citi handlowy

REPORT ON ACTIVITIES
OF BANK HANDLOWY W WARSZAWIE S.A.
IN 2008

MARCH 2009

CONTENTS

I. Poland's economy in 2008

1. Main macroeconomic trends

In the course 2008 growth of Poland's economy slowed down to 4.8% YOY, from 6.7% YOY in 2007; with deceleration of investment processes the primarily contributor. Industrial production between January and December 2008 rose by an average of 3.5% YOY as growth waned in the second half of 2008. Average pay in the corporate sector rose by 10.1% YOY over the same period.

January to December 2008 inflation remained above the target set by the Monetary Policy Council reaching an average of 4.2% YOY, compared to 2.5% YOY in 2007. High food and crude prices, which began falling only in the third quarter of 2008 largely contributed to this climb of CPI. Between January to December 2008 base inflation (net of food and energy prices) reached an average of 2.3% YOY.

The rising inflation and the unrelenting double-digit growth of salaries in the economy induced the Monetary Policy Council to continue with the cycle of monetary tightening. By June 2008 the central bank's reference rate was raised by a total of 100 basis points, to 6.00% and maintained at that level until November. In November and December the monetary authorities resolved on loosening monetary policy with the aim of limiting the negative effects of the financial crisis and reduced interest rates by a total of 100 basis points, down to 5.00%.

2. Money and forex markets

Year 2008 was marked by mounting exchange rate volatility of the Polish zloty; continually stimulated by events symptomatic of the advancing global financial crisis. The first half of the year brought with it evident strengthening of the zloty. The robust economic growth, the widening gap between the domestic and the international interest rates and the investors' confidence about the zloty's continued appreciation led to the PLN-EUR exchange rate reaching the historically lowest point of PLN 3.2045.

From August 2008 onwards, under the influence of negative news of the swelling turbulence in the global financial markets, Polish currency began to lose in value systematically. The weakening of the zloty was accompanied by substantial exchange rate fluctuations driven by relatively low liquidity in the currency markets. At the end of 2008 exchange rate of the Polish currency reached PLN 2.96 to 1 U.S. dollar and PLN 4.17 to 1 euro.

The tightening monetary policy, which the Monetary Policy Council began pursuing in 2007 and continued through the first half of 2008, impacted Polish debt market. Expectations of further interest rate increases in the first half of the year led to a hike in Polish government bond yields, which began to subside in any perceptible way only by mid-October, with the prospect of the Monetary Policy Council loosening monetary policy to stimulate economic growth. In 2008 three-month WIBOR rate rose from 5.60% to 5.88%, while 5-year bond yields fell from 6.32% to 5.34%.

3. Capital market

The year 2008 proved to be the worst period on record of the Warsaw Stock Exchange (WSE). WIG, the broadest market index, registered a decline of over 51% while WIG 20, while the blue-chip index ended the year at 1,790 points (down by 48% YOY). The sectors most adversely effected by the downturn included developers (with the sector index declining by 73%) and food sector companies (down by 59% YOY). The telecommunication sector, with its index losing mere 13% (primarily owing to Telekomunikacja Polska), proved to be a relative oasis of peace.

The negative trend, which came into evidence in mid-2007, continued into the year 2008. The deepening financial crisis in the U.S. market translated into an economic slowdown in Europe (thus also in Poland), which contributed to steep declines on WSE. The substantial downward adjustments in the Warsaw bourse stock values, in turn, led to record-scale redemptions of participation units in the domestic investment funds.

The negative sentiment prevailing in the market also impacted adversely the primary offerings market. In the course of the year 33 companies were admitted to trading in the market's main floor (31 Polish and 2 foreign ones). Combined value of these initial public offerings exceeded PLN 9.3 billion while value of new issue shares reached PLN 3.7 billion. The market events of significance included IPOs of two privatised companies (Zakłady Azotowe Tarnów and Enea), which took place in the second half of the year.

By the end of the year 2008 the number of companies traded on WSE increased to 374, which, however, did not translate into higher market capitalisation. The prevailing bearish market conditions caused all the companies traded there to lose 57% of their value; down to PLN 465.1 billion (57% of which represented capital of local companies).

