross credit exposure to the non-bank customers sector amounted to PLN 13,418.5 million, representing a decrease of 2.6% compared to 31 December 2009. The largest part of that credit portfolio, being loans to non-financial corporate entities (49.9%), decreased by 6.3% in 2010. Loans to individuals declined in comparison with the end of 2009 by 1.0% to PLN 6,119.1 million. Their share in total gross loan receivables increased slightly, i.e. by 0.8 p.p.





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 13.7%, fell to 12.8% by December 2010. Worth underscoring is the fact that the Group grants foreign currency loans to clients and customers who have foreign currency cash flows or to entities which, in the Group's opinion, are able to predict or absorb the currency risk without significant threat to their financial position.

The Group 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 2010 the Group's portfolio exposure to non-bank entities did not exceed the exposure concentration limits required by the law.

Concentration of exposures to non-financial borrowers

PLN '000	31.12.2010			31.12.2009		
	Balance sheet outstanding*	Off-balance sheet outstanding	Total outstanding	Balance sheet outstanding*	Off-balance sheet outstanding	Total outstanding
GROUP 1	572,962	228,113	801,074	284,984	351,906	636,890
GROUP 2	232,922	336,395	569,318	251,321	312,657	563,978
GROUP 3	253,504	224,849	478,353	252,989	226,951	479,940
GROUP 4	15,413	348,278	363,691	4,515	144,917	149,432
GROUP 5	6	327,527	327,533	211,117	102,983	314,100
CLIENT 6	60,903	239,097	300,000	229,803	20,197	250,000
CLIENT 7	250,000	-	250,000	79,523	-	79,523
CLIENT 8	109,611	139,034	248,645	8,590	69,908	78,498
GROUP 9	30,123	215,746	245,869	53,371	171,922	225,293
CLIENT 10	23,902	213,493	237,395	7,512	469,583	477,095
Total 10	**1,549,346**	**2,272,532**	**3,821,878**	**1,383,725**	**1,871,024**	**3,254,749**

* *Excluding equity and other securities exposure.*

Loan portfolio quality

All of the Group'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 their management, the portfolio with recognized credit losses is then classified into assets accounted for individually or collectively.

Loans to non-banking sector, gross (reverse repo transactions included)

PLN '000	31.12.2010	31.12.2009	Change	
			PLN '000	%
With not recognized credit losses ("IBNR"), including:	11,628,708	12,502,809	(874,101)	(7.0%)
non-financial sector				
corporate customers	*5,717,287*	*5,637,988*	*79,299*	*1.4%*
individual customers	*5,237,116*	*5,540,852*	*(303,736)*	*(5.5%)*
With recognized credit losses, including:	1,878,129	2,120,333	(242,204)	(11.4%)
non-financial sector				
corporate customers	*971,044*	*1,460,258*	*(489,214)*	*(33.5%)*
individual customers	*883,164*	*637,658*	*245,506*	*38.5%*
Dues related to matured derivative transactions	122,191	137,373	(15,182)	(11.1%)
Total	**13,629,028**	**14,760,515**	**(1,131,487)**	**(7.7%)**
Impairment, including:	1,358,921	1,460,989	(102,069)	(7.0%)
dues related to matured derivative transactions	96,487	106,360	(9,873)	(9.3%)
Loans and advances to non-banking sector	**12,270,107**	**13,299,526**	**(1,029,419)**	**(7.7%)**
Provision coverage ratio	**67%**	**64%**		

Division into performing loans and non-performing loans was presented below. Since the quality of corporate portfolio improved, the amount of non-performing loans decreased by PLN 49.8 million or 3.1% compared to 2009. At the same time the amount of total loans declined in 2010 in consequence of a slight deterioration of the non-performing loans ratio (NPL).

Loans to non-banking sector gross, in division to performing vs. non-performing (reverse repo transactions included)

PLN '000	31.12.2010	31.12.2009	Change	
			PLN '000	%
Performing loans, including:	11,970,898	12,892,154	(921,256)	(7.1%)
non-financial sector				
corporate customers	*5,963,712*	*5,950,278*	*13,434*	*0.2%*
individual customers	*5,332,881*	*5,617,907*	*(285,026)*	*(5.1%)*
Non-performing loans:	1,535,939	1,585,761	(49,822)	(3.1%)
non-financial sector				
corporate customers	*724,619*	*1,002,691*	*(278,072)*	*(27.7%)*
individual customers	*787,399*	*560,603*	*226,796*	*40.5%*
Derivative instruments	122,191	137,373	(15,182)	(11.1%)
Total	**13,629,028**	**14,615,288**	**(986,260)**	**(6.7%)**
Non-performing loans ratio (NPL)	**11.4%**	**11.0%**		

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 non-reported losses.

As at 31 December 2010 the impairment of the portfolio was PLN 1,358.9, which represented a decline from PLN 1,460.9 million as at the end of December 2009. PLN 183.0 million or 33.4% increase was recorded on portfolio accounted for collectively as well as PLN 28.8 million or 20.3% increase was recorded on incurred but not reported losses (IBNR). The highest decrease in impairment losses, of PLN 313.8 million, occurred in the portfolio accounted for individually, which represented a 40.7% decrease compared to December 2009. The provision coverage ratio went down from 10.6% in December 2009 to 10.1% in December 2010, primarily as a result of lower impairment of receivables accounted for individually.

