The Annual Financial Statements of Bank Handlowy w Warszawie S.A. as at 31 December 2008

March 2009

Selected financial data

	In PLN '000		In EUR '000**	
	2008	**2007**	**2008**	**2007**
Interest income	2,241,614	1,936,192	634,641	512,654
Fee and commission income	664,789	794,956	188,214	210,484
Profit before tax	797,954	1,010,024	225,915	267,429
Net profit	645,664	808,168	182,799	213,982
Increase/decrease of net cash	(133,971)	2,436,826	(37,930)	645,209
Total assets	41,245,371	38,008,361	9,885,287	10,610,933
Financial liabilities valued at amortized cost	28,292,118	27,443,267	6,780,778	7,661,437
Shareholders' equity	5,539,450	5,476,078	1,327,641	1,528,777
Share capital	522,638	522,638	125,261	145,907
Number of shares	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN / EUR)	42.40	41.91	10.16	11.70
Earnings per ordinary share (PLN / EUR)	4.94	6.19	1.40	1.64
Diluted net profit per ordinary share (in PLN / EUR)	4.94	6.19	1.40	1.64
Declared or distributed dividends per ordinary share (PLN / EUR)*	-	4.75	-	1.33

* *The presented ratios are related to dividend paid in 2008 from the appropriation of the 2007 profit. As at the date of this report the Bank's Management Board has not made a decision concerning the amount of dividend for 2008 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 2008- 4.1724 of PLN (as at 31 December 2007: PLN 3.5820); for the income statement -the arithmetic average of month - end NBP exchange rates in 2008 – 3.5321 PLN (in 2007: PLN 3,7768).*

CONTENTS

Income statement

In thousands of PLN	For a period *Note*	2008	2007
Interest and similar income	*4*	2,241,614	1,936,192
Interest expense and similar charges	*4*	(926,651)	(766,153)
Net interest income	*4*	**1,314,963**	**1,170,039**
Fee and commission income	*5*	664,789	794,956
Fee and commission expense	*5*	(72,982)	(100,707)
Net fee and commission income	*5*	**591,807**	**694,249**
Dividend income	*6*	66,216	27,222
Net trading income and revaluation	*7*	278,191	416,834
Net gain on investment debt securities	*8*	57,184	30,086
Net gain on investment equity instruments	*9*	-	10,454
Other operating income	*10*	117,440	97,115
Other operating expenses	*10*	(31,547)	(34,583)
Net other operating income	*10*	**85,893**	**62,532**
General administrative expenses	*11*	(1,361,042)	(1,377,561)
Depreciation expense	*12*	(94,718)	(107,542)
Profit/(loss) on sale of tangible fixed assets	*13*	3,173	598
Net impairment losses	*14*	(143,713)	83,113
Profit before tax		**797,954**	**1,010,024**
Income tax expense	*15*	(152,290)	(201,856)
Net profit		**645,664**	**808,168**
Weighted average number of ordinary shares	*16*	130,659,600	130,659,600
Net profit per ordinary share (in PLN)	*16*	4.94	6.19
Diluted net profit per ordinary share (in PLN)	*16*	4.94	6.19

Notes on pages 10-92 are integral parts of financial consolidated statement.

Balance sheet

In thousands of PLN	State on day *Note*	31.12.2008	31.12.2007
ASSETS			
Cash and balances with central bank	***17***	3,530,977	3,321,503
Financial assets held for trading	***18***	7,884,536	5,132,265
Debt securities available-for-sale	***19***	10,814,828	6,467,638
Equity investments	***20***	291,385	302,321
Loans and advances	***21***	16,322,214	20,309,005
to financial sector		*3,836,034*	*8,910,556*
to non-financial sector		*12,486,180*	*11,398,449*
Property and equipment	***23***	540,200	601,088
land, buildings and equipment		*521,892*	*576,060*
investment property		*18,308*	*25,028*
Intangible assets	***24***	1,279,547	1,282,811
Deferred income tax assets	***26***	325,563	368,497
Other assets	***27***	220,854	210,588
Non-current assets held-for-sale	***28***	35,267	12,645
Total assets		**41,245,371**	**38,008,361**
LIABILITIES			
Financial liabilities held for trading	***18***	6,888,344	4,373,146
Financial liabilities valued at amortized cost	***29***	28,292,118	27,443,267
deposits from		*27,904,792*	*27,001,251*
financial sector		*7,994,592*	*7,243,219*
non-financial sector		*19,910,200*	*19,758,032*
other liabilities		*387,326*	*442,016*
Provisions	***30***	24,552	35,331
Income tax liabilities	***26***	-	93,351
Other liabilities	***31***	500,907	587,188
Total liabilities		**35,705,921**	**32,532,283**
EQUITY			
Issued capital	***32***	522,638	522,638
Share premium	***32***	2,944,585	2,944,585
Revaluation reserve	***32***	(144,110)	(182,451)
Other reserves	***32***	1,570,673	1,382,238
Retained earnings		645,664	809,068
Total equity		**5,539,450**	**5,476,078**
Total liabilities and equity		**41,245,371**	**38,008,361**

Notes on pages 10-92 are integral parts of financial consolidated statement.

Statement of changes in equity

In thousands of PLN	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	**Total equity**
Balance as at 1 January 2007	**522,638**	**2,944,585**	**(81,501)**	**1,297,175**	**621,667**	**5,304,564**
Valuation of financial assets available-for-sale	-	-	(91,521)	-	-	(91,521)
Transfer of valuation of sold financial assets available-for-sale to profit and loss account	-	-	(33,109)	-	-	(33,109)
Deferred income tax on valuation of financial assets available-for-sale	-	-	23,680	-	-	23,680
Net profit	-	-	-	-	808,168	808,168
Dividends paid	-	-	-	-	(535,704)	(535,704)
Transfers to capital	-		-	85,063	(85,063)	-
Closing balance as at 31 December 2007	**522,638**	**2,944,585**	**(182,451)**	**1,382,238**	**809,068**	**5,476,078**

Statement of changes in equity

In thousands of PLN	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	**Total equity**
Balance as at 1 January 2008	**522,638**	**2,944,585**	**(182,451)**	**1,382,238**	**809,068**	**5,476,078**
Valuation of financial assets available-for-sale	-	-	104,600	-	-	104,600
Transfer of valuation of sold financial assets available-for-sale to profit and loss account	-	-	(57,184)	-	-	(57,184)
Deferred income tax on valuation of financial assets available-for-sale	-	-	(9,075)	-	-	(9,075)
Net profit	-	-	-	-	645,664	645,664
Dividends paid	-	-	-	-	(620,633)	(620,633)
Transfers to capital	-	-	-	188,435	(188,435)	-
Closing balance as at 31 December 2008	**522,638**	**2,944,585**	**(144,110)**	**1,570,673**	**645,664**	**5,539,450**

Notes on pages 10-92 are integral parts of financial consolidated statement

Statement of cash flows

In thousands of PLN	2008	2007
A. Cash flows from operating activities		
I. Net profit (loss)	**645,664**	**808,168**
II. Adjustments to reconcile net profit or loss to net cash provided by operating activities:	**(66,384)**	**2,444,198**
Current and deferred tax income, recognised in income statement	152,290	201,856
Amortisation	94,718	107,542
Impairment	148,767	(69,003)
Net provisions (recoveries)	(5,054)	(14,110)
Income on sale of investments	(6,180)	(1,175)
Received interest	1,276,523	1,810,951
Retained interest	(948,211)	(776,771)
Other adjustments	(1,423,867)	(1,088,398)
Cash flows from operating profits before changes in operating assets and liabilities	**(711,014)**	**170,892**
Increase/decrease in operating assets (excl. cash and cash equivalents)	**(2,590,290)**	**(411,422)**
Increase/decrease in loans and receivables	4,464,436	(1,578,239)
Increase/decrease in securities available-for-sale	(4,286,486)	1,754,958
Increase/decrease in equity investments	6,772	(1,787)
Increase/decrease in assets held for trading	(2,750,246)	(592,856)
Increase/decrease in assets available-for-sale	(22,622)	(8,466)
Increase/decrease in other assets	(2,144)	14,968
Increase/decrease in operating liabilities (excl. cash and cash equivalents)	**3,234,920**	**2,684,728**
Increase/decrease in advances from central bank	-	(250,000)
Increase/decrease in financial liabilities valued at amortised cost	900,868	1,930,982
Increase/decrease in liabilities held for trading	2,515,198	1,056,299
Increase/decrease in other liabilities	(181,146)	(52,553)
Cash flows from operating activities	**579,280**	**3,252,366**
Income taxes (paid) refunded	**(115,963)**	**(204,274)**
III. Net cash flows from operating activities	**463,317**	**3,048,092**
B. Cash flows from investing activities		
Cash payments to acquire tangible assets	(53,741)	(74,924)
Cash receipts from the sale of tangible assets	19,100	4,893
Cash payments to acquire intangible assets	(15,544)	(18,689)
Cash receipts from tangible assets/liabilities available for sale	-	7,253
Dividends received	54,469	23,215
Other inflows from investing activities	4,164	-
Net cash flows from investing activities	**8,448**	**(58,252)**
C. Cash flows from financing activities		
Dividends paid	(620,633)	(535,704)
Inflows from long-term loans from financial sector	1,002	28,269
Repayment of long-term loans from financial sector	(38,104)	(36,466)
Net cash flows from financing activities	**(657,735)**	**(543,901)**
D. Effect of exchange rate changes on cash and cash equivalent	**51,999**	**(9,113)**
E. Increase/(decrease) in net cash	**(133,971)**	**2,436,826**
F. Cash at the beginning of reporting period	**3,741,447**	**1,304,621**
G. Cash at the end of reporting period (see note 39)	**3,607,476**	**3,741,447**

Notes on pages 10-92 are integral parts of financial consolidated statement

Explanatory notes to the financial statements

1. General information about the Bank

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

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

The Bank was set up for unspecified period of time.

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

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

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

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

2. Significant accounting policies

Statement of compliance

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

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

The consolidated financial statements were authorised by Management of the Bank for issue on 12 March 2009. The financial statement will be finally authorised by The Bank's General Meeting.

Basis of preparation

These annual financial statements have been prepared for the period from 1 January 2008 to 31 December 2008. The comparable financial data is presented for the period from 1 January 2007 to 31 December 2007.
The financial statements are presented in PLN, rounded to the nearest thousand.

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

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

The Group has not used a possibility of earlier implementing of IFRS 8.

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

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

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

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

Foreign currency translations

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

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

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

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

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

in PLN		**31 December 2008**	**31 December 2007**
1	USD	2.9618	2.4350
1	CHF	2.8014	2.1614
1	EUR	4.1724	3.5820

Financial assets and financial liabilities

Classification

The Bank classifies its financial instruments into the following categories:

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

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

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

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

b) Loans and receivables

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

c) Available-for-sale financial assets

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

d) Other financial liabilities

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

Recognition and exclusions

Transactions of purchase or sale of financial assets classified at fair value through profit or loss and available-for-sale are recognized using transaction settlement date, i.e. the date on which the Bank will receive or transfer the ownership right to assets. The rights and liabilities from a concluded transaction are measured at fair value from the transaction conclusion day to the transaction settlement day.

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

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

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

Measurement

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

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

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

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

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

Derivative instruments

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

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

Hedge accounting

The Bank does not apply hedge accounting.

Offsetting financial instruments

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

Cash pooling

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

Repurchase and resale agreements Repo / reverse repo transactions

The Bank enters into purchase and sale transactions under agreements to resell and repurchase the same financial assets, so called sell-buy-back and buy-sell-back respectively as well as repo and reverse repo transactions on securities.

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

Impairment of assets measured at amortized cost

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

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

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

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

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

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

Write-downs for impairment of individually significant assets

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

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

Write-downs for impairment of not individually significant assets

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

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

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

Impairment of financial assets available-for-sale

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

Impairment of financial assets valued at cost.

The group of financial assets valued at cost in the financial statements of the Bank consists of shares and shares in entities other than subordinated entities classified as available-for-sale for which the fair value cannot be reasonably measured (for example the assets are not quoted) and equity investments in subordinated entities valued at purchase price in accordance with IAS 27 (Consolidated and separate Financial Statements). In case of objective evidence of impairment of equity investments the amount of impairment is measured as the difference between the carrying amount of the financial asset and the current value of the estimated future cash flows discounted at the current market rate for similar financial assets. Losses related to impairment of shares and shares in entities other than subordinated entities classified as available-for-sale where the fair value cannot be reliable measured are not reversed though the profit and loss account. When there are impairment losses of equity investments in subordinated entities valued at cost method in accordance with IAS 27, IAS 36 "Impairment of Assets" is applied.

Impairment of assets other than financial assets

The carrying amounts of the Bank's assets, excluding deferred tax assets, are reviewed at each balance sheet date to determine whether there is any evidence of impairment. If so, the asset's recoverable amount is estimated. For goodwill, revaluation write-downs for impairment are recognized if the book value of an asset or of its cash-generating unit exceeds the recoverable amount. Revaluation write-downs for impairment are measured through profit or loss.
In the case of a cash-generating unit, revaluation write-downs for impairment are first deducted from goodwill allocated to such cash-generating units (group of units) and, then reduce proportionally the carrying value of other assets in the unit (group of units).

Calculation of recoverable amount

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

Reversal of impairment losses

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

Equity investments – shares in subordinated entities

Subordinated entities comprise subsidiaries and associates.

Subsidiaries

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

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

Associates

Associates are those entities in which the Bank indirectly or directly has significant influence but not control, usually accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the cost method.

Subsidiaries and associates - recognition and measurement

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

Investments: shares in other entities

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

Goodwill

In the financial statements of the Bank, goodwill represents the difference between the cost of the acquisition and the fair value of the Bank's interest in identifiable assets, liabilities and contingent liabilities acquired. Goodwill is included in intangible assets. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortized, but is tested annually for impairment. In respect of associates, goodwill is included in the carrying amount of the investment in the associate.

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

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

Property and equipment and intangible assets (excluding goodwill)

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

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

Depreciation and amortization are calculated using the straight-line method over the expected useful life of an asset on the basis of rates that are approved in the depreciation and amortization plan for 2008.

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

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

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

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

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

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

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

Investment properties

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

Employee benefits

Short-term employee benefits

The Bank's short-term employee benefits include wages, bonuses, holiday pay, sick pay and social security contributions. Depending on their individual compensation category, employees may receive an award from the incentive fund, a bonus under the bonus scheme applicable in a given area or a discretionary annual bonus under the internal employee compensation regulations. Bonuses and awards are granted after completion of the period for which the employee's performance is evaluated.

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

Share-based payments

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

Defined contribution plans

The Bank enables its employees to join a pension plan, which is described in detail in Note 41. The Bank pays contributions for employees who participate in the plan into a separate fund and has no subsequent obligation to pay further contributions, hence this is a defined contribution plan in accordance with IAS 19 (Employee Benefits). Contributions are recognized as an expense in related period.

Provisions

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

Restructuring provision

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

Equity

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

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

Calculating net income

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

Accruals and prepayments

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

Interest income and interest expenses

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

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

Fee and commission income and expenses

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

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

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

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

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

Other operating income and expenses

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

Income tax

Income tax consists of current tax and deferred tax. Income tax is recognized in the income statement, except for taxes related to amounts that are allocated directly to equity.
A deferred tax provision is calculated using the carrying value method by computing temporary differences between the carrying value of assets and liabilities, in the balance sheet, and the tax base of assets and liabilities. In the balance sheet, the Bank discloses deferred tax assets net of deferred tax provisions.
A deferred tax asset is recognized only to the extent that it is probable that a tax benefit will be realized in the future.

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

Segment reporting

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

Assets and liabilities, revenues and financial results of particular segments are measured in accordance with the accounting policies and standards adopted by the Bank.

Non-current assets held-for-sale

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

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

Accounting estimates and judgments

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

Fair value of derivatives

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

The Bank applies the following methods of measurement of particular types of derivative instruments:
- fx forwards – discounted cash flows model;
- options - Garman-Kohlhagen model;
- interest rate transactions – discounted cash flows model;
- futures – current quotations.