The alternative New Connect market has strengthened over the past 12 months as it welcomed 60 new companies (which at present total 84), in spite of which its capitalisation rose by mere 17%; to reach PLN 1.4 billion. Its trading volume in 2008 exceeded PLN 826 million (compared to PLN 303 million in 2007).

The Warsaw Stock Exchange (WSE) equity indices, as at 31 December 2008

Index	2008	Change (%)	2007	Change (%)	2006
WIG	27,228.64	(51.1%)	55,648.54	10.4%	50,411.82
WIG-PL	27,167.25	(50.6%)	55,011.93	9.2%	50,361.39
WIG20	1,789.73	(48.2%)	3,456.05	5.2%	3,285.49
mWIG40	1,511.27	(62.5%)	4,028.37	7.9%	3,733.26
sWIG80	6,852.79	(56.9%)	15,917.92	25.2%	12,716.59
Sector sub-indices					
WIG-Banks	4,390.90	(44.8%)	7,949.94	12.2%	7,085.84
WIG-Construction	4,329.98	(50.1%)	8,673.57	12.6%	7,703.50
WIG-Chemicals**	1,823.63	-	-	-	-
WIG-Developers*	1,288.65	(73.1%)	4,788.89	-	-
WIG-IT	938.77	(46.8%)	1,764.67	0.5%	1,756.58
WIG-Media	2,580.80	(47.4%)	4,911.01	22.4%	4,012.97
WIG-Fuel industry	1,889.46	(46.8%)	3,548.44	12.7%	3,149.10
WIG-Food industry	1,354.52	(59.2%)	3,317.96	(13.4%)	3,832.40
WIG-Telecommunications	1,107.33	(12.8%)	1,270.21	(5.2%)	1,340.01

** Sub-index calculated since 15 June 2007*

*** Sub-index calculated since 19 September 2008*

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

Volumes of trade in shares, bonds and derivative instruments on WSE, as at 31 December 2008

	2008	Change (%)	2007	Change (%)	2006
Shares (PLN m)	320,712	(30.6%)	461,917	42.6%	323,920
Bonds (PLN m)	4,691	43.7%	3,264	(40.5%)	5,488
Futures and options contracts ('000 units)	12,235	29.1%	9,478	48.4%	6,386

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

Investment activity in the equities market evidently waned in the course of 2008. Combined volume of trading in these instruments reached near PLN 321 billion (comparable to that in 2006), which represented a 30.6% decline compared to 2007.

Reverse trends occurred in the fixed income market. Year 2008 closed with evidence that bond trading grew by 44% compared to 2007 reaching PLN 4.69 billion.
The futures and options market proved to be slower than in 2007 in terms of trading volumes, however, the 12.2 million (or 29% YOY) increment can be deemed robust.

4. Banking sector

Year 2008 was a period of turmoil in the global markets financial, in spite of which Polish banking sector managed to maintain a high rate growth, reached record results and high asset expansion rate, the value of which at the end of 2008 was 31% higher than at the end of 2007; exceeding PLN 1 trillion. Its combined net profit reached a record high level of nearly PLN 15 billion exceeding that of 2007 by 8%. In the year past revenue of the sector rose by 18%, as costs of the same rose by 13%. As a result, the sector's cost-income ratio improved by 2 percentage points: reaching 55%. The sector's revenue growth was largely achieved through dynamic growth in net interest income and net forex gains, which were 23% and 84% respectively. Net impairment losses had a negative impact on net income of the banking sector: these reached PLN 4.7 billion, or were 172% higher than in 2007. In spite of them being otherwise solid in annual terms, sector results evidently declined in the second half of the year, and in the final quarter particularly.

In the sector's balance sheet, in 2008 over 2007, corporate loans grew at a rate of 31% while corporate deposits increased by 4%. Volume of loans to private individuals grew at a higher rate, of the order of 50%, this significantly impacted by mortgage loans growing at the rate of 64%, their volume representing 63% of total loans to private individuals at the end 2008. Deposits from private individuals rose at a rate of 29%, which represented a substantial change over the previous years, in which growth was of single-digit scale. At present retail customers seek to invest their savings into safe instruments, which bank deposits are perceived to be. In the course of 2008 the ratio of loans to non-financial sector to deposits of the same sector increased from 99% to 116% while the financing gap (the difference between the volume of deposits and loans) rose to nearly PLN 83 billion.