Impairment of the non-bank loan portfolio

PLN '000	As at		Change	
	31.12.2010	31.12.2009	PLN '000	%
Impairment due to incurred but not reported (IBNR) losses	170,751	141,982	28,769	20.3%
Impairment of receivables	1,188,170	1,319,007	(130,837)	(9.9%)
accounted for individually	457,215	771,034	(313,819)	(40.7%)
accounted for collectively, on a portfolio basis	730,955	547,973	182,982	33.4%
Total impairment	**1,358,921**	**1,460,989**	**(102,068)**	**(7.0%)**
Provision coverage ratio	10.1%	10.6%		

Off-balance sheet exposures

As at 31 December 2010 off-balance sheet exposures of the Group amounted to PLN 12,626.4 million, representing a decline of 8.3% as compared with 31 December 2009. The largest change was related to committed loans (PLN 1,094.6 million or 9.6% decrease). Committed loans with the largest share (81.8%) in off-balance sheet exposures represent committed, but currently unutilized credit lines and current account overdraft facilities.

Off-balance sheet exposures

PLN '000	As at		Change	
	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	10,333,933	11,428,560	(1,094,627)	(9.6%)
Underwriting	359,650	300,000	59,650	19.9%
Other	14,220	-	14,220	-
Total	**12,626,397**	**13,767,432**	**(1,141,035)**	**(8.3%)**
Provisions for off-balance sheet liabilities	10,538	37,427	(26,889)	(71.8%)
Provision coverage ratio	0.08%	0.27%		

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

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

External funding

As at 31 December 2010 overall external funds held by the Group reached PLN 27,308.3 million, which was PLN 948.5 million or 3.6% higher than at the end of the year 2009. The biggest item of changes in external funding of the Bank was amounts due to the financial sector that grew by PLN 1,271.9 million or 26.9% due to a higher bank deposit balance.

External funding

PLN '000	As at		Change	
	31.12.2010	31.12.2009	PLN '000	%
Due to financial sector	**6,007,190**	**4,735,260**	**1,271,930**	**26.9%**
Funds on current accounts, including:	1,492,350	2,240,998	(748,648)	(33.4%)
- funds on current accounts of banks	*755,445*	*1,474,356*	*(718,911)*	*(48.8%)*
Deposits, including:	4,512,158	2,490,436	2,021,722	81.2%
- deposits of banks	*2,089,216*	*157,871*	*1,931,345*	*1223.4%*
Accrued interest	2,682	3,826	(1,144)	(29.9%)
Due to non-financial sector	**20,423,033**	**20,571,958**	**(148,925)**	**(0.7%)**
Funds on current accounts, including:	11,912,332	10,611,554	1,300,778	12.3%
- corporate clients	*5,617,986*	*3,523,963*	*2,094,023*	*59.4%*
- individuals	*4,320,530*	*4,545,352*	*(224,822)*	*(4.9%)*
- public entities	*1,973,816*	*1,957,517*	*16,299*	*0.8%*
Term deposits, including:	8,493,723	9,939,696	(1,445,973)	(14.5%)
- corporate clients	*6,428,113*	*7,052,771*	*(624,658)*	*(8.9%)*
- individuals	*1,397,084*	*1,790,952*	*(393,868)*	*(22.0%)*
- public entities	*668,526*	*690,391*	*(21,865)*	*(3.2%)*
Accrued interest	16,978	20,708	(3,730)	(18.0%)
Issued liabilities	**11,533**	**-**	**11,533**	**-**
Other liabilities	**866,588**	**1,052,619**	**(186,031)**	**(17.7%)**
Loans received	574,780	828,585	(253,805)	(30.6%)
Repurchase agreements	113,534	-	113,534	-
Other liabilities	176,054	221,452	(45,398)	(20.5%)
Accrued interest	2,220	2,582	(362)	(14.0%)
Total external funding	**27,308,344**	**26,359,837**	**948,507**	**3.6%**

Liabilities towards financial sector category recorded a growth by PLN 1,300.8 million or 12.3% in funds on current accounts. On the other hand term deposits went down by PLN 1,446.0 million or 14.5%.

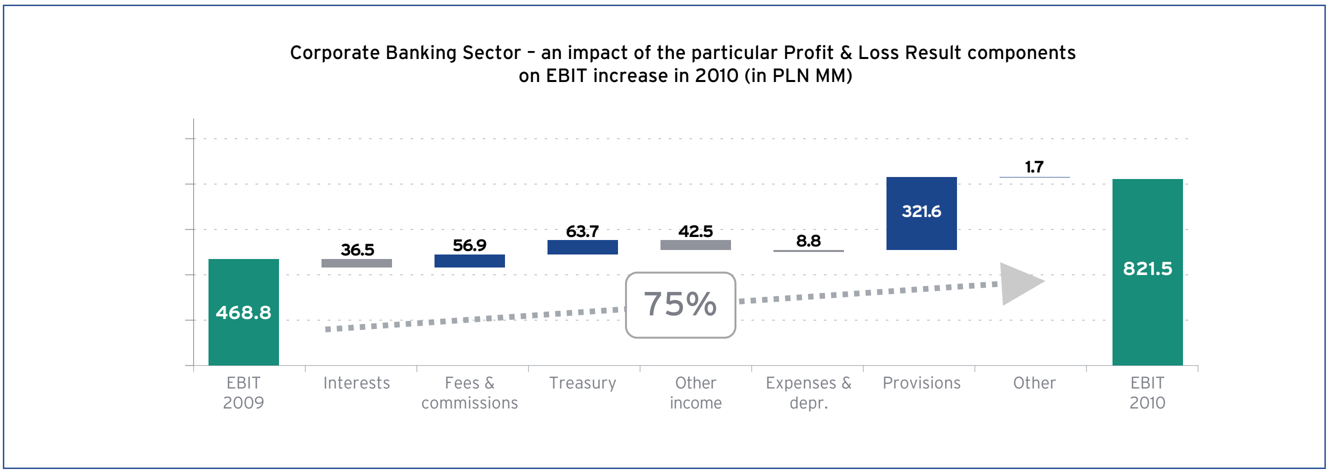
Liabilities to non-bank customers and clients