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

Impairment of loans

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

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

Impairment of available-for-sale assets

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

Impairment of financial assets valued at cost

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

Impairment of goodwill

The Bank carried out impairment tests of goodwill as at 31 December 2007 and 31 December 2008. The estimate of goodwill has been performed on the basis of the provisions of IAS 36 concerning determination of the value in use of cash generating units. The tests did not show any impairment.

Employee benefits

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

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

3. Segment reporting

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

– *Corporate Bank*

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

– *Consumer Bank*

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

The valuation of segment assets and liabilities, income and segment results are based on the Bank's accounting policies as described in note 2 – significant accounting policies.

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

Income statement by business segment

For the period	2008			2007		
In thousands of PLN	Corporate Bank	Consumer Bank	Total	Corporate Bank	Consumer Bank	Total
Net interest income	514,146	800,817	1,314,963	499,376	670,663	1,170,039
Net fee and commission income	232,339	359,468	591,807	267,560	426,689	694,249
Dividend income	58,026	8,190	66,216	27,205	17	27,222
Net income on financial instruments and revaluation	239,250	38,941	278,191	383,813	33,021	416,834
Net gain on investment (deposit) securities	57,184	-	57,184	30,086	-	30,086
Net gain on investment (capital) instruments	-	-	-	6,665	3,789	10,454
Other operating income	77,069	8,824	85,893	70,254	(7,722)	62,532
General administrative expenses	(559,173)	(801,869)	(1,361,042)	(621,627)	(755,934)	(1,377,561)
Depreciation expense	(62,476)	(32,242)	(94,718)	(75,415)	(32,127)	(107,542)
Profit/(loss) on sale of tangible fixed assets	2,660	513	3,173	599	(1)	598
Net impairment losses	(54,249)	(89,464)	(143,713)	130,947	(47,834)	83,113
Profit before tax	**504,776**	**293,178**	**797,954**	**719,463**	**290,561**	**1,010,024**
Income tax expenses			(152,290)			(201,856)
Net profit			**645,664**			**808,168**

For the period	31.12.2008			31.12.2007		
Assets, including	35,359,673	5,885,698	**41,245,371**	33,130,604	4,877,757	**38,008,361**
Non-current assets held-for-sale	*35,267*	-	*35,267*	*12,645*	-	*12,645*
Liabilities	33,398,626	7,846,745	**41,245,371**	30,564,575	7,443,786	**38,008,361**

4. Net interest income

In thousands of PLN	**2008**	**2007**
Interest and similar income from:		
Central Bank	65,158	40,251
Placements in banks	322,685	338,853
Loans and advances, of which:	1,381,445	1,094,843
financial sector	*35,188*	*36,326*
non-financial sector	*1,346,257*	*1,058,517*
Debt securities available-for-sale	364,035	386,655
Debt securities held for trading	108,291	75,590
	2,241,614	**1,936,192**
Interest expense and similar charges for:		
Central Bank	-	(100)
Deposits from banks	(74,538)	(127,233)
Deposits from financial sector (excl. banks)	(148,811)	(108,509)
Deposits from non-financial sector	(695,675)	(523,827)
Loans and advances received	(7,627)	(6,484)
	(926,651)	**(766,153)**
	1,314,963	**1,170,039**

Net interest income for 2008 includes interest received on impaired loans, of PLN 17,152 thousand (for the 2007: PLN 18,362 thousand).

5. Net fee and commission income

In thousands of PLN	**2008**	**2007**
Fee and commission income:		
Insurance and investment products (agency)	216,640	294,836
Payment and credit cards	166,934	189,491
Payment services	130,510	133,248
Custody services	78,266	97,621
Cash management	35,106	34,785
Off-balance sheet guarantee liabilities	14,440	18,309
Off-balance sheet financial liabilities	6,733	7,855
Other	16,160	18,811
	664,789	**794,956**
Fee and commission expense:		
Payment and credit cards	(53,106)	(76,565)
Brokers fees	(8,252)	(10,271)
Fees paid to the National Depository for Securities (KDPW)	(5,279)	(10,080)
Other	(6,345)	(3,791)
	(72,982)	**(100,707)**
	,	,
	591,807	**694,249**

The net commission result for 2008 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 177,548 thousand (for 2007: PLN 200,239 thousand) and commission expenses in amount of PLN 53,106 thousand (for 2007: PLN 76,565 thousand).

6. Dividend income

Dividend income amounted to PLN 66,216 thousand in 2008 (2007: PLN 27,222 thousand) and is related to Bank's equity investments. Total amount of dividends income include dividends received from Bank's subsidiaries: Dom Maklerski Banku Handlowego S.A. – PLN 17,343 thousand (in 2007: PLN 22,282 thousand), Handlowy Leasing Sp. z o.o. – PLN 37,126 thousand and Bank Rozwoju Cukrownictwa S.A. – PLN 419 thousand (in 2007: PLN 933 thousand). The remaining amount of dividend was received from entities with minority interest.

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

In thousands of PLN	**2008**	**2007**
Net income on financial instruments valued at fair value through profit and loss account from:		
Debt instruments	42,347	42,506
Capital instruments	13,500	-
Derivative instruments including:	(62,133)	46,388
Interest rate	*(62,182)*	*41,504*
Equity	-	*4,687*
Commodity	*49*	*197*
	(6,286)	**88,894**
Net profit on foreign exchange		
Net profit on foreign currency derivatives	16,639	406,829
Revaluation	267,838	(78,889)
	284,477	**327,940**
	278,191	**416,834**

Included in net income on financial instruments and revaluation are losses resulting from increased counterparty credit risk on outstanding derivative transactions in the amount of PLN 233,497 thousand and matured derivative transactions in the amount of PLN 27,542 thousand (2007: PLN 10,806 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 includes net income on interest rate swaps, options, futures and other derivatives.

Net profit on foreign exchange includes profit and losses on revaluation of assets and liabilities denominated in foreign currency and foreign currency derivatives such as forward, swap and option contracts.

8. Net gain on investment debt securities

In thousands of PLN	2008	2007
Profits realized on available-for-sale securities:	57,312	34,398
Losses realized on available-for-sale securities:	(128)	(4,312)
	57,184	**30,086**

9. Net gain on investment equity securities

In thousands of PLN	2008	2007
Profits realized on equity instruments available-for-sale:	**-**	**10,454**

10. Net other operating income

In thousands of PLN	2008	2007
Other operating income		
Data processing for related parties	63,700	61,616
Income concerning dissolving of reserve for punishment imposed by UOKiK for interchange fees	10,228	-
Income from amount due vindication	7,477	-
Other income related to shares granted by VISA Inc.	3,803	-
Income from office rent	3,680	11,789
Investment property	2,922	156
Settlement of perpetual usufruct right to land	-	758
Other	25,630	22,796
	117,440	**97,115**
Other operating expenses		
Amicable procedure and vindication expenses	(10,287)	(5,214)
Investment property	(1,924)	(3,317)
Provisions for UOKiK dispute	-	(10,228)
Other	(19,336)	(15,824)
	(31,547)	**(34,583)**
	85,893	**62,532**

11. General administrative expenses

In thousands of PLN	2008	2007
Staff expenses:		
Remuneration costs, including:	(572,507)	(542,467)
Provisions for retirement benefits	*(15,363)*	*(14,411)*
Perks and rewards including:	(100,703)	(140,980)
Payments related to own equity instruments	*4,901*	*10,261*
Rewards for long time employment	*18,795*	*(9,313)*
	(673,210)	**(683,447)**
Administrative expenses		
Telecommunication fees and hardware purchases	(158,814)	(179,858)
Advisory, audit, consulting and other services	(146,610)	(140,486)
Building maintenance and rent	(113,991)	(108,313)

In thousands of PLN	**2008**	**2007**
Transaction costs	(62,278)	(64,952)
Marketing	(62,263)	(72,496)
Postal services	(30,771)	(28,219)
Training and education	(14,844)	(13,907)
Bank audit	(7,763)	-
Other expenses	(90,498)	(85,883)
	(687,832)	**(694,114)**
	(1,361,042)	**(1,377,561)**

Staff expenses in 2008 include PLN 14,219 thousand of remuneration and bonuses paid and payable to current and former members of the Management Board (in 2007: PLN 13,512 thousands).

12. Depreciation expense

In thousands of PLN	**2008**	**2007**
Depreciation of property and equipment	(76,570)	(86,843)
Depreciation of intangible assets	(18,148)	(20,699)
	(94,718)	**(107,542)**

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

In thousands of PLN	**2008**	**2007**
Profits on:		
Other fixed assets	3,491	1,836
Investments in subsidiary entities	-	177
	3,491	**2,013**
Losses on:		
Other fixed assets	(318)	(278)
Fixed assets held-for-sale*	-	(1,137)
	(318)	**(1,415)**
	3,173	**598**

*Refers to fixed assets classified as at 31 December 2006 as held-for-sale and sold in presented periods (see Note 28)

14. Net impairment losses

Net impairment write-downs of financial assets

In thousands of PLN	**2008**	**2007**
Impairment write-downs:		
Equity investments	(6,156)	(15,008)
Loans and receivables valued at amortized cost	(411,465)	(350,054)
Other	(20,499)	(19,609)
	(438,120)	**(384,671)**
Reversals of impairment write-downs:		
Equity investments	3,315	33,082
Loans and receivables valued at amortized cost	284,888	419,232
Other	1,150	1,360
	289,353	**453,674**
	(148,767)	**69,003**

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

In thousands of PLN	**2008**	**2007**
Charges to provisions for off-balance sheet commitments	(36,574)	(60,353)
Releases of provisions for off-balance sheet commitments	41,628	74,463
	5,054	**14,110**
Net impairment losses	**(143,713)**	**83,113**

Included in net impairment losses for 2008 are losses on receivables resulting from matured derivative transactions in the amount of PLN 2,197 thousand.

15. Income tax expense

Recognized in the income statement

In thousands of PLN	**2008**	**2007**
Current tax		
Current year	(116,174)	(298,313)
Adjustments for prior years	(1,304)	8,857
	(117,478)	**(289,456)**
Deferred tax		
Origination and reversal of temporary differences	(34,513)	87,952
Movement in receivables arising from tax deductions	(299)	(352)
	(34,812)	**87,600**
Total income tax expense in income statement	**(152,290)**	**(201,856)**

Reconciliation of effective tax rate

In thousands of PLN	**2008**	**2007**
Profit before tax	797,954	1,010,024
Income tax at the domestic corporation tax rate at 19%	(151,611)	(191,905)
Non-deductible expenses	(8,269)	(16,765)
Deductible income not in income statement	(370)	(307)
Non taxable income	10,428	5,172
Other	(2,468)	1,949
Total tax expenses	**(152,290)**	**(201,856)**
Effective tax rate	**19,09%**	**19,99%**

Deferred tax recognized directly in equity

Deferred tax recognized directly in equity as at 31 December 2008 is related to debt and capital instruments available-for-sale and amounted to PLN 33,721 thousands (31 December 2007: PLN 42,797 thousands).

16. Earnings per share

As at 31 December 2008 earnings per share amounted to 4.94 PLN (31 December 2007: PLN 6.19).
The calculation of earnings per share at 31 December 2008 was based on profit attributable to ordinary shareholders of PLN 645,664 thousand (31 December 2007: PLN 808,168 thousand) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2008 of 130,659,600

(31 December 2007: 130,659,600).
The Bank does not have any ordinary shares that may have a dilution impact.

17. Cash and balances with the Central Bank

In thousands of PLN	**31.12.2008**	**31.12.2007**
Cash at hand	509,841	395,549
Current balances with central bank	3,021,136	2,925,954
	3,530,977	**3,321,503**

On the current account in the National Bank of Poland (NBP), the Bank maintains an obligatory reserve with the declared balance as at 31 December 2008 of PLN 1,021,738 thousand (31 December 2007: PLN 869,304 thousand). The Bank may use the obligatory reserve provided that the sum of the average monthly balance on the current account in NBP is not lower than the declared balance.

18. Financial assets and liabilities held for trading

In thousands of PLN	**31.12.2008**	**31.12.2007**
Financial assets held for trading		
Debt securities held for trading		
Bonds and notes issued by:		
Financial sector	3,185	50,771
Non-financial sector	-	70,847
Government	1,219,013	916,555
Other debt securities issued by:		
Banks	26,065	85,883
	1,248,263	**1,124,056**
Including:		
Listed	*721,127*	*915,891*
Unlisted	*527,136*	*208,165*
Capital instruments held for trading	**28,000**	**-**
Including:		
Listed	-	-
Unlisted	*28,000*	-
Derivative financial instruments	**6,608,273**	**4,008,209**
	7,884,536	**5,132,265**

Debt securities held for trading (maturity)	**31.12.2008**	**31.12.2007**
In thousands of PLN		
up to 1 month	501,071	4,598
1 month- 3 months	15,318	108,804
3 months- 1 year	343,729	88,516
1 year- 5 years	314,089	250,381
over 5 years	74,056	671,757
	1,248,263	**1,124,056**

Financial liabilities held for trading *In thousands of PLN*	**31.12.2008**	**31.12.2007**
Short positions in financial assets	-	34,932
Derivative financial instruments	6,888,344	4,338,214
	6,888,344	**4,373,146**

As at 31 December 2008 financial assets from derivatives transactions including deductions concerning valuation correction from contractor's credit risk for future due.

As at 31 December 2008 and 31 December 2007 the Bank did not hold any financial assets and financial liabilities initially designated for valuation at fair value though the profit and loss account.

Derivative financial instruments as at 31 December 2008

In thousands of PLN	Notional amount with remaining life of					Fair values	
	less than three months	between three months and one year	between one year to five years	more than five years	Total	Assets	Liabilities
Interest rate instruments	**15,397,280**	**128,738,945**	**81,870,532**	**27,995,099**	**254,001,856**	**3,240,873**	**3,526,662**
FRA-purchase	1,335,000	43,459,500	10,000,000	-	54,794,500	997	200,586
FRA-sale	480,000	47,479,500	13,900,000	-	61,859,500	234,294	2,939
Interest rate swaps (IRS)	12,426,692	35,567,485	53,240,564	25,541,633	126,776,374	2,661,595	2,835,139
Currency- interest rate swaps (CIRS)	533,340	847,374	3,229,968	2,286,570	6,897,252	340,743	480,131
Interest rate options purchased	-	50,000	750,000	83,448	883,448	3,128	-
Interest rate options sold	-	50,000	750,000	83,448	883,448	-	3,128
Future contracts-purchase*	38,951	-	-	-	38,951	116	-
Future contracts-sale*	583,297	1,285,086	-	-	1,868,383	-	4,739
Currency instruments	**20,485,768**	**23,588,551**	**6,948,407**	**727,190**	**51,749,916**	**3,357,190**	**3,352,109**
FX forward	5,988,519	5,652,621	1,103,951	360,252	13,105,343	1,658,404	321,564
FX swap	5,868,193	3,889,206	52,359	-	9,809,758	240,630	1,339,865
Foreign exchange options purchased	4,341,401	7,089,743	2,957,678	173,774	14,562,596	1,457,958	186
Foreign exchange options sold	4,287,655	6,956,981	2,834,419	193,164	14,272,219	198	1,690,494
Securities transactions	**274,615**	**98,000**	**22,885**	**-**	**395,500**	**1,380**	**743**
Share options (purchase)	-	49,000	11,443	-	60,443	719	-
Share options (sale)	-	49,000	11,442	-	60,442	-	719
Securities purchased pending delivery	90,728	-	-	-	90,728	192	-
Securities sold pending delivery	183,887	-	-	-	183,887	469	24
Commodity transactions	**23,268**	**19,144**	**-**	**-**	**42,412**	**8,830**	**8,830**
Swaps	8,814	10,540	-	-	19,354	6,003	6,003
Purchase options	7,227	4,302	-	-	11,529	2,827	-
Sold options	7,227	4,302	-	-	11,529	-	2,827
Derivative instruments total	**36,180,931**	**152,444,640**	**88,841,824**	**28,722,289**	**306,189,684**	**6,608,273**	**6,888,344**