II. Selected Financial Data of the Bank

1. Summary financial data of the Bank

PLN m	**2008**	**2007**
Total assets	41,245.4	38,008.4
Equity	5,539.5	5,476.1
Loans*	12,486.2	11,398.4
Deposits*	19,910.2	19,758.0
Net profit	645.7	808.2
Earnings per ordinary share (in PLN)	4.94	6.19
Dividend per ordinary share (in PLN)**	-	4.75
Capital adequacy ratio	11.7%	12.1%

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

** *At execution of these financial statements, the Bank Management Board did not adopt a decision proposing a dividend payment amount out of the year 2008 net profit.*

2. *Financial result of the Bank for the year ended 31 December 2008*

2.1 *Income Statement*

The Bank's net profit for the year 2008 reached PLN 645.7 million and was PLN 162.5 million or 20.1% lower than a year earlier. Its profit before taxation for the year 2008 reached PLN 798.0 million, which means a decline of PLN 212.1 million or 21.0% compared to a year earlier.
In 2008 the Bank's operating income – which includes net interest and commission income, dividend income, net gains/losses on financial instruments held for trading and on their revaluation, net gains/losses on investment debt securities and on equities and net other operating gains/losses – was PLN 17.2 million or 0.7% lower than a year earlier.
Achieved revenue was accompanies by a decrease in costs of banking activity, overheads and general administrative expenses and depreciation: overall by PLN 29.3 million or 2.0% over 2007.
In 2008 net impairment of financial assets rose by PLN 143.7 million (while a year earlier impairment of financial assets went down by PLN 83.1 million), which had a negative impact on net profit.

Selected income statement items

			Change	
PLN '000	**2008**	**2007**	**PLN '000**	**%**
Net interest income	1,314,963	1,170,039	144,924	12.4%
Net commission income	591,807	694,249	(102,442)	(14.8%)
Dividend income	66,216	27,222	38,994	143.2%
Net gains on financial instruments held for trading and on revaluation	278,191	416,834	(138,643)	(33.3%)
Net gains on investment debt securities	57,184	30,086	27,098	90.1%
Net gains on investment equity securities	-	10,454	(10,454)	(100.0%)
Net other operating income	85,893	62,532	23,361	37.4%
Total income	**2,394,254**	**2,411,416**	**(17,162)**	**(0.7%)**
Overheads and general administrative expenses and depreciation	(1,455,760)	(1,485,103)	29,343	2.0%
Overheads and general administrative expenses	(1,361,042)	(1,377,561)	16,519	1.2%
Depreciation/amortisation of tangible and intangible fixed assets	(94,718)	(107,542)	12,824	11.9%
Net gains on sale of fixed assets	3,173	598	2,575	430.6%
Net change in impairment losses	(143,713)	83,113	(226,826)	(272.9%)
Profit before taxation	**797,954**	**1,010,024**	**(212,070)**	**(21.0%)**
Income tax expense	**(152,290)**	**(201,856)**	**49,566**	**24.6%**
Net profit	**645,664**	**808,168**	**(162,504)**	**(20.1%)**

2.1.1 Revenue

Operating income in 2008 reached PLN 2,394.3 million and was 0.7% lower than operating income of 2007 (PLN 2,411.4 million), a combined effect of the following primary factors:

- PLN 138.6 million or 33.3% decline in net gains on financial instruments held for trading and on their revaluation: the Bank pursued active marketing of the products to its clients and customers, however, net gains on financial instruments held for trading and on revaluation take into account negative adjustment of fx options in the amount of PLN 261 million (average duration of the options portfolio amounts nearly 9 months),
- PLN 144.9 million or 12.4% net interest income growth, mainly resulting from an increase in non-financial sector loans and advances: mainly from retail, in this credit card borrowing,
- PLN 102.4 million or 14.8% net commission income contraction, primarily in the Consumer Bank's commissions on investment and insurance products and the Commercial Bank's commissions on custody and depositary services,
- PLN 39.0 million or 143% growth in dividend income,

- PLN 27.1 million or 90% growth in net gains on investment debt securities: the effect of active portfolio management strategy and of successful exploitation of the favourable bond markets conditions.