PLN '000	As at		Change	
	31.12.2010	31.12.2009	PLN '000	%
Liabilities towards:				
Individuals	5,736,400	6,390,760	(654,360)	(10.2%)
Non-financial corporate entities	11,723,745	11,302,506	421,239	3.7%
Non-profit institutions	399,470	359,135	40,335	11.2%
Non-bank financial institutions	3,153,474	3,088,258	65,216	2.1%
Public sector	2,642,816	2,649,390	(6,574)	(0.2%)
Other liabilities	74,766	70,627	4,139	5.9%
Total	**23,730,671**	**23,860,676**	**(130,005)**	**(0.5%)**
PLN	19,624,801	19,858,350	(233,549)	(1.2%)
Foreign currency	4,105,870	4,002,326	103,544	2.6%
Total	**23,730,671**	**23,860,676**	**(130,005)**	**(0.5%)**

Corporate and Investment Banking

Summary segmental results

In the segmental results in other operating income position corrections to tax settlements of value added tax for the previous years have not been included.



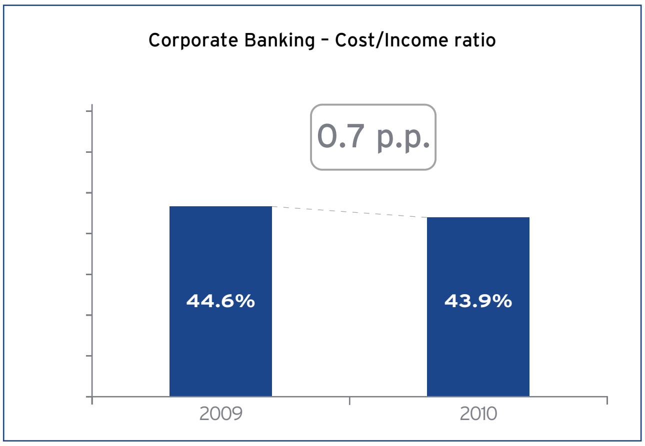
In 2010 gross profit of the Commercial Bank significantly increased in YOY terms, the key positive factors of which included:

- Net impairment losses on financial assets which stood at PLN 27.3 million in 2010 against PLN (-294.3) million in 2009, which was driven by the recovery of the economy and, consequently, an improved financial position of corporate clients;
- PLN 56.9 million net commission income growth, primarily resulting from an increase in income on custody and brokerage activities;
- PLN 63.7 million increase in treasury income, which includes PLN 42.1 million growth in net gains on investment debt securities and PLN 21.6 million increase in net gains on financial instruments held for trading and on revaluation.

The factors which had a negative impact on gross profit of the Commercial Bank in YOY terms included:

- PLN 36.5 million decrease in net interest income, primarily as a result of lower income from the non-financial sector and banks in consequence of a decline of receivables from those client groups. On the other hand, interest income consisted of higher income on debt securities (primarily available-for-sale) and lower financial sector deposit costs;
- PLN 8.8 million growth in expenses, primarily due to higher marketing expenditures;
- PLN 38.7 million decrease in net other operating income; among others the effect of a one-off event in 2010 (about PLN 12.5 million).

The segment's overall cost-income efficiency was further improved. In the course of the year cost/income ratio decreased to 44%.



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.

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.

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.

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.

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.

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, including:	**7,029**	**7,148**	**(119)**	**(2%)**
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, including:	**16,947**	**16,515**	**432**	**3%**
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.*

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.

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.

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.

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.

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.

Brokerage

The Group offers brokerage services in the capital market through Dom Maklerski Banku Handlowego S.A. (DMBH), a wholly-owned subsidiary of the Bank.

As in the previous year, in 2010 DMBH ranked first in the market in terms of relative share (14.7%) in shares trading on the secondary market.

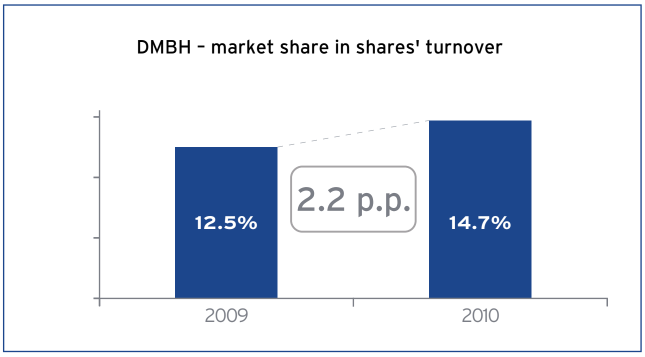
In the 'Brokerage Houses 2010' ranking published by Forbes (10/2010) once again DMBH was recognized as the best institutional brokerage house in Poland. At the same time it ranked second in 'Best Sales-traders in Poland' and 'Best Sales-trader Teams" categories. In the 9th edition of the 2010 Analyst Ranking of the Parkiet daily, as in previous years (i.e. in 2008 and 2009), DMBH analysts were ranked first in 'Finance' and 'Building and Developers' categories.