*Exchange-traded products

Derivative financial instruments as at 31 December 2007

In thousands of PLN	Notional amount with remaining life of					Fair values	
	less than three months	**between three months and one year**	**between one year to five years**	**more than five years**	**Total**	**Assets**	**Liabilities**
Interest rate instruments	**12,975,579**	**190,584,210**	**208,960,554**	**52,547,416**	**465,067,759**	**2,841,706**	**3,152,736**
FRA-purchase	-	67,438,340	23,621,000	-	91,059,340	160,812	24,143
FRA-sale	-	66,632,380	27,250,000	-	93,882,380	14,063	188,464
Interest rate swaps	12,110,230	52,631,300	156,068,847	48,747,574	269,557,951	2,336,848	2,535,774
Currency- interest rate swaps	183,183	1,462,465	1,803,170	2,299,842	5,748,660	319,326	396,239
Interest rate options purchased	-	100,000	50,000	750,000	900,000	6,412	-
Interest rate options sold	-	100,000	50,000	750,000	900,000	-	6,417
Future contracts-purchase*	95,537	1,876,835	-	-	1,972,372	4,225	1,518
Future contracts-sale*	586,629	342,890	117,537	-	1,047,056	20	181
Currency instruments	**33,244,381**	**22,548,321**	**5,174,028**	**613,228**	**61,579,958**	**1,152,436**	**1,172,230**
FX forward	6,127,526	5,576,040	542,844	302,814	12,549,224	195,399	420,746
FX swap	15,478,832	5,751,616	197,539	-	21,427,987	626,750	423,692
Foreign exchange options purchased	5,739,636	5,548,032	2,183,571	146,884	13,618,123	312,749	17,537
Foreign exchange options sold	5,898,387	5,672,633	2,250,074	163,530	13,984,624	17,538	310,255
Securities transactions	**140,306**	**1,404**	**102,806**	**-**	**244,516**	**8,025**	**7,206**
Share options (purchase)	-	702	51,403	-	52,105	3,720	3,311
Share options (sale)	-	702	51,403	-	52,105	3,311	3,720
Securities purchased pending delivery	93,589	-	-	-	93,589	504	75
Securities sold pending delivery	46,717	-	-	-	46,717	490	100
Commodity transactions	**-**	**43,260**	**32,164**	**-**	**75,424**	**6,042**	**6,042**
Swaps	-	12,882	13,208	-	26,090	2,873	2,873
Purchase options	-	15,189	9,478	-	24,667	3,169	-
Sold options	-	15,189	9,478	-	24,667	-	3,169
Derivative instruments subtotal	**46,360,266**	**213,177,195**	**214,269,552**	**53,160,644**	**526,967,657**	**4,008,209**	**4,338,214**

*Exchange-traded products

Foreign currency contracts

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

	Weighted average contracted exchange rates		**Notional amount**	
In thousands of PLN	**31.12.2008**	**31.12.2007**	**31.12.2008**	**31.12.2007**
Bought Euro				
Less than three months	3.5217	3.7729	8,283,738	9,510,016
Between three months and one year	3.4537	3.7351	10,498,827	8,756,471
More than one year	3.4838	3.7478	4,067,164	2,172,671
Sold Euro				
Less than three months	3.5309	3.7110	7,754,562	12,190,066
Between three months and one year	3.4643	3.6762	9,731,510	7,780,681
More than one year	3.4859	3.7279	3,207,250	1,853,468
Bought US Dollars				
Less than three months	2.7797	2.5844	2,807,349	6,272,420
Between three months and one year	2.6241	2.7148	2,781,861	3,132,427
More than one year	2.7866	2.7516	763,665	1,144,284
Sold US Dollars				
Less than three months	2.6748	2.5587	3,116,061	8,065,961
Between three months and one year	2.5721	2.7710	2,465,124	3,359,748
More than one year	2.8489	2.7376	687,191	922,329
Bought Switzerland Franc				
Less than three months	2.7875	2.1985	137,325	6,484
Sold Switzerland Franc				
Less than three months	2.7895	2.1564	269,775	18,178
Bought Pound Sterling				
Less than three months	4.4775	5.4832	226,298	64,519
Between three months and one year	4.3527	5.5551	241,882	86,060
More than one year	4.6193	5.7650	93,371	26,292
Sold Pound Sterling				
Less than three months	4.4585	5.2544	183,823	45,498
Between three months and one year	4.5976	5.7292	203,111	43,385
More than one year	4.5342	5.7650	61,562	26,292

19. Debt securities available-for-sale

In thousands of PLN	**31.12.2008**	**31.12.2007**
Bonds and notes issued by:		
Central bank	2,383,387	377,428
Non-financial sector	21,929	88,135
Government	8,409,512	6,002,075
	10,814,828	**6,467,638**
Including:		
Listed instruments	*7,081,278*	*5,933,705*
Unlisted instruments	*3,733,550*	*533,933*

Debt securities available-for-sale (maturity)

In thousands of PLN	**31.12.2008**	**31.12.2007**
up to 1 month	2,460,631	4,994
1 month- 3 months	395,668	-
3 months- 1 year	926,086	602,493
1 year- 5 years	3,653,999	2,761,921
over 5 years	3,378,444	3,098,230
	10,814,828	**6,467,638**

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

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

In thousands of PLN	**2008**	**2007**
As at 1 January	**6,467,638**	**8,247,313**
Increases (in respect of)		
Purchases	40,634,297	113,732,927
Revaluation	46,233	-
FX differences	325,556	-
Amortisation of discount, premium and interest	112,920	95,641
Decreases (in respect of)		
Purchases	(36,735,113)	(115,121,563)
Revaluation	-	(116,619)
FX differences	-	(306,985)
Amortisation of discount, premium and interest	(36,703)	(63,076)
As at 31 December	**10,814,828**	**6,467,638**

20. Equity investments

In thousands of PLN	**31.12.2008**	**31.12.2007**
Stocks and shares in subordinated entities	341,811	340,392
Stocks and shares in other entities	42,895	55,718
Impairment	(93,321)	(93,789)
	291,385	**302,321**
Including:		
Listed instruments	*4,986*	-
Unlisted instruments	*286,399*	*302,321*

The movement in equity investments is as follows:

In thousands of PLN	**Subordinated entities**	**Other entities**	**Total**
As at 1 January 2007	**265,889**	**34,645**	**300,534**
Increases (in respect of)			
Purchases	-	2,909	2,909
Revaluation	33,082	-	33,082
Decreases (in respect of)			
Purchases	-	(14,046)	(14,046)
Revaluation	(15,008)	(2,909)	(17,917)
FX differences	(2,241)	-	(2,241)
As at 31 December 2007	**281,722**	**20,599**	**302,321**

In thousands of PLN	**Subordinated entities**	**Other entities**	**Total**
As at 1 January 2008	**281,722**	**20,599**	**302,321**
Increases (in respect of)			
Purchases	-	3,803	3,803
Revaluation	3,315	1,183	4,498
Difference in exchange	5,582	-	5,582
Decreases (in respect of)			
Revaluation	(6,155)	-	(6,155)
Clearing form surcharges	(4,164)	-	(4,164)
Other	-	(14,500)	(14,500)
As at 31 December 2008	**280,300**	**11,085**	**291,385**

Financial information on subordinated entities
31.12.2008

In thousands of PLN

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY – LEASING Sp. z o.o	Warsaw	Leasing	Subsidiary undertaking	97.47	120,000	1,556,142	1,377,311	178,830	107,684	5,555
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary undertaking	100.00	70,950	458,339	366,183	92,156	102,554	9,715
PPH SPOMASZ Sp. z o.o. under liquidation	Warsaw	-	Subsidiary undertaking	100.00	9,443	Entity under liquidation				
BANK ROZWOJU CUKROWNICTWA S.A. *	Poznań	Banking	Subsidiary undertaking	100.00	40,255	40,442	459	39,983	1,948	769
HANDLOWY- INVESTMENTS S.A. [1/]	Luxembourg	Investment activity	Subsidiary undertaking	100.00	28,621	28,625	436	28,189	901	(6,007)
HANDLOWY - INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	80.97	7,124	7,125	194	6,930	176	(1,587)
HANDLOWY INWESTYCJE Sp. z o.o. [2/]	Warsaw	Investment activity	Subsidiary undertaking	100.00	3,907	16,762	4,358	12,403	2,605	1,568
					280,300					

* On 2 March 2009 Extraordinary Meeting of Shareholders of Bank Rozwoju Cukrownictwa S.A. with headquarters in Poznań ("BRC") has passed the resolution about dissolution of the company and put the company to state of voluntary liquidation. Beginning of BRC liquidation process depends on sanction of the Company's voluntary liquidation program by Polish Financial Supervision Authority

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

The explanation of indirect relationships:

1/ Indirect relationship via Handlowy Investments S.A

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY - INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	19.03	1,663	7,125	194	6,930	176	(1,587)

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	1,556,142	1,377,311	178,830	107,684	5,555

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

Financial information on subordinated entities
31.12.2007

In thousands of PLN

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY – LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	97.47	120,000	1,133,298	921,290	212,008	73,320	13,812
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary undertaking	100.00	70,950	437,956	338,173	99,783	92,617	18,851
PPH SPOMASZ Sp. z o.o. w likwidacji	Warsaw	-	Subsidiary undertaking	100.00	9,443	Entity under liquidation				
BANK ROZWOJU CUKROWNICTWA S.A.	Poznań	Banking	Subsidiary undertaking	100.00	40,255	40,084	450	39,634	1,563	466
HANDLOWY- INVESTMENTS S.A. [1/]	Luxembourg	Investment activity	Subsidiary undertaking	100.00	25,570	28,735	86	28,649	39,813	33,592
HANDLOWY - INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	80.97	7,434	7,513	238	7,275	106	(249)
HANDLOWY INWESTYCJE Sp. z o.o. [2/]	Warsaw	Investment activity	Subsidiary undertaking	100.00	8,070	19,102	7,342	11,760	1,374	925
					281,722					

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

The explanation of indirect relationships:

1/ Indirect relationship via Handlowy Investment S.A.

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

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

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY - LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	2.53	3,125	1,133,298	921,290	212,008	73,320	13,812

The above presented financial data which was available at the time of preparation of the Bank’s financial statement come from the audited financial statements except for Handlowy- Investments S.A., Handlowy- Investments II S.a.r.l. and PPH Spomasz Sp. z o.o. (Entity under liquidation)

21. Loans and advances

Loans and advances (by category)

In thousands of PLN	**31.12.2008**	**31.12.2007**
Loans and advances to financial sector:		
Current accounts of banks	76,499	419,944
Loans, placements and advances, including:	2,941,513	8,480,239
placements in banks	*1,917,991*	*7,394,904*
Purchased receivables	15,152	24,311
Realised guarantees	249	205
Receivables subject to securities sale and repurchase agreements	877,484	57,097
Other receivables	2,764	5,248
	3,913,661	**8,987,044**
Impairment write-offs	(77,627)	(76,488)
	3,836,034	**8,910,556**
Loans and advances to non-financial sector:		
Loans and advances	13,576,369	12,392,630
Purchased receivables	241,156	282,773
Realised guarantees	41,502	45,472
Other receivables	6,908	4,663
	13,865,935	12,725,538
Impairment write-offs	(1,379,755)	(1,327,089)
	12,486,180	**11,398,449**
Loans and other receivables	**16,322,214**	**20,309,005**

Loans and advances - gross (by time to maturity)

In thousands of PLN	**31.12.2008**	**31.12.2007**
Loans and advances to financial sector:		
- banks and other monetary financial institution		
up to 1 month	1,323,936	3,029,103
1 month- 3 months	712,457	2,299,204
3 months- 1 year	994,839	2,133,997
1 year- 5 years	12,517	760,401
over 5 years	-	45,701
	3,043,749	**8,268,406**
- otherfinancial institutions:		
up to 1 month	515,931	553,990
1 month- 3 months	25,000	5,147
3 months- 1 year	69,172	98,744
1 year- 5 years	245,000	48,582
over 5 years	14,809	12,175
	869,912	**718,638**
Loans and advances to financial sector	**3,913,661**	**8,987,044**
Loans and advances to non-financial sector:		
up to 1 month	8,040,874	7,506,954
1 month- 3 months	774,773	679,764
3 months- 1 year	1,217,629	1,208,487
1 year- 5 years	3,326,999	2,992,803

In thousands of PLN	**31.12.2008**	**31.12.2007**
over 5 years	505,660	337,530
	13,865,935	**12,725,538**
Loans and advances - gross	**17,779,596**	**21,712,582**

The Bank does not act as a lessor under finance leases

22. Impairment of loans and advances

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

In thousands of PLN	**2008**	**2007**
As at 1 January	**1,403,577**	**1,585,212**
Related to:		
Receivables from banks	1,886	9,572
Receivables from other customers of financial and non-financial sector	1,401,691	1,575,640
Change of impairment write downs	53,805	(181,635)
Charges	411,465	350,054
Write-offs	(102,634)	(173,569)
Amounts released	(284,888)	(419,232)
Other	29,862	61,112
As at 31 December	**1,457,382**	**1,403,577**
Related to:		
Receivables from banks	4,041	1,886
Receivables from other customers of financial, non-financial	1,453,341	1,401,691

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

In thousands of PLN	**31.12.2008**	**31.12.2007**
Portfolio impairment loss	366,017	361,517
Individual impairment loss	1,020,461	993,062
Incurred but not reported losses (IBNR(	70,904	48,998

23. Property and equipment

Land, buildings and equipment

In thousands of PLN	Land, and buildings	Vehicles	Other	Under construction	Total
Gross amount					
Balance as at 1 January 2007	**736,619**	**60,417**	**663,759**	**21,487**	**1,482,282**
Additions:					
Purchases	1,556	-	26,937	46,431	74,924
Other increases	-	-	7,135	-	7,135
Decreases:					
Disposals	(179)	(14,084)	(3,851)	-	(18,114)
Liquidation	(5,982)	-	(106,480)	-	(112,462)
Classified as properties presenting	(12,404)	-	(60)	(18,144)	(30,608)

In thousands of PLN	Land, and buildings	Vehicles	Other	Under construction	Total
investments					
Other decreases	(13)	(56)	(462)	-	(531)
Reclassification	13,643	19,344	7,952	(43,374)	(2,435)
Balance as at 31 December 2007	**733,240**	**65,621**	**594,930**	**6,400**	**1,400,191**
Balance as at 1 January 2008	**733,240**	**65,621**	**594,930**	**6,400**	**1,400,191**
Additions:					
Purchases	1,383	-	13,380	38,978	53,741
Other increases	-	-	3,666	-	3,666
Decreases:					
Disposals	(105)	(20,147)	(10,697)	-	(30,949)
Liquidation	(588)	-	(47,904)	-	(48,492)
Classified as properties presenting investments/fixed assets held-for-sale	(36,677)	-	(354)	-	(37,031)
Other decreases	-	(97)	(3,757)	(1,603)	(5,457)
Reclassification	15,042	3,147	8,630	(30,244)	(3,425)
Balance as at 31 December 2008	**712,295**	**48,524**	**557,894**	**13,531**	**1,332,244**
Depreciation and amortization					
Balance as at 1 January 2007	**252,255**	**26,468**	**586,464**	**-**	**865,187**
Increases:					
Depreciation charge for the period	31,901	12,386	42,555	-	86,842
Other increases	-	-	3,553	-	3,553
Decreases:					
Disposals	(179)	(11,493)	(3,832)	-	(15,504)
Liquidation	(5,391)	-	(106,061)	-	(111,452)
Classified as properties presenting investments	(4,005)	-	(11)	-	(4,016)
Other decreases	(13)	(20)	(446)	-	(479)
Balance as at 31 December 2007	**274,568**	**27,341**	**522,222**	**-**	**824,131**
Balance as at 1 January 2008	**274,568**	**27,341**	**522,222**	**-**	**824,131**
Increases:					
Depreciation charge for the year	29,342	9,085	38,143	-	76,570
Other increases	-	-	1,122	-	1,122
Decreases:					
Disposals	(58)	(15,928)	(10,526)	-	(26,512)
Liquidation	(107)	-	(47,863)	-	(47,970)
Classified as properties presenting investments/fixed assets held-for-sale	(12,913)	-	(251)	-	(13,164)
Other decreases	-	(73)	(3,752)	-	(3,825)
Balance at 31 December 2008	**290,832**	**20,425**	**499,095**	**-**	**810,352**
Carrying amounts					
As at 1 January 2007	484,364	33,949	77,295	21,487	617,095
As at 31 December 2007	458,672	38,280	72,708	6,400	576,060
As at 1 January 2008	458,672	38,280	72,708	6,400	576,060
As at 31 December 2008	421,463	28,099	58,799	13,531	521,892