Value of share trades and volume of derivative trades of DMBH in 2010

	2010	2009	Change (%)	Market share in 2010	Market share in 2009
Shares (PLN MM)	69,347	41,745	66.1%	14.7%	12.5%
Futures ('000 of units)	800.1	544.8	46.9%	2.9%	2.0%
Number of investment accounts (units)	8,724	11,470	(23.9%)	-	-

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

In comparison to 2009, DMBH market share in shares trading on the secondary market increased to 14.7%



The number of investment accounts kept by DMBH stood at 8,724 as at 31 December 2010. The decline in the number of accounts was connected with closure of dormant accounts.

The new distribution channels of the securities brokerage services dedicated to retail customers (individuals) exhibited strong growth dynamics in 2010. The order acceptance points operating in the Bank processed in 2010 nearly 1,500 applications for execution of brokerage service agreements.

In 2010 substantial part of the investors we serve began taking advantage of internet access to their investment account, at the end of the year around 2,000 accounts had such functionality. In 2010 nearly 3/4 ths of the transaction orders placed (i.e. 55,600) came via the internet channel.

At the end of 2010 DMBH acted as Market Maker for 34 companies, which represented 8.48% of all the stocks traded on WSE. Fall in the number of issuers DMBH serves as Market Maker was compensated by increased market activity of the companies remaining in our portfolio.

In addition, the Proprietary Investments Unit performed the same function in respect of WIG20 index linked futures contracts and the MW20 index investment units. The issuers DMBH provided market making services to included foreign companies, with parallel listings on their home markets. At the end of the period, MOL and ORCO Property Group were the two entities that fell into that category.

The Retail Customer Office of DMBH also executes off-market transactions. Value of the private market equity transactions in 2010 reached around PLN 295,000.

In 2010 DMBH organized the following capital market transactions:

1. **KGHM Polska Miedź S.A.** – in January 2010 DMBH organized the accelerated sale of a block of shares held by the State Treasury, in an amount of PLN 2.06 billion. DMBH acted as the bookrunner in the process.
2. **Grupa Lotos S.A.** – in January 2010 DMBH organized the accelerated sale of a block of shares held by the State Treasury, in an amount of PLN 406 million. DMBH acted as the bookrunner in the process.
3. **ENEA S.A.** – in February 2010 DMBH completed the secondary public offering of ENEA S.A. shares (sale of a block of shares held by the State Treasury with full placement), in an amount of PLN 1.13 billion. DMBH acted as a co-bookrunner in the process.
4. **Municipality of Warsaw** – in February, April and May 2010 DMBH organized the public issue of II, III and IV-series municipal bonds with total nominal value of PLN 900 million. DMBH acted as the co-offeror in the process.

5. **Zakłady Azotowe w Tarnowie-Mościcach S.A.** – in April 2010 DMBH organized the accelerated sale of a block of shares held by CIECH S.A., in an amount of PLN 42 million. DMBH acted as a co-bookrunner in the process.
6. **Atlas Estates Limited** – in June 2010 DMBH completed a public call to sell shares, announced by Fragiolig Holdings Ltd., with the realized value of PLN 113 million. DMBH acted as an intermediary in the process.
7. **Legg Mason Closed Investment Concentrated Equities Fund** – in July 2010 DMBH completed the public offering of B-series investment certificates, in an amount of PLN 18 million. DMBH acted as the offeror in the process.
8. **Nepentes S.A.** – in August 2010 DMBH completed a public call to sell shares, announced by Sanofi-Aventis Sp. z o.o., with the realized value of PLN 419 million. DMBH acted as an intermediary in the process.
9. **Nepentes S.A.** – in September 2010 DMBH completed a compulsory buy-back of shares, announced by Sanofi-Aventis Sp. z o.o., with the realized value of PLN 1.2 million. DMBH acted as an intermediary in the process.
10. **Ruch S.A.** – in September 2010 DMBH completed a public call to sell shares, announced by Lurena Investments B.V., with the realized value of PLN 547 million. DMBH acted as an intermediary in the process.
11. **Polska Grupa Energetyczna S.A.** – in October 2010 DMBH organized the accelerated sale of a block of shares held by the Sate Treasury, in an amount of PLN 4 billion. DMBH acted as a co-bookrunner in the process.
12. **Ruch S.A.** – in October 2010 DMBH organized a compulsory buy-back of shares, announced by Lurena Investments B.V., with the realized value of PLN 63 million. DMBH acted as an intermediary in the process.
13. **Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange)** – in November 2010 DMBH completed the initial public offering in an amount of PLN 1.2 billion. DMBH acted as global co-coordinator in the process.
14. **Lubelski Węgiel "Bogdanka" S.A.** – in November 2010 DMBH completed a public call to sell shares, announced by New World Resources N.V. DMBH acted as an intermediary in the process. The call was not realized since the minimum threshold for shares subject to subscription was not met.