Investment properties

In thousands of PLN	**2008**	**2007**
As at 1 January	**25,028**	**9,386**
Increases:		
Reclassified form Bank's properties	164	26,592
Decreases:		
Disposals	(6,884)	(920)
Classify as tangible assets held for sale	-	(8,466)
Revaluation	-	(1,564)
Balance as at 31 December	**18,308**	**25,028**

24. Intangible assets

In thousands of PLN	Goodwill	Patents and trademarks	Software	Other intangible assets	Prepayments	Total
Gross amount						
Balance as at 1 January 2007	**1,245,976**	**740**	**225,000**	**18,242**	**354**	**1,490,312**
Additions:						
Purchases	-	-	8,144	-	10,545	18,689
Disposals:						
Reclassification	-	-	5,468	-	(5,530)	(62)
Balance as at 31 December 2007	**1,245,976**	**740**	**238,612**	**18,242**	**5,369**	**1,508,939**
Balance as at 1 January 2008	**1,245,976**	**740**	**238,612**	**18,242**	**5,369**	**1,508,939**
Additions:						
Purchases	-	-	8,440	-	7,104	15,544
Disposals:						
Reclassification	-	-	8,174	-	(8,838)	(664)
Other decreases	-	-	(7,283)	-	-	(7,283)
Balance as at 31 December 2008	**1,245,976**	**740**	**247,943**	**18,242**	**3,635**	**1,516,536**
Depreciation and amortization						
Balance as at 1 January 2007	**-**	**740**	**192,992**	**11,697**	**-**	**205,429**
Increases:						
Depreciation charge for the period	-	-	17,940	2,759	-	20,699
Balance as at 31 December 2007	**-**	**740**	**210,932**	**14,456**	**-**	**226,128**
Balance as at 1 January 2008	**-**	**740**	**210,932**	**14,456**	**-**	**226,128**
Increases:						
Depreciation charge for the period	-	-	16,451	1,697	-	18,148
Decreases:						
Other decreases	-	-	(7,287)	-	-	(7,287)
Balance as at 31 December 2008	**-**	**740**	**220,096**	**16,153**	**-**	**236,989**
Carrying amounts						
As at 1 January 2007	1,245,976	-	32,008	6,545	354	1,284,883
As at 31 December 2007	1,245,976	-	27,680	3,786	5,369	1,282,811
As at 1 January 2008	1,245,976	-	27,680	3,786	5,369	1,282,811
As at 31 December 2008	1,245,976	-	27,847	2,089	3,635	1,279,547

As at 31 December 2008, 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 enterprise from ABN AMRO Bank (Poland) S.A. as at 1 March 2005.

25. Impairment test for goodwill

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

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

Book value of goodwill allocated to unit:

In thousands of PLN

Corporate Bank	851,944
Consumer Bank	394,032
	1,245,976

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

The discount rate, which is equivalent to the required rate of return, has been used in the valuation. The required rate of return is assessed on the basis of the capital assets pricing model using a beta coefficient for the banking sector, bonus for risk and Treasury bond yield curves. In 2008 the discount rate amounted to 12.4% (in 2007: 14.0%)

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 2008.
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.

26. Income tax assets and liabilities

In thousands of PLN	**31.12.2008**	**31.12.2007**
Income tax assets*		
Current tax	655	-
Deferred tax	324,908	368,497
	325,563	**368,497**
Income tax liabilities*		
Current tax	**-**	**93,351**

** Deferred income tax assets and liabilities are presented jointly 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	**31.12.2008**	**31.12.2007**
Interest accrued and other expense	8,826	13,294
Loan loss provisions	103,215	91,538
Unrealised premium	19,258	12,389
Unrealised financial instruments valuation expenses	648,860	532,562
Negative valuation of securities	2,524	4,215
Income collected in advance	23,394	29,315
Valuation of shares	7,444	7,444
Commissions	5,878	5,333
Debt securities available-for-sale	33,721	42,797
Unrealized cost related to asymmetric transaction	69,399	156,767
Staff expenses and other cost due to pay	48,657	61,838
Other	18,328	19,980
Deferred tax assets	**989,504**	**977,472**

Deferred tax liability is attributable to the following:

In thousands of PLN	**31.12.2008**	**31.12.2007**
Interest accrued (income)	64,080	71,180
Unrealised premium from options	212	475
Unrealised financial instruments valuation income	554,045	482,766
Unrealised securities discount	2,940	319
Incomes to receive	9,046	20,422
Positive valuation of securities	6,005	3,719
Investment relief	19,835	21,706
Other	8,433	8,388
Deferred tax liability	**664,596**	**608,975**

Movement in temporary differences during the year

In thousands of PLN	**Balance 01 January 2007**	**Adjustments recognised in income**	**Recognised in equity**	**Balance 31 December 2007**
Interest accrued and other expense	15,368	(2,074)	-	13,294
Loan loss provisions	106,118	(14,580)	-	91,538
Subordinated loans provisions	547	(547)	-	-
Unrealised premium	7,346	5,043	-	12,389
Unrealised financial instruments valuation	637,696	(105,134)	-	532,562
Negative valuation of securities	683	3,532	-	4,215
Income collected in advance	26,339	2,976	-	29,315
Valuation of shares	6,891	553	-	7,444
Commission	5,666	(333)	-	5,333
Debt securities available-for-sale	19,118	-	23,679	42,797
Unrealized cost related to asymmetric	74,258	82,509	-	156,767
Staff expenses and other cost due to pay	53,707	8,131	-	61,838
Other	21,900	(1,920)	-	19,980
	975,637	**(21,844)**	**23,679**	**977,472**

In thousands of PLN	**Balance 01 January 2007**	**Adjustments recognised in income**	**Balance 31 December 2007**
Interest accrued (income)	63,509	7,671	71,180
Unrealised premium from options	133	342	475
Unrealised financial instruments valuation income	618,827	(136,061)	482,766
Unrealised securities discount	910	(591)	319
Incomes to receive	6,124	14,298	20,422
Positive valuation of securities	428	3,291	3,719
Investment relief	22,377	(671)	21,706
Other	6,464	1,924	8,388
	718,772	**(109,797)**	**608,975**

In thousands of PLN	**Balance 01 January 2008**	**Adjustments recognised in income**	**Recognised in equity**	**Balance 31 December 2008**
Interest accrued and other expense	13,294	(4,468)	-	8,826
Loan loss provisions	91,538	11,677	-	103,215
Unrealised premium	12,389	6,869	-	19,258
Unrealised instruments valuation expenses	532,562	116,298	-	648,860
Negative valuation of securities	4,215	(1,691)	-	2,524
Income collected in advance	29,315	(5,921)	-	23,394
Valuation of shares	7,444	-	-	7,444
Commission	5,333	545	-	5,878
Debt securities available-for-sale	42,797	-	(9,076)	33,721
Unrealized cost related to asymmetric transactions	156,767	(87,368)	-	69,399
Staff expenses and other cost due to pay	61,838	(13,181)	-	48,657
Other	19,980	(1,652)	-	18,328
	977,472	**21,108**	**(9,076)**	**989,504**

In thousands of PLN	**Balance 1 January 2008**	**Adjustments recognised in income**	**Balance 31 December 2008**
Interest accrued (income)	71,180	(7,100)	64,080
Unrealised premium from options	475	(263)	212
Unrealised instruments valuation income	482,766	71,279	554,045
Unrealised securities discount	319	2,621	2,940
Incomes to receive	20,422	(11,376)	9,046
Positive valuation of securities	3,719	2,286	6,005
Investment relief	21,706	(1,871)	19,835
Other	8,388	45	8,433
	608,975	**55,621**	**664,596**

27. Other assets

In thousands of PLN	**31.12.2008**	**31.12.2007**
Interbank settlements	970	23,321
Accounts receivable	50,879	60,417
Staff loans out of the Social Fund	25,041	29,405
Sundry debtors	129,698	81,310
Prepayments	14,238	16,107
Other assets	28	28
	220,854	**210,588**

28. Non-current assets held-for-sale

As at 31 December 2008 non-current assets held-for-sale include Bank's own property on joint value PLN 35,267 thousand (31 December 2007: PLN 12,645 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	**2008**	**2007**
Balance as at 1 January	**12,645**	**12,539**
Increases:		
Reclassify from banking properties	23,703	-
Retrain from investment properties	-	8,466
Decreases:		
Valuation updating	(1,081)	-
Cash receipts from the sale of holiday resorts	-	(8,360)
Balance as at 31 December	**35,267**	**12,645**

29. Financial liabilities valued at amortized cost

Financial liabilities valued at amortized cost (by category)

In thousands of PLN	**31.12.2008**	**31.12.2007**
Deposits from financial sector		
Current accounts, including:	2,039,931	2,369,149
current accounts of banks	*1,212,270*	*2,188,118*
Term deposits, including:	5,950,406	4,833,193
term deposits of banks	*2,122,158*	*1,705,436*
Accrued interest	4,255	40,877
	7,994,592	**7,243,219**
Deposits from non-financial sector		
Current accounts, including:	7,454,498	8,010,795
corporate customers	*3,329,289*	*3,933,764*
individual customers	*3,166,196*	*3,466,163*
budgetary units	*611,348*	*224,502*
Term deposits, including:	12,428,786	11,734,461
corporate customers	*8,455,451*	*9,200,222*
individual customers	*2,291,111*	*1,695,458*
budgetary units	*1,171,453*	*332,744*
Accrued interest	26,916	12,776
	19,910,200	**19,758,032**
Deposits	**27,904,792**	**27,001,251**
Other liabilities		
Loans and advances received	153,466	135,044
Liabilities in respect of securities subject to sale and repurchase agreements	-	69,155
Other liabilities, including:	229,928	234,808
cash collateral	*156,858*	*140,592*
Accrued interest	3,932	3,009
Other liabilities	**387,326**	**442,016**
	28,292,118	**27,443,267**

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

In thousands of PLN	**31.12.2008**	**31.12.2007**
Financial Sector		
- Banks and other monetary financial institutions		
up to 1 month	3,289,839	2,890,891
1 month - 3 months	13,223	837,875
3 months - 1 year	34,000	50,000
1 year - 5 years	62,324	130,984
over 5 years	89,669	-
Accrued interest	3,944	41,710
	3,492,999	**3,951,460**

In thousands of PLN	31.12.2008	31.12.2007
- Other financial institutions		
up to 1 month	4,616,500	3,427,672
1 month - 3 months	32,442	7,063
3 months - 1 year	5,950	5,050
1 year - 5 years	4,743	5,915
Accrued interest	3,144	1,231
	4,662,779	**3,446,931**
	8,155,778	**7,398,391**
Non-financial sector		
up to 1 month	18,423,660	19,066,932
1 month - 3 months	1,321,039	591,858
3 months - 1 year	336,198	294,842
1 year - 5 years	27,345	77,378
over 5 years	84	145
Accrued interest	28,014	13,721
	20,136,340	**20,044,876**
	28,292,118	**27,443,267**

30. Provisions

In thousands of PLN	31.12.2008	31.12.2007
For disputes	5,413	21,757
For industrial conversion	10,619	-
For off-balance sheet commitments	8,520	13,574
	24,552	**35,331**

The movement in provisions is as follows:

In thousands of PLN	2008	2007
Balance as at 1 January	**35,331**	**47,023**
Provisions for:		
Disputes	21,757	19,339
Off-balance sheet commitments	13,574	27,684
Increases		
Charges to provisions:	71,646	73,417
for litigations	5,072	13,064
For industrial conversion	30,000	-
for off-balance sheet liabilities	36,574	60,353
Decreases		
Use of provisions:	(15,305)	-
for industrial conversion	(15,305)	-
Release of provisions	(67,120)	(85,109)
for litigations	(21,416)	(10,646)
for industrial conversion	(4,076)	-
for off-balance sheet liabilities	(41,628)	(74,463)
Balance as at 31 December	**24,552**	**35,331**

31. Other liabilities

In thousands of PLN	**31.12.2008**	**31.12.2007**
Staff benefits	63,552	65,387
Interbank settlements	57,367	60,531
Interbranch settlements	1,003	4,344
Settlements with Tax Office and National Insurance (ZUS)	7,137	7,082
Sundry creditors	84,808	74,440
Accruals	244,317	332,181
Provision for employee payments	*82,747*	*129,315*
Provision for employees retirement and jubilee payments	*43,568*	*62,364*
Other	*118,002*	*140,502*
Deferred income	42,723	43,223
	500,907	**587,188**

32. Capital and reserves

Share capital

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

Par value of 1 share = PLN 4.00

As at 31 December 2008, the Bank's share capital amounted to PLN 522,638,400 divided into 130,659,600 common bearer shares nominal value of PLN 4 each that has not changed since 31 December 2006.

The Bank has not issued preference shares.

Principal shareholders

The following table presents the shareholders who, as at 31 December 2008, held at least 5% of the total number of votes in the General Assembly or at least 5% of Bank's share capital:

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

In 2008 and 2007 the structure of major shareholdings has not changed

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	**31.12.2008**	**31.12.2007**
Revaluation of financial assets available-for-sale	**(144,110)**	**(182,451)**

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

Other reserves

In thousands of PLN	**31.12.2008**	**31.12.2007**
Reserve capital	1,180,673	992,238
General risk reserve	390,000	390,000
	1,570,673	**1,382,238**

Reserve capital

Reserve capital is created from the distribution of profits or from other sources, independently of the supplementary capital.
Reserve capital is designated for offsetting the Bank's balance sheet losses or for other purposes, including payment of dividends to the shareholders. The General Shareholders' Meeting makes decisions on utilization of the reserve capital.

General risk reserve

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

Dividends

Dividends paid in 2008

In accordance with Resolution No. 10 of the Ordinary General Meeting of the Bank of 19 June 2008 the profit for 2007 was allocated, a resolution for the payment of dividends was adopted, the dividend date and the date of dividend payment were determined. The Bank proposed to pay out PLN 620,633,100.00 as dividend (in 2007 dividend was paid out from 2006 profit: PLN 535,704,360.00 net profit). This means that the dividend per one ordinary share amounts to PLN 4.75 (in 2006 appropriately: PLN 4.10).

The date of determination of the right to the dividend was designated as 4 July 2008 and the date of dividend payment as 29 August 2008.

As at 31 December 2008 the Bank did not have any liabilities in respect of approved dividends.

Declared dividends

As at the date of this report there has been no decision concerning the distribution of 2008 profit and the amount of dividend.

33. Repurchase and reverse repurchase agreements

The Bank raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate.
Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates.

As at 31 December 2008, there weren't any assets sold under repurchase agreements.

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

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

** including interest*

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

As at 31 December 2007 assets sold through repo can't be traded further.

In 2008 the total interest expense on repurchase agreements was PLN 2,146 thousand (In 2007: PLN 3,444 thousand).