DMBH also acted as a brokerage house intermediating in a non-public sales transaction for a Polish financial institution worth PLN 132 million, realized in June 2010.

Summary financial data as at 31 December 2010*

Company	Headquarter	% of authorized capital held by the Bank	Balance sheet total	Equity	Net financial profit/ loss for 2010
		%	PLN '000	PLN '000	PLN '000
Dom Maklerski Banku Handlowego S.A.	Warsaw	100.00	535,042	106,850	23,443

** Pre-audit data.*

Leasing

The Group operates its leasing business through Handlowy-Leasing Sp. z o.o. (Handlowy Leasing, HL), a wholly-owned subsidiary of the Bank.

Value of the new business leasing agreements executed in 2010 reached PLN 214.8 million. Compared to PLN 246.7 million of new agreements executed in 2009 this represents a decline of 12.9% in consequence of lower value of client assets with only a lease relationship with HL. On the other hand, new business leasing agreements executed with Bank clients nearly doubled (from PLN 117.3 million in 2009 to PLN 232.6 million in 2010; 98.3% growth). That changes were effects of the strategy assuming concentration of HL sales activities on Bank clients.

The structure of the leased assets in 2010 was as follows:

- heavy transport vehicles represented 51.5% of net value of leasing assets (NAV),
- machinery and equipment represented 48.5% of NAV.

Net asset value of leases

PLN MM	2010	2009	Change	
			PLN m	%
Value of leases contracted in the period	214.8	246.7	(31.8)	(12.9%)
- for vehicles	110.5	82.1	28.4	34.6%
- for machinery and equipment	104.3	164.6	(60.3)	(36.6%)

In 2010 Handlowy Leasing continued its efforts aimed at increasing lease sales through the bank network thanks to increased activity of bank relationship managers. A contest initiated by HL determined winners – the best sellers among bank relationship managers.

On the other hand, HL searched for new opportunities in order to use fully its sales forces. Besides the lease offer, Lease Managers presented a broad offer of the Bank and encouraged clients to start cooperation with the Bank by opening an account. A marketing action was initiated for Consumer Bank clients (Microenterprises), aimed at opening bank accounts to HL clients who did not have a relationship with the Bank.

The main objective of the Company in 2010 was further development and strengthening of Handlowy Leasing brand recognition among Bank clients. 2010 was also the time of intensive actions to expand the offer in order to fully use the potential of cooperation with Bank clients. In the effect of those efforts, the following products were introduced to the HL offer in 2010:

- leasing for liberal professions – an offer for the self-employed from the retail sector: lawyers, doctors, dental surgeons, architects, accountants, tax advisors, geodesists and other;
- leasing for the Public Sector (particularly for government administration units, local governments and their subsidiaries);
- operating leasing acc. to the International Financial Reporting Standards (from the customer point of view) in reply to dynamically developing long term lease market. Since Handlowy Leasing hedges the residual value risk, the product is identified as financial leasing for HL.

To improve operational efficiency HL conducted numerous projects in 2010 that resulted, among others, in implementation of the following services:

- SpeedCollect – automatic bank account settlement and posting of receivables (a solution that is particularly useful for entities who cooperate with a large number of recipients);
- Collective invoice – addressed to clients with many lease contracts;
- Additional invoices – for clients who hold several vehicles under lease (allowing to provide clear information about the reason for additional fee and to give the client's vehicle registration number).

The loss incurred by Handlowy Leasing in 2010 was mainly related to PLN 12.5 million provision made for VAT on charged back insurance on assets leased from HL in consequence of changed interpretation of tax regulations.

Summary financial data as at 31 December 2010*

Company	Headquarter	% of authorized capital held by the Bank	Balance sheet total	Equity	Net financial profit/loss for 2010
		%	PLN '000	PLN '000	PLN '000
Handlowy-Leasing Sp. z o.o.	Warsaw	100.00	908,223	147,467	(10,720)

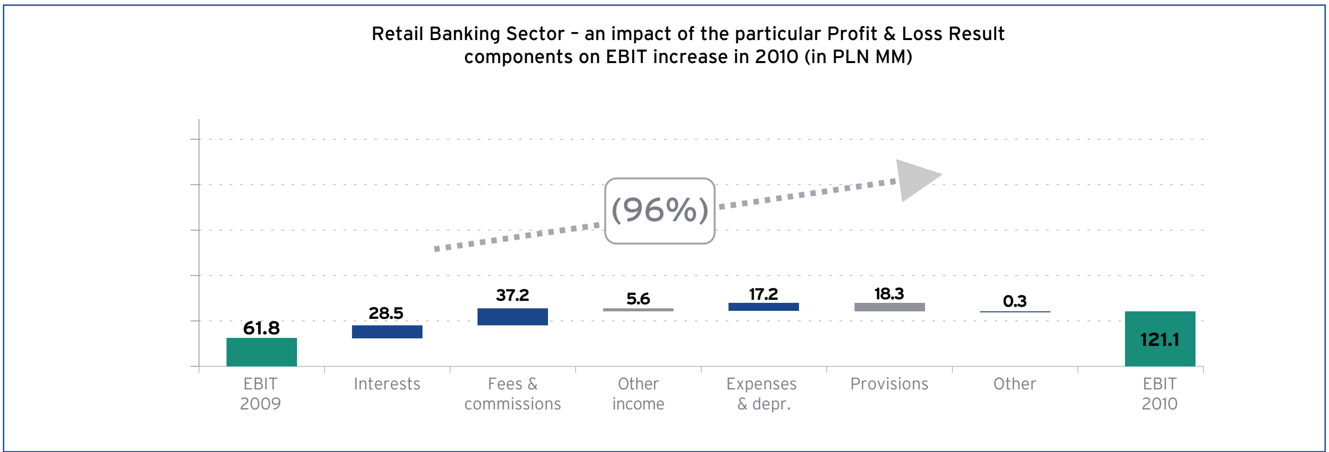
** Pre-audit data.*

The HL's priorities for 2011 include: further implementation of the accepted strategy, constant care for credit portfolio quality, proper accommodation to the economic situation through a scoring system for new transactions, keeping the credit portfolio management discipline while cutting costs of provisions for non-performing loans.

Retail banking

Summary segmental results

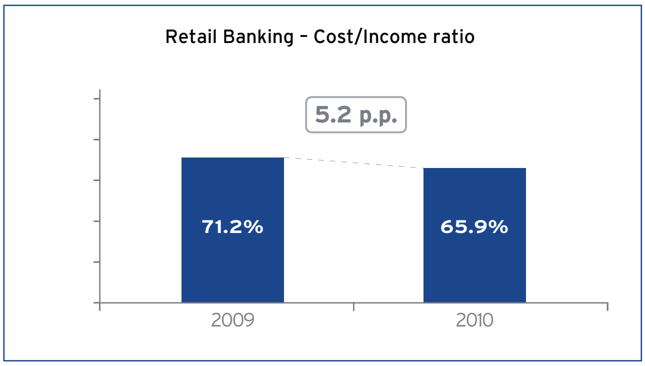
In the segmental results in other operating income position corrections to tax settlements of VAT for the previous years have not been included.



In 2010 the Consumer Bank recorded PLN 59.3 million or 95.9% YOY gross profit growth.

The factors with positive impact on gross profit of the Consumer Bank in YOY terms included:

- PLN 37.2 million or 11.9% growth in commission income, primarily due to credit and payment cards in the effect of sales structure changes (more foreign transactions), positive effect of renegotiated partner program agreements and lower acquisition expenses;
- PLN 28.5 million or 3.8% in growth in interest income, primarily an effect of lower interest expenses due to a change in market conditions (end of the 'deposit war') and a change in the deposit balance structure (current account balance increase in consequence of implementation of operating account acquisition strategy);
- PLN 17.2 million decline in expenses due to branch network restructuring and lower sales volumes (among others due to more stringent credit policy).



The factors with negative impact on gross profit of the Consumer Bank in YOY terms included:

- Higher impairment losses on financial assets in 2010 (PLN 18.3 million YOY increase) – the increase was driven by the effects, prevailing particularly in the first half of 2010, of deteriorated macroeconomic conditions on the credit quality of credit card and cash loan portfolios. In the second half of 2010 impairment losses decreased gradually in this segment.
- Net other operating income – in the first quarter of 2010 this position was negatively impacted by PLN 10.7 million provision made for buying back bonds of a bankrupt bank – Lehman Brothers; bonds were bought by clients through the Bank.

In 2010 the Consumer Bank recorded its overall cost-income efficiency improving. In the course of the year cost/income ratio declined by 5.2 p.p.

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 a 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.

Consumer Bank

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.

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.

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 TUnŻ 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.

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.

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

Internet and telephone banking

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.

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.

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.

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.

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.

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.

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.

Other information about the Group

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	D+
Financial strength rating outlook	*Negative outlook*
Long term deposits in the domestic currency rating	*Negative outlook*

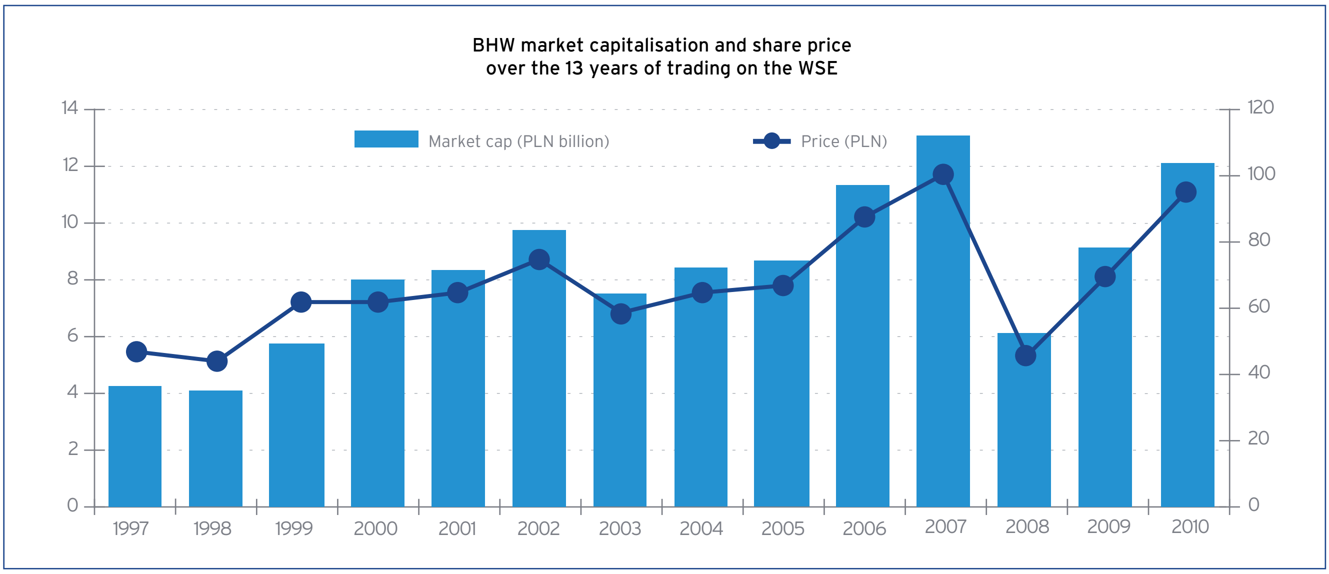
The Bank's shareholding structure and performance of its stock on the Warsaw Stock Exchange