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

As at 31 December 2008 assets purchased subject to agreements to resell were as follows:

In thousands of PLN	**Carrying amount of receivable***	**Fair value of assets held as collateral**	**Resale dates**	**Resale price**
Loans and other receivables:				
from financial sector	877,485	888,931	to one month	877,639

** including interest*

As at 31 December 2007 assets purchased subject to agreements to resell were as fallows:

In thousands of PLN	**Carrying amount of receivable***	**Fair value of assets held as collateral**	**Resale dates**	**Resale price**
Loans and other receivables:				
from financial sector	57,097	57,067	to one week	57,141

** including interest*

As at 31 December 2008 and 31 December 2007, the Bank held the option to pledge or sell the assets acquired through reverse repo.

In 2008 the total interest income on reverse repurchase agreements was PLN 12,013 thousand (In 2007: PLN 48 thousand).

34. Fair value information

Fair value of financial assets and liabilities

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

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

As at 31 December 2008

In thousands of PLN	*Note*	**Held for trading**	**Credit, loans and other receivables**	**Available for sale**	**Other financial assets/ liabilities**	**Total balance value**	**Fair value**
Assets							
Cash and balances with central bank	*17*	-	-	-	3,530,977	3,530,977	3,530,977
Financial assets held for trading	*18*	7,884,536	-	-	-	7,884,536	7,884,536
Debt securities available for sale	*19*	-	-	10,814,828	-	10,814,828	10,814,828
Capital investment	*21*	-	-	291,385	-	291,385	380,370
Credit, loans and other receivables	*22*	-	16,322,214	-	-	16,322,214	16,319,849
		7,884,536	**16,322,214**	**11,106,213**	**3,530,977**	**38,843,940**	**38,930,560**
Liabilities							
Financial liabilities held for trading	*18*	6,888,344	-	-	-	6,888,344	6,888,344
Financial liabilities valued at amortized cost	*29*	-	-	-	28,292,118	28,292,118	28,284,188
		6,888,344	**-**	**-**	**28,292,118**	**35,180,462**	**35,172,532**

<u>As at 31 December 2007</u>

In thousands of PLN	*Note*	**Held for trading**	**Credit, loans and other receivables**	**Available for sale**	**Other financial liabilities**	**Total balance value**	**Fair value**
Assets							
Cash and balances with central bank	*17*	-	-	-	3,321,503	3,321,503	3,321,503
Financial assets held for trading	*18*	5,132,265	-	-	-	5,132,265	5,132,265
Debt securities available for sale	*19*	-	-	6,467,638	-	6,467,638	6,467,638
Capital investment	*20*	-	-	302,321	-	302,321	432,000
Credit, loans and other receivables	*21*	-	20,309,005	-	-	20,309,005	20,271,195
		5,132,265	**20,309,005**	**6,769,959**	**3,321,503**	**35,532,732**	**35,624,601**

Liabilities							
Financial liabilities held for trading	*18*	4,373,146	-	-	-	4,373,146	4,373,146
Financial liabilities valued at amortized cost	*29*	-	-	-	27,443,267	27,443,267	27,453,022
		4,373,146	**-**	**-**	**27,443,267**	**31,816,413**	**31,826,168**

The table below presents balance sheet values of instruments measured at fair value, ranked according to the fair value measurement method applied:

As at 31 December 2008

In thousand of PLN	*Note*	**Quoted market prices**	**Valuation techniques - observable inputs**	**Valuation techniques - significant unobservable inputs**
Assets				
Financial assets held for trading	*18*			
- derivatives		5,197	4,906,525	1,696,551
- debt securities		1,219,013	-	29,250
- capital instruments		-	-	28,000
Debt securities held for trading	*19*	8,409,512	2,383,387	21,929
Capital investment	*20*	4,986	-	-
Liabilities				
Financial liabilities held for trading	*18*			
- derivatives		10,139	6,361,332	516,873

As at 31 December 2007

In thousand of PLN	*Note*	**Quoted market prices**	**Valuation techniques - observable inputs**	**Valuation techniques - significant unobservable inputs**
Assets				
Financial assets held for trading	*18*			
- derivatives		7,173	4,001,036	-
- debt securities		916,555	-	207,501
Debt securities held for trading	*19*	6,002,075	377,428	88,135
Liabilities				
Financial liabilities held for trading	*18*			
- derivatives		5,358	4,332,856	-

Fair Value Definition

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

Equity investment

In the case of financial assets in subsidiaries the fair value was presented as the percentage of net assets of an entity that is attributable to the Bank's interests in a given entity. The Bank's Management believes that this is the best available approximation of fair value of such instruments.
For listed minority shares market value is applied. For unlisted minority shares the Bank was not able to estimate a reasonable fair value, therefore the fair value amount includes purchase price adjusted by revaluation write-offs connected with diminution in value.

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

In 2008 and 2007, the Bank did not sell any equity investments whose fair value could not be credibly established beforehand.

Loans and advances

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

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

Financial liabilities valued at amortized cost

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

35. Contingent liabilities

Information on pending proceedings

As at 31 December 2008, 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 808,408 thousand.

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

Parties to Proceedings	Litigation Value (in thousands of PLN)	Proceedings Commencement Date	Description of Case
Creditor: Bank Handlowy w Warszawie S.A.	158,534	8 August 1996 – declaration of bankruptcy.	Case pending. The Bank submitted the receivable to repay it from the bankrupt's assets for arrangement on 14 October 1996. The Bank realized all the collateral. The Bank will probably not receive its receivables. The official receiver expects to complete the bankruptcy proceeding by the end of 2006.
Creditor: Bank Handlowy w Warszawie S.A.	41,502	On 22,June 2001, the court declared the debtor bankrupt.	Case pending. The Bank submitted its receivables to the proceedings.

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

As at 31 December 2008, 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.
Cumulative amount of the Bank's liabilities, from legal proceedings was lower than 10% of the Bank's shareholders' equity.

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

Off-balance sheet commitments

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

In thousands of PLN	**31.12.2008**	**31.12.2007**
Off-balance sheet commitments granted		
Letters of credit	199,377	164,317
Guarantees granted	2,349,972	2,160,288
Credit lines granted	11,363,091	11,204,214
Guarantees of emissions of valuable papers given to other emitters	29,500	172,000
	13,941,940	**13,700,819**

In thousands of PLN	**31.12.2008**	**31.12.2007**
Letters of credit by categories		
Import letters of credit issued	189,236	151,186
Export letters of credit confirmed	10,141	13,131
	199,377	**164,317**

The Bank makes specific provisions for off-balance sheet commitments. As at 31 December 2008, the specific provisions created for off balance sheet commitments amounted to PLN 8,520 thousand, (31 December 2007: PLN 13,574 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	**31.12.2008**	**31.12.2007**
Contingent liabilities received		
Finance	26,000	50,000
Guarantees	2,394,584	2,573,703
	2,420,584	**2,623,703**

36. Assets pledged as collateral

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

In thousands of PLN	**31.12.2008**	**31.12.2007**
Liabilities		
Financial liabilities valued at amortized cost		
liabilities in respect of securities subject to sale and repurchase agreements	-	69,173

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

In thousands of PLN	**31.12.2008**	**31.12.2007**
Assets pledged		
Debt securities held for trading	-	69,304
Debt securities available-for-sale	111,440	66,252
Credits, loans and other liabilities		
Deposit guarantee operations on derivative instruments	50,023	-
	161,463	**135,556**

As at 31 December 2008 and 31 December 2007, the debt securities available for sale presented in the table constituted a reserve against the funds guaranteed to the Bank Guarantee Fund. The information on the assets securing repo liabilities of the Bank has been discussed in Note 33. 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.

37. Trust activities

The Bank is the leader on the market of custodian banks in Poland. It offers both custody services connected with securities accounts for foreign institutional investors and depositary services for Polish financial institutions, including pension, investment and equity insurance funds. As at 31 December 2008 the Bank maintained 13,172 securities accounts (31 December 2007: 11,690 accounts).

38. Operating leases

Leases where the Bank is the lessee

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

In thousands of PLN	**31.12.2008**	**31.12.2007**
Less than 1 year	55,971	44,892
Between 1 and 5 years	148,760	102,747
More than 5 years	25,384	35,815
	230,115	**183,454**
Total operating leasing rentals for unprescribed time	**1,643**	**1,516**

The Bank uses cars and office space under operating lease contracts. The most significant lease contracts relate to office space situated in Warsaw at Wolska 171/175 and Chałubińskiego 8. Generally the contracts have been signed for 5 years and there is an ability to extend them over the next three years. Some contracts have been signed for an unspecified period of time. Lease payments are under one year indexation. The total amount of lease payments in 2008 amounted to PLN 41,284 thousand (in 2007: PLN 40,933 thousand).

The Bank uses cars under operating lease contracts, which were signed with its subsidiary. The contracts have been signed for 4 years. Lease payments are determined at a fixed interest rate for the entire lease period. In 2008 the Bank incurred payments amounting to PLN 2,774 thousand (in 2007: PLN 653 thousand). These payments are presented in the income statement in “General expenses”.

Leases where the Bank is the lessor

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

In thousands of PLN	**31.12.2008**	**31.12.2007**
Less than 1 year	1,727	4,024
Between 1 and 5 years	3,694	7,348
More than 5 years	909	1,419
	6,330	**12,791**
Total operating leasing rentals for unprescribed time	**2,494**	**3,462**

Part of the Bank’s office space and cars is leased operating lease contracts. Most of the office space leases agreements are signed for an unspecified period of time. Other agreements are signed for a period of between 2 and 10 year. Lease payments are under one year indexation. The income related to these contracts amounted in 2008 to PLN 4,872 thousands (in 2007: PLN 11,677 thousands). These payments are presented in the income statement in the item “Other operating income”.
The Bank leases cars under contracts with subordinate entities. Agreements are signed for two years or for an unspecified period of time. Lease payments are determined at a fixed interest rate for the entire lease period. The total amount of lease payments in 2008 amounted to PLN 421 thousand (in 2007: PLN 550 thousand).
These payment are presented inn income statement in the item “Other operating income”

39. Cash flow statement

Additional information:

In thousands of PLN	**31.12.2008**	**31.12.2007**
Cash related items		
Cash at hand	509,841	395,549
Nostro current account in central bank	3,021,136	2,925,954
Current accounts in other banks (nostro, overdrafts on loro accounts)	76,499	419,944
	3,607,476	**3,741,447**

40. Related parties

Transactions with related parties

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

The transactions with related entities mainly include loans, deposits, guarantees and derivatives transactions.

Transactions with entities of Citigroup Inc.

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

In thousands of PLN	**31.12.2008**	**31.12.2007**
Receivables, including:	1,430,311	3,391,324
Placements	*1,341,839*	*3,367,120*
Liabilities, including:	2,462,354	1,776,006
Deposits	*1,892,540*	*1,061,783*
Balance valuation of derivative transactions		
Trading assets	3,849,056	2,418,523
Trading liabilities	4,817,442	3,052,520
Off-balance sheet guarantee liabilities granted	286,908	67,318
Off-balance sheet guarantee liabilities received	228,391	227,389
Interest and commission income	106,628	91,012
Interest and commission expense	44,025	57,881

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

The costs arising and accrued in 2008 from concluded agreements amounted in total to PLN 157,041 thousand (in 2007: PLN 139,866 thousand) and related in particular to the costs arising from the provision of services related to the maintenance of the Bank's information systems and advisory support for the Bank; income in the amount of PLN 70,877 thousand (in 2007: 69,052 thousand) arose from the provision of data processing and other services by the Bank.

Transactions with subordinated entities

In thousands of PLN	**31.12.2008**	**31.12.2007**
Loans, advances and other receivables		
Current accounts	**220,096**	**228,214**
Loans, advances and other receivables		
Opening balance	228,214	352,156
Closing balance	220,096	228,214
Deposits		
Current accounts	2,747	19,007
Term deposits	228,741	247,954
	231,488	**266,961**
Deposits		
Opening balance	266,961	372,245
Closing balance	231,488	266,961
Off-balance sheet commitments granted		
Letters of credit	1,008	4,513
Guarantees granted	904	1,340

In thousands of PLN	**31.12.2008**	**31.12.2007**
Credit lines granted	413,572	330,172
	415,484	**336,025**
Interest and commission income in 2008/2007	16,294	23,405
Interest and commission expenses in 2008/2007	13,679	13,146

As at 31 December 2008 and 31 December 2007 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	**31.12.2008**			**31.12.2007**		
	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	40,899	104	8	71,194	288	4
Staff benefits	25,041	-	-	29,405	-	-
Prepayments	11	-	-	52	-	-
	65,951	**104**	**8**	**100,651**	**288**	**4**
Deposits						
Current accounts	65,358	2,457	1,186	62,051	2,171	636
Term deposits	26,474	200	2,741	19,340	100	116
	91,832	**2,657**	**3,927**	**81,391**	**2,271**	**752**
Guarantees issued	5	-	-	49	-	-

41. Employee benefits

Employee benefits are divided into the following categories:

- short-term benefits, which include salaries, social insurance contributions, paid leave and benefits in kind (such as medical care, company apartments, company cars and other free or subsidized benefits). The costs of short-term benefits are expensed in the profit and loss account in the period to which they relate. At the end of a given reporting period, if there is a balance payable which equals the expected undiscounted value of short-term benefits for that period, the Bank will record it as an accrued expense.

- benefits after termination of employment – including severance pay (see Note 2) and pension plans presented below offered by the Bank to its staff.

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

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

  <u>Description of Employee Pension Plan</u>

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

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

The basic premium for Plan participants is paid out of the Bank's own funds. Each employee who participates in the Plan can also make additional premium contributions to the Plan.

The total of premiums paid to Plan is invested in units of LM Senior SFIO.

- other long-term employee benefits – jubilee and other long service awards. Information about jubilee awards is described in Note 2. These are paid under a pre-determined benefit scheme and their valuation is carried out by an independent actuary in accordance with IAS 19.

- employee equity benefits – in the form of stock options granted on Citigroup common stock and also under stock award programs based on shares of Citigroup common stock in the form of deferred stock. Valuation and presentation principles of these programs are described in Note 2. Detailed information concerning the employee equity benefits are presented in the further part of this note.

By reason of employment restructuring, reserve amounted PLN 30 million, for costs concerning reduction of employment was established in 2008. The reserve has been utilized in total amount of PLN 25,924 thousand, whereof PLN 10,619 thousand concern payment of benefits in January 2009. The rest of reserve amount to the tune of PLN 4,076 thousand has been dissolved in 2008 (see note 30). Principles of the reserve establishing were presented in note 2 point "Restructuring reserve"

Provisions for the above employee benefits are as follows:

In thousands of PLN	**31.12.2008**	**31.12.2007**
Provision for remuneration	77,369	114,063
Provision for employees’ retirement and jubilee payments	43,568	62,364
Provision for employees’ equity compensation	5,378	15,252
Provision for personal costs of restructuring	10,619	-
	136,934	**191,679**

In 2008, the Bank’s expenses in respect of premiums for the employee pension plan amounted to PLN 15,361 thousand (in 2007: PLN 14,377 thousand).

Employment At the Bank:

	2008	**2007**
Mid employment during a year	5,584	5,603
At the end of the year	5,422	5,795

Description and principles of employee stock benefits

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

Within the framework of the SOP, eligible employees receive options to buy stock at the NYSE closing price as at the award grant date. Employees acquire the right to a portion of their options on each anniversary of their SOP award grant date. Options granted during 2005 and 2008 will be transferred partially in 25% every year for the next four years, starting from the first anniversary of option acquisition. Options may be exercised by purchase of stocks in the period from the acquisition date of the right to an option to the expiry date of the option.