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.

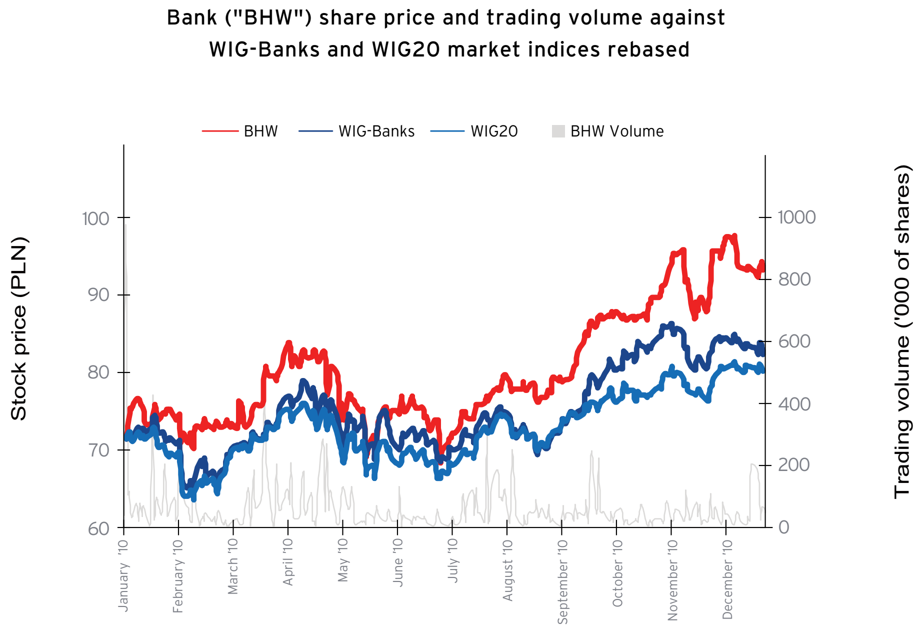
In 2010 thirteen years elapsed since floatation of Bank Handlowy w Warszawie S.A. on WSE. The year 2010 was another period in which the Bank's share price increased; its market capitalization at the end of 2010 stood at PLN 12.2 billion (compared to PLN 9.1 billion at the end 2009). Its market price 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).

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 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%.

Interest rates

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

As at 31 December 2010

in %	Commercial Bank			Consumer Bank		
	PLN	EUR	USD	PLN	EUR	USD
ASSETS						
Receivables from financial and non-financial sector						
- fixed term	5.61	2.88	2.12	16.35	3.57	7.40
Debt securities	4.23	3.00	3.67	-	-	-
LIABILITIES						
Payable to financial and non-financial sector						
- 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						
- fixed term	5.28	2.38	3.18	17.09	4.53	7.40
Debt securities	4.95	4.80	3.62	-	-	-
LIABILITIES						
Payable to financial and non-financial sector						
- fixed term	3.18	0.62	0.35	5.25	0.78	0.62

Awards and honours

In 2010 the Bank, DMBH 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";
- DMBH was awarded with two prestigious awards of the President of the WSE: an award for the Top Share in Equities Trading on the Main Market, Excluding Market Maker Transactions in 2009 and an award for the Most Active Market Maker on the Main Market in 2009;
- 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.

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 (9th edition) and 'On Common Ground' contest for primary and high school pupils (5th edition) organized by the Shalom Foundation of Warsaw;
- the Academy of Capital Market Leaders – 5th 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 (Podlasie 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 6th 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.

Special purpose investment vehicle companies

In 2010 the Group conducted its capital investment operations through its three investment companies, their operations financed by the Bank through reverse capital increases and from their own earnings. As the Group intends to limit the scale of operations of this type, the investment companies are going to be successively divested or liquidated.

As per the data available at the date of preparation of the financial statements (initial, unaudited), summary financial data of these entities, as at 31 December 2010, were as follows:

Company	Headquarter	% of authorized capital held by the Bank	Balance sheet total 31.12.2010	Equity 31.12.2010	Net financial profit/loss for 2010
		%	PLN '000	PLN '000	PLN '000
Handlowy Inwestycje Sp. z o.o.	Warsaw	100.00	15,860	10,938	103
Handlowy Investments S.A.	Luxembourg	100.00	29,574	29,447	1,516
Handlowy Investments II S.a.r.l.	Luxembourg	100.00	7,151	6,959	308

Significant risk factors relating to the Group's operations

Major risk factors and threats to the Group's operating environment

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.

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.

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.

Major risk factors and threats connected with the Group and its operations

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.

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.

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.

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.

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.

Operating risk

The Group 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 Group's approach towards operating risk was defined in the internal procedures of the Bank. 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 in the Group 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 Group'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 Group 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 Group. As outsourcing is not only benefits but also an increased risk, the Group 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 Group applies a standard method (STA) to calculate the capital required to cover the operating risk. The Group 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 Group implemented the internal capital adequacy assessment process (ICAAP). As part of ICAAP, the Group 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.

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.

Development prospects for the Capital Group of Bank Handlowy w Warszawie S.A.

The Group's general development objectives

In 2010 the Group 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 Group 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 Group. New innovative products will be introduced in 2011.

The Group'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.

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.

Brokerage

Market share of DMBH in total equity value traded on WSE in 2010 rose to 14.7% compared to 12.5% a year earlier; as a result, DMBH maintained its first rank in the market this year's league table.

The main clients of DMBH are institutional and foreign investors, therefore their investment activity determines brokerage activities of DMBH. Limited transfers from the Social Insurance Institutions (ZUS) to Open Pension funds may affect the position of DMBH, which will translate into lower investment activity of that clients segment. That may be to some extent mitigated by higher stock purchase by equity funds that should record higher receipts of funds than in 2010, for instance from capital shifted from money and bond funds. Key business risks for DMBH are long term economic slowdown on the equity market that may add to a decrease in the WSE trade. In addition, growing competition and commission pressures may adversely affect financial results of DMBH.

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.

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.

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.

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 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 consolidated financial statements of the Group 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 consolidated financial statements is subject to the internal control system of the Group, 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 financial statements of the Group, auditing the compliance of the Group's operations 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 Group'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 Group'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 Group'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 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 Group'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 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 Group'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 Bank Handlowy w Warszawie S.A. 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 a 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 a 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 a 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 issue 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 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 28th 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 the Chairman of the Supervisory Board, and in his/her absence – by one of the 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;
2) Remuneration Committee; and
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 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.

Good practices in Dom Maklerski Banku Handlowego S.A. and in Handlowy-Leasing Spółka z o.o. - companies belonging to the Bank's capital group

Dom Maklerski Banku Handlowego S.A. (DMBH) and Handlowy--Leasing Spółka z o.o. (HL) are not public companies and therefore are not obliged to comply with the "Best Practices of WSE Listed Companies" and submit declarations in this respect; however, considering the significant role played by these entities in the capital group, the following circumstances should be mentioned:

DMBH is a member of the Chamber of Brokerage Houses; as a member of the Chamber it is obliged to comply with the Code of Good Practice of Brokerage Houses, developed by the Chamber of Brokerage Houses. This Code does not regulate the corporate governance issue but concerns mainly the rules for protection of trade secret, relationships with customers and conduct of the brokerage house's employees, including the conduct in relations with other brokerage houses. DMBH is an entity regulated by the Act on Trading in Financial Instruments and therefore it adheres not only to the provisions of the Code of Commercial Companies but also to certain components of the corporate governance, arising from the provisions of this Act and executive regulations – e.g. pursuant to article 103 of the above mentioned Act the Management Board should be composed of at least 2 persons with higher education, at least 3 years of experience in financial institutions and good reputation regarding the performed functions. DMBH should notify the Polish Financial Supervision Authority of any changes to the composition of the Management Board. Additionally, DMBH has reporting obligations towards The Polish Financial Supervision Authority (including reports on changes to the composition of the Management Board and on the content of certain resolutions adopted by the General Meeting). The Act on Trading in Financial Instruments also regulates the issues concerning the acquisition of shares of a brokerage house. It provides that the head office of a brokerage house should be in the territory of Poland.

Handlowy-Leasing Spółka z o.o. (HL) is a company operating in the leasing industry. Leasing companies organized in the Polish Leasing Association are still working on the development of Good Practices for Leasing Companies.

HL operates under the Code of Commercial Companies. Despite the absence of such a requirement in the Code, a supervisory body – in the form of the Supervisory Board – has been established in HL, to exercise continuing supervision over the operations of the company.

Bank's Authorities and other corporate governance rules

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
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, 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 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**

Remuneration paid and payable in respect of the years 2010 and 2009 to the persons managing subsidiaries of the Bank amounted to PLN 3,993,000 and PLN 4,922,000 respectively.

The persons supervising subsidiaries of the Bank did not receive any remuneration in either 2010 or 2009.

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 R. Volk	-	-	1,166,370	33,245

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

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.

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.

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
Bank or the parent company audit fees (1)		607	607
Bank or the parent company review fees (2)		255	300
Subsidiary companies audit fees (3)		345	345
Other assurance fees (4)		250	135
		1,457	**1,387**

(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 contract fees for the audit include fees paid or payable to KPMG for their professional services relating to audits of financial statements of the relevant Group subsidiaries.

(4) The fees for assurance services include all other fees paid or payable to KPMG. These fees include assurance services related to the audit and review of financial statements of the Bank – the parent company and its subsidiaries; not mentioned in points (1), (2) or (3) 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 Consolidated Financial Statements of the Capital Group of the Bank.

Signatures of all Management Board Members

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