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

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:

Grant date	**Exercise price/ stock price at grant date**	**Number of eligible employees**	**Number of options / shares**
SOP Program			
(1) 13-02-2002	42.11 or 41.90	251	98,145
(2) 12-02-2003	32.05	227	69,851
(3) 20-01-2004	49.50	89	54,761
(4) 18-01-2005	47.50	5	1,547

Grant date		Exercise price/ stock price at grant date	Number of eligible employees	Number of options / shares
(5)	20-09-2005	45.36	1	1,500
(6)	17-01-2006	48.92	1	1,538
(7)	16-01-2007	54,38	1	436
(8)	22-01-2008	24,45	10	31,497

Grant date		Exercise price/ stock price at grant date	Number of eligible employees	Number of options / shares
CAP Program				
(1)	18-01-2005	35.96 or 47.95	188	17,728
(2)	15-11-2005	48.24	2	1,166
(3)	17-01-2006	36.58 or 48.77	166	41,895
(4)	21-11-2006	50.73	1	1,478
(5)	16-01-2007	40.84 or 54.46	195	73,111
(6)	17-07-2007	52.19	1	1,917
(7)	16-10-2007	46.24	1	406
(8)	20.11-2007	32.00	1	3,516
(9)	22.01-2008	19.75 to 26.33	250	304,417

	Program SOP	**Program CAP**
Period to acquire the title (in years)	(1) 20% after the each of the following years (2)-(3) 33.33% after the each of the following years (4)-(8) 25% after the each of the following years	(1)-(5) and (7)-(9) 25% after the each of the following years (6) 100%after 3 years
Expected variances	114.78 %	114.78 %
Life cycle of the instrument	(1)-(8) -1 year from the moment of rights acquisition	In the moment of rights acquisition
Risk free interest rate (for USD)	1.12 %	1.12 %
Expected dividends (in USD per one share)	0.64	0.64
Probability of premature termination of employment (annual staff turnover for awarded employees)	7 %	7 %
Fair value of one instrument* (in USD)	0.00 – 2.34	6.71

** Varies depending on the date of exercise*

Options – volumes and weighted-average strike prices:

	31.12.2008		**31.12.2007**	
	Number	**Weighted average strike price**	**Number**	**Weighted average strike price**
At the beginning of the period	250,616	40.75	328,107	39.94
Allocated in the period	31,497	24.45	436	54.38
Redeemed in the period	-	-	59,543	39.48
Expired in the period	22,839	-	18,383	-
At the end of the period	259,274	38.93	250,616	40.75
Exercisable at the end of the period	225,775	40.86	247,335	40.66

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

31.12.2008			**31.12.2007**		
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	1.77	0.00	41.90	0.81	0.53
42.11	96.38	0.00	42.11	102.72	0.53

31.12.2008			31.12.2007		
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)**
32.05	69.85	0.00	32.05	81.26	0.00
49.5	54.76	0.00	49.5	61.05	0.55
47.5	1.55	0.55	47.5	1.31	1.06
45.36	1.50	1.22	45.36	1.5	1.06
48.92	1.54	1.05	48.92	1.54	1.56
54.38	0.44	1.55	54.38	0.44	2.56
24.45	31.50	2.55	-	-	-

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

	31.12.2008		31.12.2007	
	Number	**Weighted average price of share**	**Number**	**Weighted average price of share**
At the beginning of the period	226,616	42.23	217,022	40.29
Allocated in the period	304,417	21.87	114,898	43.68
Redeemed in the period	85,399	-	105,304	-
At the end of the period	445,634	28.33	226,616	42.23

42. Subsequent events

After 31 December 2008 there were no major events after the balance sheet date not included in the financial statement that could have a significant influence on the net result of the Bank.

On January 12, 2009 it sold to Fairfax Financial Holdings Limited with its seat in Ontario, Canada, all of its 17,500,000 Series A and B registered shares of the company operating under the brand name of Polskie Towarzystwo Reasekuracji S.A. with its seat in Warsaw ("PTR S.A."), constituting about 16.64% of the share capital of PTR S.A. and entitling to the same number of votes at the General Meeting of Shareholders of PTR S.A. The sale of shares was made as a result of the Bank's response on November 28, 2008 to the public tender offer to acquire all of the outstanding shares of PTR S.A. made on September 8, 2008 by Fairfax Financial Holdings Limited and in connection with the fulfillment of all legal conditions specified in the Tender Offer. The total price at which the Bank sold 17,500,000 PTR S.A. shares is PLN 28,000,000.

On 20 February 2009, Management Board of Bank Handlowy w Warszawie SA ("Bank") received from Pioneer Pekao Investment Management S.A. (“PPIM") information that at the date of 12 February 2009, the total shareholding of PPIM clients has reach the level of 5.01% of the total number of votes at the General Meeting of the Bank, in respect of financial instruments included in the client’s portfolios managed by PPIM, who performs on behalf of its clients portfolio management services of a broker financial instruments.
The information was sent by the Pioneer Pekao Investment Management SA as required by the Art. 87 paragraph 1 point 3 b) and Art. 87 paragraph 1 point 2 letter a). of the Act from 29 July 2005 concerning public offering and conditions of introducing financial instruments into organized trading system and about public companies.
Obtained information has presented that the engagement of the following entities, as at February, 13, 2009:

- Pionier Akcji Polskich Fundusz Inwestycyjny Otwarty,
- Pionier Aktywnej Alokacji Fundusz Inwestycyjny Otwarty,
- Pionier Małych i Średnich Spółek Rynku Polskiego Fundusz Inwestycyjny Otwarty,
- Pionier Średnich Spółek Rynku Polskiego Fundusz Inwestycyjny Otwarty,
- Pionier Stabilnego Wzrostu Fundusz Inwestycyjny Otwarty,
- Pionier Zrównoważony Fundusz Inwestycyjny Otwarty,
- Specjalistyczny Fundusz Inwestycyjny Otwarty Telekomunikacji Polskiej

has reached level of 5.002% of cumulative number of votes on the Bank’s General Meeting in range of

financial instruments included in those entities' portfolios, managing by PPIM, supplying service of managing broker financial instruments portfolio on demand.
Portfolios of above mentioned entities present sub-group of all PPIM clients' portfolios

Subsequent to 31 December 2008 there has been a significant depreciation of the polish zloty against other major currencies:

from PLN 4.1724 /EUR as at 31 December 2008 to PLN 4.6197 /EUR as at 12 March 2009
from PLN 2.9618 /USD as at 31 December 2008 to PLN 3.6105 /USD as at 12 March 2009
from PLN 2.8014 /CHF as at 31 December 2008 to PLN 3.1266 /CHF as at 12 March 2009
This movement can have a significant effect on the values and risk profiles of foreign currency assets, liabilities and off balance sheet financial instruments.

43. Risk management

RISK MANAGEMENT STRUCTURE AND PROCESS

Bank 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 and concentration risks), liquidity risk, market risk and operational risk.

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

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

Management Board of the Bank by way of a resolution:

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

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

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

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

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

- managing credit risk of Corporate and 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 within their business, for overseeing the risk in their business, and for responding to the needs and issues of their business.

As part of holistic review of risks the Bank performs two processes:

- annual scenario tests: the entire Bank business, corporate and consumer, is stressed for 2 downside economic & political scenarios. This test requires preparation of a country scenario plan that establishes key risk triggers and key action plans to be undertaken in an adverse event. The test results are reviewed by Bank higher level management, including some of the Management Board members and triggers are monitored as part of official Committee meetings,
- assessment of significant risks and capital required to cover them under base case and stress scenarios. Different parameters impacting risk weighted assets are stressed to assess the size of risk.

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

- obligor and facility credit risk assessment,
- measurement, reporting and monitoring of credit, market, liquidity and operational risk,
- monitoring and reporting of collateral,
- calculation and reporting of credit provisions,
- support of Basel II requirements realization.

Further paragraphs of the chapter describe detailed organisational solutions and processes of managing specific risks, that is credit risk, including Bank's policies in respect of collaterals and impaired exposures, market risk and operational risk.

CREDIT RISK

Credit risk is 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 Bank's business activities, including:

- Credits and loans,
- FX sales and trading,
- Derivatives,
- Securities transactions,
- Settlements,
- Transaction in which the Bank acts as an intermediary on behalf of its clients or other third parties.

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 losses. Credit risk is minimized through relevant Bank's regulations and implemented controls.

Corporate and Commercial Banking

The processes and organization of credit risk management in Corporate and Commercial Banking

Independent risk management is responsible for the establishing of the Credit Policy for the Corporate Bank and Commercial Bank, approving business specific 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 internal audit results, profitability and credit risk portfolio performance.

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 to maintain risk/capital alignment,
- a minimum of two authorized credit approvers required for extensions of credit,
- risk approval level dependent on risk assessment i.e. size and risk related to the exposure, higher risk exposures require approvals at higher decision levels and/or special approvals,
- risk ratings derived through using risk rating models and scorecards,
- risk rating standards, applicable to every obligor and facility, though with possibility of minor differences between Corporate and Commercial Bank portfolios,
- standards for credit origination documentation and remedial management,
- periodic monitoring of customers' results from their activities, and identification of such negative changes in their standing which require immediate remedial actions and communication to upper level management,
- exceptions to policies approved at higher levels within the organization to ensure control over risk policy implementation by upper level management.

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

Customer Level Monitoring

Tools employed to monitor the ongoing creditworthiness of a borrower include:

- quarterly financial reviews of the obligor,
- periodic reviews of credit exposures watchlisted and/or adversely classified,

- periodic credit calls on customers,
- ongoing contacts by business / relationship managers,
- analysis and assessment of external information (rating reports, analyst reports, press, industry sources etc),
- annual reviews of credit relationships,
- ongoing monitoring of timely repayments and adherence of other contractual obligations.

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

Portfolio Level Monitoring

- monitoring of the use of risk concentration limits in the credit portfolio,
- periodic credit portfolio reviews,
- “ad hoc” portfolio reviews caused by sudden, negative external information.

In addition to the various reporting processes provided above, regular portfolio round tables are conducted by the independent risk managers dedicated to specific customer segments with the business to review business pipelines and credit issues, as well as meeting and consultation with the representatives of Institutional Remedial Management Department to assess the situation of customer which demonstrate deterioration of financials and agree the eventual action plan.

Ongoing training of risk and business managers is undertaken, especially when credit policy changes are implemented or new initiatives are undertaken.

Risk mitigation policies for Corporate and Commercial Banking

Risk mitigation is constant and key element of Bank credit risk management processes. It is achieved at several levels as described below. Some of the measures are more relevant to Corporate and some to Commercial Bank portfolios.

Customer selection & credit approvals

- 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,
- Specialist approvals: consultation with industry experts and product specialists are mandatory for certain products and clients in specific industries,
- Robust credit due diligence standards (initial and annual reviews),
- Documentation standards. All credit / collateral agreements must incorporate minimum, pre-defined documentation standards. These are aimed at protecting Bank interests during enforcement of claims,
- Credit approvals by authorized approvers knowing best the customer from risk management and business units.

Credit portfolio monitoring & early warning

- Active portfolio management by the implementation of respective changes in the credit strategy based upon portfolio reviews or stress tests,
- Setting portfolio limits for each risk bucket, necessitating review and change of the customer selection and risk acceptance criteria, if exceeded,
- Ongoing portfolio review ensures identification of adverse trends and concentrations, prompting suitable changes in credit strategy,
- Considering specific risk mitigation tools, such as accepting parent and third party guarantees, taking collateral, loan sell-down etc,

- Periodic stress tests on the portfolio enable identification of portfolio vulnerability to specific external events,
- In cases of low exposures customers with the homogeneous characteristic (especially small enterprises), statistic analysis of portfolio including: level of delinquency, level of credit losses, vintage analysis.

Credit risk measurement in Corporate and Commercial Banking

Risk rating is the part of credit risk assessment associated with the granted credit. Obligor risk rating reflects an estimated probability of default for an obligor, and is derived primarily through the use of statistical models (which are validated periodically), external rating agencies (under defined circumstances), or scoring methodologies. To that end, the Bank uses its internal ratings based both on the financial and quality criteria alike, referred to the prevailing financial situation and the development perspectives of the industry. Internal obligor ratings equivalent to BBB- (according to S&P) and above are considered investment-grade. Ratings below the equivalent of BBB- are considered non-investment-grade. The Bank identifies eight main ratings for not impaired exposures. Higher value of rating means higher level of receivables risk. As part of the approval or subsequent renewal process, Risk Management is responsible for assigning a risk rating to the obligor.

Each credit limit is assigned to a facility risk rating. Facility risk rating is assigned, using the obligor risk rating and facility-level characteristics decreasing the losses in the situation of obligor default (i.e. support or collateral). The facility risk rating refers to an expected probability of losses on the credit facility (the product of probability of default and loss given default).

In case of the amount of exposure measurements methods these vary from the most simple, such as the book 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 simulation engine.

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

- At a facility level,
- At an obligor level,
- At a group level, considering the group structure of multiple obligors with common ownership and/or organization,
- At a portfolio level.

Consumer Banking

The processes and organization of credit risk management in Consumer Banking

Within Consumer Banking, independent credit risk management is responsible for establishing the Consumer Credit Policy, approving business specific policies and procedures, monitoring business risk management performance, providing ongoing assessment of portfolio credit risk, and approving new products and new risks. Approval policies for a product or business are tailored to internal audit ratings, profitability, and credit risk portfolio performance.

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,

- 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 and performance reports by score-band (delinquencies and losses ratios). Each scorecard has an annual validation process,

- Bank maintains written procedures for each product covering all aspects related to product: legal documentation, pricing, terms and conditions, operational procedures (risk assessment, disbursal, maintenance), accounting, collection process, credit policy rules, identification of impaired exposures and methods for calculation of credit losses, etc.,

- Each portfolio has annual stress testing performed,

- The Bank prepares the forecasts of current receivables and at risk of impairment. The receivables forecast is followed by a forecast of credit losses and a forecast of expected level of provisions and overdue receivables for 30-89 days.

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.). Level of delinquency indicators, credit loss indicators, flows of receivables between delinquency buckets is monitored. Monitoring is conducted on a monthly basis.

Risk mitigation policies for Consumer Banking

Consumer Banking Division uses the following means to mitigate risk:
- 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,
- Stress tests.

The scope and nature of credit risk reporting and measurement systems in Consumer Banking

Each portfolio has dedicated MIS used to track performance and identify trends in portfolio:

- Reports on applications received “through the door” MIS - identifying all acquired accounts,
- Coincident indicators report - identifying delinquencies in accounts,
- Lagging indicators report - identifying losses.

The above mentioned reports are prepared for each product separately and by segments. Possible segmentation includes: demographic criteria (employment, age, education, marital status etc.), score value (score bands, risk segmentation to high, medium, low), product parameters (tenor, APR, limit etc), etc.

MIS and Scoring Analysis Units are independent from business units and report to Consumer Banking Risk Division.

Quality controls in MIS and Score Analysis Units include:
- Reconciliation with general ledger,
- Repository of scripts used,
- Annual validation of models used for forecasting reserves according to IFRS reserves.

MIS package for each portfolio is prepared on a monthly basis and distributed to appropriate personnel (Chief Risk Officer, Head of Consumer Risk Division, Head of Consumer Bank and other).

THE POLICIES FOR COLLATERAL AND OTHER RISK MITIGATION ACCEPTANCE

Previous sections presented descriptions for general rules of risk mitigation specific for Corporate and Consumer Bank. This section describes collateral and other credit risk mitigation policies, including parent and third party guarantees and similar forms of support (jointly called: collateral), which are common for both areas.

Creditworthiness and customer ability to repay is a primary decision criteria based upon which the Bank approves credit to both individuals and companies alike. Collateral is only used as a risk mitigation tool.

The Bank accepts various types and forms of collateral from its clients. For individual clients the most common type of collateral is residential real estate while for companies many types of collateral are common and accepted, including:

- Bank guarantees/personal guarantees/sponsoring letters,
- Cash,
- Treasury bonds, notes/NBP certificates,
- Securities,
- Shares in a limited liability company,
- Receivables,
- Inventory,
- Real estate,
- Equipment and machines,
- Vehicles.

In order to standardize and improve the process, a specialized risk unit responsible for management and monitoring of collaterals was created. The key elements of the process include:

- Definition of collateral acceptance criteria,
- Collateral appraisal and its validity period,
- Required documentation,
- Monitoring process,
- Inspections and insurance requirements.

The Bank requires additional collateral from the customer when the liquidity declines or worsens (according to the Group) or when the collateral value declines.

The credit procedures describe:
- Collateral requirements for different types of exposure/s,
- Credit/Collateral relation for different types of collateral,
- Collateral structure as it relates to the portfolio structure.

The rules for accepting, managing, monitoring and reporting collateral as per the procedures are checked within the control process. Periodically Bank monitors if the actual structure of the collateral portfolio is compliant with the assumed.

CONCENTRATION OF EXPOSURE

Concentration risk management in Bank's portfolio regards especially concentration resulted from following exposure:

- on single obligors or relationships, including capital group of Bank (counterparty concentration risk),
- on obligors from the same industry group, sector and carrying the same activity or trading with the same type goods (industry concentration risk).

Above concentrations relate especially to Corporate and Commercial Banks portfolios. Also other potential concentrations like currency, geographic and collateral are also monitored, but no significant concentrations are observed there. With respect to currency concentration exposures expressed in Polish Zloty prevail in the Bank's portfolio. Geographically the Bank is active in the Republic of Poland only, some exposure concentration is naturally observed in central Poland. General Bank's policy of financing based on obligor creditworthiness and not type of collateral available results in generally low secured portfolio and thus low specific collateral concentrations. Considering above and the fact that these concentrations are monitored based on management information portfolio data, they were not described in details in the subsequent sections.

Bank sets limits and manages of the size of exposure to ensure the proper of risk diversification in portfolio.

Counterparty concentration risk

The Bank sets out to limit its exposure to a single customers or capital group of customers. As at 31 December 2008, the Bank's exposure in banking portfolio transactions with the group of customers, which all-in exceeded 10 % of the Bank's equity, amounted to PLN 2,746,672 thousand i.e. 82,3% of these funds (31 December 2007: PLN 3,299,440 thousand i.e. 106%).

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

In thousand PLN	**31.12.2008**			**31.12.2007**		
	Balance Outstanding*	**Off-Balance Outstanding**	**Total Outstanding**	**Balance Outstanding***	**Off-Balance Outstanding**	**Total Outstanding**
Group 1	344,592	408,274	752,866	443,585	159,694	603,279
Group 2	220,094	364,942	585,036	228,211	266,025	494,236
Group 3	187,916	311,341	499,257	132,638	473,595	606,233
Group 4	135,195	327,636	462,831	167,690	141,592	309,282
Group 5	267,359	179,323	446,682	186,218	298,882	485,100
Group 6	86,728	235,094	321,822	21	360,522	360,543
Group 7	6	312,102	312,108	10	125,425	125,435
Group 8	113,757	188,303	302,060	36,406	255,205	291,611
Group 9	238,175	38,605	276,780	46,129	93,333	139,462
Group 10	111,534	164,381	275,915	3,573	127,666	131,239
Total	**1,705,356**	**2,530,001**	**4,235,357**	**1,244,481**	**2,301,939**	**3,546,420**

**Excluding outstanding on commercial papers and subsidiaries.*

The Banking Act of 29 August 1997 (Journal of Laws of 2002 No. 72, item 665, as later amended) and its executive regulations issued by the Commission for Banking Supervision define maximum exposure limits for a Bank. Under article 71 paragraph 1 of the Act, which came into force as of 1 January 2002, total balance sheet and off-balance sheet exposure from one or more capital and organizationally related entities cannot exceed 20% of the Bank's equity when one of the entities is a parent entity or subsidiary undertaking of the Bank or is a subsidiary undertaking to a parent entity of the Bank or cannot exceed

25% of the Bank's equity when there is no such relationship between the Bank and the borrower. Pursuant to provisions of the Resolution No. 1/2007 of the Commission for Banking Supervision dated 13 March 2007 regarding specific rules for calculating capital requirements for banking risk categories (…) the Bank is allowed to maintain exposure exceeding concentration limits, as defined in article 71 paragraph 1 of the Banking Act, on condition that the excess exposure relates only to transactions classified to trading portfolio. Equity for the purpose of setting concentration limits specified in the Banking Act, has been established in accordance with resolution No. 2/2007 of the Commission for Banking Supervision dated 13 March 2007 regarding specific rules for other reductions for calculating Bank's primary funds (…).

As at 31 December 2008, the Bank had an exposure to a related party from the banking sector exceeding the statutory debt concentration limits. The excess exposure arose by virtue of derivative transactions. As a consequence, an additional capital requirement for excess exposure was factored into the calculation of the Bank's capital adequacy ratio as at 31 December 2008.

Concentration of exposure in individual industries

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

The Bank's policy concerning exposures to particular industries is developed separately for large customers from the Corporate Bank and medium-sized, small and micro enterprises from the Commercial Bank:

- the Bank's policy regarding exposures to large corporate and commercial customers active in particular sectors is developed through an identification of target markets. A key component in this identification of markets is an assessment of industry risk. To this end, specialists in particular industries carry out industry analyses. Within the framework of the target markets specified risk acceptance criteria,
- in terms of small and medium enterprises and micro-companies, the Bank's policy on exposures consists of identifying a target market by negative selection of industries where the risk of doing business is considered unacceptable.

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

Sector of the economy according to Polish Classification of Economic Activity (PKD)	**31.12.2008**	**31.12.2007**
	in %	**in %**
Wholesale and sale on commission basis, except for trade with vehicles and motorcycles	17.3	17.0
Financial intermediation, except for insurance and retirement fund business	13.7	11.4
Production of food and beverages	6.6	7.2
Retail trade, except for trade with vehicles and motorcycles; servicing and repair of	5.7	4.2
Provision of power, gas, steam and hot water	5.5	8.0
Production of chemicals	4.5	5.2
Production, sale and service of vehicles and motorcycles; retail sale of fuel for car vehicles	3.2	2.9
Production of rubber and plastic goods	3.0	2.5
Postal services and telecommunications	2.9	3.6
Production of machines and equipments	2.7	1.9
Top 10 business sectors	**65.1**	**63.9**
Building industry	2.6	2.4

Sector of the economy according to Polish Classification of Economic Activity (PKD)	31.12.2008 in %	31.12.2007 in %
Land based transport, pipeline transport	2.0	2.1
Other services concerned with economic activity	2.0	2.9
Production of goods out of other non-metallic resources	2.0	1.8
Production of metallic goods, except for machines and equipment	1.9	1.8
Production of vehicles, trailers and semi- trailers	1.8	1.5
Production of other transportation equipment	1.7	1.5
Production of equipment, otherwise unclassified	1.7	2.1
Production of coke, oil refinery and atomic fuel	1.7	2.2
Production of tobacco goods	1.6	1.5
Top 20 business sectors	**84.1**	**83.7**
Other sectors	**15.9**	**16.3**
Total	**100.0**	**100.0**

Although concentration in some industries has changed the overall portfolio concentration remains on similar level.

In thousand PLN		**31.12.2008**	**31.12.2007**
Gross receivables from customers and banks (by type of activity)			
Gross receivables from economic entity and banks			
Financial		4,011,162	9,202,622
Production		3,442,036	3,248,892
Services		838,892	803,948
Other		3,713,016	3,689,529
		12,005,106	**16,944,991**
Gross receivables from individuals		**5,774,490**	**4,767,591**
	(see note 21)	**17,779,596**	**21,712,582**

MANAGING IMPAIRED EXPOSURES

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

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

For individually assessed accounts, managed on a basis of classification, loans are treated as impaired when there is factual confirmation that an impairment loss has been made. The criteria used by Bank 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 allowances for impaired loans by conducting a review of the loan portfolio.

Classifiably managed accounts

These are determined by evaluating the exposure to loss, case by case, on all individually significant accounts. In determining allowances on classifiably managed accounts, the following factors are considered:

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

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

Delinquency managed accounts

For loans that are not considered individually significant impairment is calculated on a collective basis. A formulaic approach is used which allocates progressively higher percentage loss rates the longer a customer's loan is overdue.

The tables below present direct exposure of the Bank to credit risk, whereas the accounts payable to customers, with established value loss, have been grouped for presentation purposes into risk categories using classification and without impairment has been presented using the internal risk ratings, and the accounts payable. There are also presented the details of provisions made for impaired receivables. 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 35), the debt securities available for sale (discussed in Note 19), the financial assets provided for trading (discussed in Note 18) and other assets (discussed in Note 27).

In thousand PLN	**31.12.2008**		**31.12.2007**	
	Receivables from customers	**Receivables from banks**	**Receivables from customers**	**Receivables from banks**
Individually Assessed receivables				
Risk category II	56,489	-	31,119	-
Risk category III	203,645	-	212,950	-
Risk category IV	1,012,461	2,253	912,314	1,852
Gross value	**1,272,595**	**2,253**	**1,156,383**	**1,852**
Impairment	1,018,208	2,253	991,210	1,852
Net value	**254,387**	**-**	**165,173**	**-**
Collectively Assessed receivables				
Risk category II	392	-	2,095	-
Risk category III	6,264	-	27,821	-
Risk category IV	481,123	-	420,950	-

In thousand PLN	31.12.2008		31.12.2007	
	Receivables from customers	**Receivables from banks**	**Receivables from customers**	**Receivables from banks**
Gross value	**487,779**	**-**	**450,866**	**-**
Impairment	366,017	-	361,517	-
Net value	**121 762**	**-**	**89 349**	**-**
Not impaired receivables				
Risk rating 1-4	11,927,034	2,875,070	9,662,553	8,264,859
Risk rating 5-6	724,401	43,272	2,019,883	1,403
Risk rating 7-8	346,063	101,129	154,783	-
Gross value	**12,997,498**	**3,019,471**	**11,837,219**	**8,266,262**
Impairment	69,116	1,788	48,964	34
Net value	**12,928,382**	**3,017,683**	**11,788,255**	**8,266,228**
Total net value	**13,304,531**	**3,017,683**	**12,042,777**	**8,266,228**

In thousand PLN	31.12.2008		31.12.2007	
	Receivables from customers	**Receivables from banks**	**Receivables from customers**	**Receivables from banks**
Impairment value for receivables assessed individually				
Risk category II	16,217	-	2,964	-
Risk category III	72,902	-	110,646	-
Risk category IV	929,089	2,253	877,600	1,852
	1,018,208	**2,253**	**991,210**	**1,852**
Impairment value for receivables assessed collectively				
Risk category II	96	-	626	-
Risk category III	2,505	-	11,821	-
Risk category IV	363,416	-	349,070	-
	366,017	**-**	**361,517**	**-**
IBNR provisions				
Risk rating 1-4	54,797	2	32,883	25
Risk rating 5-6	4,929	322	12,070	9
Risk rating 7-8	9,390	1,464	4,011	-
	69,116	**1,788**	**48,964**	**34**
Total net value	**1,453,341**	**4,041**	**1,401,691**	**1,886**

In thousand PLN	31.12.2008	31.12.2007
Receivables with incurred but not recognized (IBNR) losses		
Regular receivables		
0-30 days	16,015,777	20,102,495
Overdue receivables		
31-90 days	1,148	938
91-180 days	44	48
Gross value	**16,016,969**	**20,103,481**

MARKET RISK

The processes and organization of market risk management

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

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

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

The objective of price 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 Bank.

Market risk management processes performed in the Group are based on:
- Requirements of Polish regulatory institutions and especially resolutions of thePolish Financial Supervision Authority,
- Rules of prudent and stable management of the Capital Group of Bank Handlowy in Warsaw SA., as well general risk levels approved by Supervisory Board of the Bank with the consideration of the best practices used in Citigroup a parent company of the bank.

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

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

Liquidity risk management

Liquidity management has the aim of ensuring the Bank and the Bank's objects access to liquid assets for the purpose of fulfilling its obligations on time, also under extreme yet probable crisis conditions. The Bank is compliant with the regulatory banking supervision requirements in Poland, and in particular with Resolution No. 0/2007 of the Commission for Banking Supervision of 13 March 2007 on Setting Liquidity Norms Binding to Banks (from January 1, 2008 named Commision for Financial Supervision), with due consideration of the liquidity policy of Citigroup.

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

Liquidity risk is monitored and managed in the approach approved and by reports presented to ALCO, Bank's Supervisory Board and Treasury Division. The Director of Assets and Liabilities Management Bureau in Treasury Division is responsible for keeping the liquidity risk within the limits set by Polish Financial Supervision Authority, keeping the exposure to liquidity risk within the set internal limits and for the managing of current liquidity.

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

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

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

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

Measurement and mitigation of the liquidity risk, rules and processes

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

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

Additionally, for purposes of limiting its payment related liquidity risk, the Bank prepares the MAR report. The report demonstrates the gaps in financial flows in individual time spans and reflects potential exposure to the necessity of finding additional funding sources on the monetary market. MAR comprises all the financial flows relating to balance sheet and off-balance sheet transactions, transactions of currency exchange, future currency valuable papers buying and selling transactions. The liquidity gap reports are prepared on daily basis and encompass the Bank's and dependent comapnies Handlowy-Leasing Sp. z o.o. and Dom Maklerski Banku HAndlowego S.A., balance sheet in aggregate and by individual currency balances.

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

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

The levels of the modified gap in financial flows and the level of liquid assets as at 31 December 2008 and 31 December 2007 are shown in the tables below.

The liquidity gap as at 31 December 2008 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	4,261,460	686,524	989,882	12,517	35,294,988
Liabilities	7,049,895	94,153	41,359	44,042	34,015,922
Balance sheet gap in the period	(2,788,435)	592,371	948,523	(31,525)	1,279,066
Off-balance sheet transactions – inflows	7,294,723	6,124,796	10,452,627	1,752,153	4,512,902
Off-balance sheet transactions – outflows	6,535,615	6,017,968	10,474,050	1,738,723	5,563,943
Off-balance sheet gap in the period	759,108	106,828	(21,423)	13,430	(1,051,041)
Cumulative gap	(2,029,327)	(1,330,128)	(403,028)	(421,123)	(193,098)

The liquidity gap as at 31 December 2007 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	4,686 511	2,284,393	2,127,856	431,052	28,495,974
Liabilities	4,803 476	860,220	69,813	27,606	32,264,671
Balance sheet gap in the period	(116,965)	1,424,173	2,058,043	403,446	(3,768,697)
Off-balance sheet transactions – inflows	16,145,663	6,012,349	12,864,610	873,563	4,227,465
Off-balance sheet transactions – outflows	16,073,819	6,109,832	12,783,929	902,277	4,277,570
Off-balance sheet gap in the period	71,844	(97,483)	80,681	(28,714)	(50,105)
Cumulative gap	(45,121)	1,281,569	3,420,293	3,795,025	(23,777)

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

In thousands of PLN	**31.12.2008**	**31.12.2007**	**Change**
Liquid assets, including:	15,247,016	10,651,168	4,595,848
obligatory reserve in NBP and stable part of cash	3,183,925	3,059,474	124,451
debt securities held for trade	1,248,263	1,124,056	124,207
debt securities available for sale	10,814,828	6,467,638	4,347,190
Cumulative liquidity gap up to 1 year	(403,028)	3,420,291	(3,823,319)
Coverage of the gap with liquid assets	3,783%	Positive gap	Not applicable

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

As at 31 December 2008:

	Note	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Interests
Financial liabilities held for trading								
Short positions in financial assets	*18*	-	-	-	-	-	-	-
Financial liabilities valued at amortized cost								
Deposits from financial sector	*30*	7,994,598	7,901,953	43,691	39,950	4,743	-	4,261
Including banks	*30*	*3,333,839*	*3,286,616*	*13,223*	*34,000*	-	-	*1,135*
Deposits from non-financial sector	*30*	19,910,211	18,234,165	1,298,410	323,560	27,065	84	26,927
Other liabilities	*30*	387,556	194,052	24,603	12,638	62,604	89,669	3,990
		28,292,365	26,330,170	1,366,704	376,148	94,412	89,753	35,178
Financial liabilities held for trading								
Derivative financial instruments	*18*	4,754,417	224,081	399,117	1,277,529	1,575,691	1,277,999	-
Unused credit lines liabilities		11,363,091	10,723,493	38,618	168,924	380,018	52,038	-
		44,409,873	**37,277,744**	**1,804,439**	**1,822,601**	**2,050,121**	**1,419,790**	**35,178**
Gross derivatives								
Inflows		29,126,979	6,209,300	6,180,753	10,389,201	3,700,904	2,646,821	
Outflows		28,994,979	6,415,210	6,022,235	10,373,970	3,557,517	2,626,047	
		132,000	**(205,910)**	**158,518**	**15,231**	**143,387**	**20,774**	

As at 31 December 2007:

	Note	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Interests
Financial liabilities held for trading								
Short positions in financial assets	*18*	34,932	34,932	-	-	-	-	-
Financial liabilities valued at amortized cost								
Deposits from financial sector	*30*	7,243,343	6,302,828	842,659	55,000	1,855	-	41,001
Including banks	*30*	*3,787,688*	*2,862,056*	*835,859*	*50,000*	-	-	*39,773*
Deposits from non-financial sector	*30*	19,758,036	18,845,658	573,487	249,598	76,367	145	12,781
Other liabilities	*30*	442,110	237,009	20,650	45,294	136,055	-	3,102
		27,443,489	25,385,495	1,436,796	349,892	214,277	145	56,884
Financial liabilities held for trading								
Derivative financial instruments	*18*	3,097,536	157,773	218,318	675,047	1,335,325	711,073	-
Unused credit lines liabilities		11,204,214	10,072,625	1,492	274,002	778,667	77,428	-
		41,780,171	**35,650,825**	**1,656,606**	**1,298,941**	**2,328,269**	**788,646**	**56,884**
Gross derivatives								
Inflows		38,763,702	15,848,325	6,024,356	12,513,327	2,027,563	2,350,131	
Outflows		38,827,275	15,775,189	6,071,284	12,522,393	2,081,318	2,377,091	
		(63,573)	**73,136**	**(46,928)**	**(9,066)**	**(53,755)**	**(26,960)**	

As part of annual funding and liquidity plan preparation ALCO establishes a set of Market Factors for which appropriate triggers are set. Each trigger breach shall be discussed by the Committee and the decision shall be taken regarding the necessity of extraordinary actions including the changes in liquidity risk management of the Bank.

Bank performs liquidity stress tests. The stress scenarios include assumptions about significant changes in key funding parameters. The four stress scenarios are:

- Concentration event,
- Long-term rating downgrade,
- Short-term rating downgrade,
- Financial crisis on the domestic market.

Stress testing of liquidity risk is performed on a monthly basis.

The results of stress tests are reviewed to ensure that Bank is self-funding, under stress scenarios, and has sufficient liquidity. In addition a Contingency Funding Plan has to prepared and updated on a periodic basis. The plan includes detailed policies, procedures, roles and responsibilities in the case of actual liquidity stress situation including alternatives that can be used by the head of Treasury in a liquidity event.

Pricing risk management

Scope of risk

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

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

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

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

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

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

- Subject to the cash flow risk (cash flows linked to the interest rate):
  - Floating rate debt securities, and
  - Floating rate loans and deposits,
- Not subject to a direct interest rate risk:
  - Fixed assets,
  - Capital investments, and
  - Intangible assets.

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

Measurement of the pricing risk of the bank portfolios

The Bank typically uses the following methods for measuring the pricing risk of the bank portfolios:
- Interest rate gap analysis,
- Value-at-Close and Total Return methods,
- Interest Rate Exposure (IRE), and
- Stress testing.

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

It is assumed that:
- Transactions with fixed interest (such as term deposits, interbank deposits, portfolio of debt securities available for sale 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, capital assets, capital, other assets/liabilities;
- transactions executed directly by the Bank's Treasury Division for purposes of management of interest rate risk and liquidity risk (Treasury Division's own portfolio) are always classified into appropriate revaluation bands in accordance with the contract dates.

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

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

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

Follow the IRE measures for the Bank valid on 31 December 2008 and 31 December 2007. The list has been broken down into the main currencies, i.e. PLN, USD and EUR, which jointly account for over 90% of the Bank's balance sheet.

In thousands of PLN	**31.12.2008**		**31.12.2007**	
	IRE 12M	IRE 5L	IRE 12M	IRE 5L
PLN	7,642	104,071	8,130	90,683
USD	(394)	3,351	(3,649)	(4,469)
EUR	(8,836)	(42,808)	(18,431)	(48,043)

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

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

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

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

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

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

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

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

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

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

In thousands of PLN	**31.12.2008**			**31.12.2007**			**Overall between 01.01.2008 and 31.12.2008**		
	Total	Securities	IRS	Total	Securities	IRS	Average	Minimum	Maximum
PLN	(1,246)	(1,246)	-	(1,338)	(1,338)	-	(1,267)	(1,368)	(1,144)
USD	(99)	(99)	-	(123)	(203)	80	(116)	(420)	-
EUR	(766)	(766)	-	(650)	(827)	177	(856)	(1,187)	(657)

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

Systems applied for reporting and measurement of interest rate risk in banking portfolios

The application used for banking book interest rate risk reports production works on the basis of standardized set of transaction-level data sourced from bank's books. This is a standard application used by Citigroup subsidiaries and branches. In addition to the reports produced by the application there is available information generated based on data from internal systems of Financial Division.

Pricing risk of the trading portfolios

The following methods are applicable in measurement of risk of trading portfolios:
- Factor Sensitivity,
- Value at Risk (VaR), and
- Stress testing.

Factor Sensitivity measures the change in the value of positions in an underlying instrument in the case of a defined change in a market risk factor (e.g. change of 1 basis point in the interest at a given point on the interest rate curve, change of 1% in the currency exchange rate or 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. Total DV01 value for a given currency is the difference between the valuation of all the instruments forming part of the trading portfolio in a given currency by structure of the yield curve at the time of valuation and the valuation of the same instruments based on the same curves assuming a parallel shift of 1 basis point up. DV01 is calculated for each defined risk factor (curve nodal point) separately, and subsequently aggregated for the respective currencies.

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

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

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

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

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

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

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

The Bank runs the stress tests for the four basic scenarios, as follows:
- The most likely scenario, based on the historic fluctuations of the risk factors,
- Local financial crisis, and
- Global financial crisis,
- Shock based on hypothetical changes of market factors.

On top of the foregoing tools for the limiting and monitoring the pricing risk of the trading portfolios, the Bank uses the following:
- Warning threshold of the monthly cumulated loss on the trading portfolios;
- Aggregate Contracts Triggers, being the warning thresholds in respect of the total volume of unsettled transactions in a specific financial instrument;
- Maximum Tenor Trigger, being the warning thresholds in respect of the maximum time to maturity of a specific financial instrument, and
- The limits, or warning thresholds of concentration for the types of security, issuer, and issue of debt securities and equities.

The Bank run records of exposures of the bank portfolios to the pricing risk in twenty one currencies 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 2008 have been listed in the table below:

in thousands of PLN			Overall between 01.01.2008 and 31.12.2008		
	31.12.2008	**31.12.2007**	**Average**	**Maximum**	**Minimum**
PLN	(42)	(43)	(121)	294	(515)
EUR	23	(73)	(37)	82	(218)
USD	(10)	(14)	7	243	(112)
HUF	(12)	(31)	(38)	12	(113)

The marked exposure to the interest rates risk, in the the year 2008, compared with the year 2007 remains on the similar level although the FX structure of the position changes. Higher exposure was taken in LCY (average DV01 was at the –121 thousand PLN level comparing to –45 thousand PLN in 2007) while the risk appetite in EUR was lower (average position was 66 thousand PLN lower than in 2007). What's regarding the maximum position taken by Treasury thy were lower for all currencies (i.e. maximum position in LCY was –515 thousand PLN comparing to –690 thousand PLN in 2007 and in EUR –218 thousand PLN comparing to –379 thousand PLN in 2007).
Over the period, the Treasury Division, which trades financial instruments within the Bank, has continue the strategy of very active managing exposures exposed to FX risk and interest rate risk, i.e. by adjusting the volume and direction of these exposures depending on the fluctuating market, which is depicted by the range of these exposures (the minimum and the maximum column of the table above).

The table below shows the levels of risk measured using the VaR (net of the economic hedges of the portfolio of securities available for sale) broken down into the FX risk and the interest rate risk positions in the year 2008:

in thousands of PLN	**31.12.2008**	**31.12.2007**	Overall between 1.01.2008 and 31.12.2008		
			Average	**Maximum**	**Minimum**
FX risk	114	151	916	5,672	34
Interest rate risk	3,511	4,254	3,427	14,192	1,089
Overall risk	3,514	4,225	3,790	14,564	1,148

In the year 2008, the overall, average level of the pricing risk of the trading portfolios was lower than medium level in year 2007 of about PLN 0.4 million. Although the maximum risk levels were much higher in year 2008 than in 2007. Maximum price risk level gain amount of PLN 14.6 million, compared to amount of PLN 8.9 million in the same period of the year 2007.

Systems applied for reporting and measurement of interest rate risk in banking portfolios

The main system applied for trading portfolios price risk measurement, reporting and monitoring is the internal common reporting data-base of Financial Division and Market Risk Department - TPRC, which is sourced daily from the following systems:
- Kondor+ the Bank's main transactional front-office system as far as data regarding the interest rate sensitivities and foreign exchange positions are concerned,
- The calculation and reporting system GMR (Citigroup systems) as far as VaR measures are concerned.

Capital instruments risk

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

Currency structure

The table below presents currency structure according to base currencies:

31 December 2008

In thousand of PLN	Balance transaction		Off balance transaction		Net item
	Assets	**Liabilities**	**Assets**	**Liabilities**	
EUR	4,423,635	4,538,145	11,890,724	11,688,164	88,050
USD	2,929,611	3,307,282	4,855,201	4,496,077	(18,547)
GBP	411,184	518,265	303,154	190,099	5,974
CHF	383,881	237,469	350,563	479,880	17,095
Other currencies	442,909	430,188	520,318	553,579	(20,540)
	8,591,220	**9,031,349**	**17,919,960**	**17,407,799**	**72,032**

31 December 2007

In thousand of PLN	Balance transaction		Off balance transaction		Net item
	Assets	**Liabilities**	**Assets**	**Liabilities**	
EUR	4,575,515	3,360,332	11,778,224	12,975,816	17,591
USD	4,074,053	2,514,173	8,981,926	10,554,964	(13,158)
GBP	11,818	153,499	170,978	26,181	3,116
CHF	88,301	68,382	6,484	18,177	8,226
Other currencies	16,360	64,233	553,858	523,823	(17,838)
	8,766,047	**6,160,619**	**21,491,470**	**24,098,961**	**(2,063)**

OPERATIONAL RISK

The processes and organization of the operational risk management

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

Operational Risk Framework covering Bank aims at:

- Providing a single coherent and effective approach to identification, control, assessment, monitoring, measurement and reporting of operational risks,
- Ensuring effective reduction of the operational risk-exposure, and as a consequence, reduction of operational risk events and their severability,
- Ensuring the execution of requirements for operational risk, according to KNB resolutions,
- Ensuring compliance with regulations connected with operational risk management.

The Bank's approach to operational risk is defined in the Operational Risk Policy, including Risk and Control Self-Assessment (RCSA) Process.

There are the following key elements in the operational risk management:

- risk identification,
- risk mitigation,
- Risk and Control Self Assessment (RCSA),
- monitoring,
- measurement,
- reporting covering areas of increased exposure to operational risk.

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 for several years. Centralization and automation introduced during recent years allowed the Bank to significantly reduce the number as well as amount of operational losses.

For a few years, the Bank has managed the operating risk using a variety of tools and techniques including chiefly the self-assessment process, check lists, limits, contingency planning, insurance, and audits.

Roles and break-down of responsibilities at different levels of the Bank's Senior Management for the operating risk have all been defined in the Operational Risk Policy, including Risk and Control Self-Assessment (RCSA) Process.

The most important include:

- Management Board is accountable for preparation and implementation of operational risk management strategy, including organization and insurance of proper operational risk management process in the entire organization. Where necessary the Management Board should introduce necessary amendments aiming at improvement of operational risk management process. Operational risk management principles and procedures should cover all Bank activities. Strategic decisions regarding bank policies, organization, assignment of roles and responsibilities, reorganizations of processes, automation and centralization are reserved for Management Board,
- Supervisory Board supervises and assesses adequacy and effectiveness of control over operational risk management,
- Each major business segment and subsidiaries must implement an operational risk process, consistent with the requirements of the Operational Risk Policy, including Risk and Control Self-Assessment (RCSA) Process,
- Risk identification, RCSA and reporting processes in main aspects are prescribed and standard across Business Units. Risk mitigation, monitoring, and measurement processes are defined by each Business Unit and may differ from Business Unit to Business Unit.

Issues, events, indicators pertaining to the operational risk are being regularly reported to the Business Risk, Control and Compliance Committees (in the Bank there are two separate Committees, one for Corporate Banking and one for Consumer Banking). All detected oversights, remedial actions, operational events and operating risk indicators are the subject of regular reports submitted with the relevant committees. At the same time, the operating risk management process quality (including the self-assessment process) in the respective organizational units of the Bank entities are the subject of inspections and assessment carried out by the internal audit.

The scope and nature of operational risk reporting and measurement systems

Reporting of operational risk data should cover:

- Results of internal and external audits,
- RCSA results,
- Key Operational Risk and key risk indicators,
- Internal operational risk events,
- COB and Information Security – updates, issues,
- Data allowing monitoring of the Bank's operational risk profile.

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

On the basis of regular monitoring, the Management Board assesses the general level of operational risk as average, typical for the scale of activity of the Bank.

Risk mitigation policies for operational risk

Control processes introduced in the Bank mitigate causes, reduce the probability of occurring the negative results of operational events (including operational losses), minimize the severity of an effect. Examples of control mechanism might include segregation of duties (maker-checker), monitoring of established limits, or employee personal trading policy pre-clearance requirements. Risk mitigation measures include as well risk transfer mechanisms (contract management/ outsourcing, insurance).

The Bank's Senior and Middle Management is responsible for implementation of additional control mechanisms if deemed required, especially in the context of compliance with Banking Law and regulations of Commission of Banking Supervision.

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. Each Business Unit must 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.

Additionally, there is periodic assessment of adequacy and effectiveness of controls which covers testing 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 review by internal audit. In case of identification of deficiency and the areas of uncontrolled risk, the management of the Business Unit is responsible for formulating a corrective action plan to resolve these deficiencies. Realization of the action plans depends on independent monitoring and control.

THE EQUITY MANAGEMENT

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

The Bank's equity amounted to PLN 5.5 bn as at 31 December 2008. Regulatory capital, which included increases and decreases set by Commission for Banking Supervision (KNB), amounted to PLN 3.3 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.

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

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

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

44. 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 Sikora - President of the Management Board, Mr. Michał H. Mrożek – Vice-President of the Management Board, Mr. Peter Rossiter - 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, the annual financial data and the comparative data presented in the "The Annual Financial Statements of Bank Handlowy w Warszawie S.A. as at 31 December 2008" were prepared consistently with the accounting standards in force and reflect the accurate, true and fair view of assets and financial position as well as the financial profit or loss of the Bank. The Annual Report on Activities of the Management Board contained in this document is a true representation of the development, achievements and situation (together with a description of the main kind risks) of the Bank in 2008.

Selection of the auditor authorized to examine financial statements

The entity authorized to examine financial statements KPMG Audyt Sp. z o.o., and auditor, reviewing "The Annual Financial Statements of Bank Handlowy w Warszawie S.A. as at 31 December 2008", was selected consistently with the legal regulations. The registered auditor met the conditions necessary for issuing an impartial and independent opinion on the review, consistently with the respective regulations of the Polish law.

Signatures of all Management Board Members

Date	Name	Position / function	Signature
12.03.2009	Sławomir Sikora	President of the Management Board	
12.03.2009	Michał H. Mrożek	Vice- President of the Management Board	
12.03.2009	Peter Rossiter	Vice- President of the Management Board	
12.03.2009	Sonia Wędrychowicz-Horbatowska	Vice- President of the Management Board	
12.03.2009	Witold Zieliński	Vice- President of the Management Board	