2.1.2 Expense

PLN '000	2008	2007	Change PLN '000	Change %
Personnel costs	**673,210**	**683,447**	**(10,237)**	**(1.5%)**
General administrative expenses, among others:	**687,832**	**694,114**	**(6,282)**	**(0.9%)**
Telecommunication fees and IT hardware	158,814	179,858	(21,044)	(11.7%)
Building maintenance and rent	113,991	108,313	5,678	5.2%
Advisory, audit, consulting and other external services	146,610	140,486	6,124	4.4%
Total overheads	**1,361,042**	**1,377,561**	**(16,519)**	**(1.2%)**
Depreciation	94,718	107,542	(12,824)	(11.9%)
Total expenses	**1,455,760**	**1,485,103**	**(29,343)**	**(2.0%)**

Throughout the year 2008 the Bank continued to pursue its cost discipline policy. Compared to 2007 expense was reduced by 2.0% or PLN 29.3 million. Depreciation and personnel costs in the Commercial Bank fell, primarily due to lower personnel, technology, advertising and marketing costs. At the same time costs in the Consumer Bank rose, primarily driven by increased spent on customer acquisition and portfolio retention, and on technology and development of the Bank's IT systems.

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

Net Impairment Losses

PLN '000	2008	2007	Change PLN '000	Change %
Net impairment losses incurred but not reported (IBNR)	(16,022)	17,823	(33,845)	(189.9%)
Net impairment losses on loans and off-balance sheet liabilities	(124,850)	47,101	(171,951)	(365.1%)
accounted for individually	(54,385)	76,725	(131,110)	(170.9%)
accounted for collectively, on a portfolio basis	(70,465)	(29,624)	(40,841)	(137.9%)
Impairment of investments	(2,841)	18,074	(20,915)	(115.7%)
Other	-	115	(115)	(100.0%)
Total change in impairment losses	**(143,713)**	**83,113**	**(226,826)**	**(272.9%)**

Total impairment losses amounted to PLN 143.7 million at the end of 2008 (compared to PLN 83.1 million releases of impairment losses in 2007) was a result of deteriorating ratio of released loan loss provisions to new provisions formed on account on increased lending risk in the Commercial Bank. This increased risk reflected deteriorating financial condition of the Bank's clients in the individually accounted for portfolio, wherever timely debt service was under threat. In the Consumer Bank the increased impairment losses were precipitated by the growing loan and credit cards portfolios as well as the growing share of irregularly serviced receivables.

2.1.4 Ratio analysis

Profitability and cost efficiency ratios

	2008	2007
Return on equity (ROE)*	12.9%	16.7%
Return on assets (ROA)**	1.7%	2.1%
Net interest margin (NIM)***	3.5%	3.1%
Earnings per share in PLN	4.94	6.19
Cost/Income****	60.8%	61.6%

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

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

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

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

Most of the financial indicators presented above confirm certain deterioration in efficiency and effectiveness having occurred in 2008: ROE fell by 3.8 p.p. while ROA by 0.4 p.p.

On the other hand, the Bank achieved further cost effectiveness improvements: cost-income ratio declined by 0.8p.p. Net interest margin increased as well by 0.4 p.p.

As at 31 December 2008, total assets of the Bank reached PLN 41,245.4 million, which were 8.5% higher than at the end of 2007.

Balance Sheet

	As at		Change	
PLN '000	31.12.2008	31.12.2007	PLN '000	%
ASSETS				
Cash and balances with central bank	3,530,977	3,321,503	209,474	6.3%
Financial assets held for trading	7,884,536	5,132,265	2,752,271	53.6%
Debt securities available-for-sale	10,814,828	6,467,638	4,347,190	67.2%
Equity investments	291,385	302,321	(10,936)	(3.6%)
Loans and advances	16,322,214	20,309,005	(3,986,791)	(19.6%)
to financial sector	3,836,034	8,910,556	(5,074,522)	(56.9%)
to non-financial sector	12,486,180	11,398,449	1,087,731	9.5%
Property and equipment	540,200	601,088	(60,888)	(10.1%)
land, buildings and equipment	521,892	576,060	(54,168)	(9.4%)
investment property	18,308	25,028	(6,720)	(26.8%)
Intangible assets	1,279,547	1,282,811	(3,264)	(0.3%)
Deferred income tax assets	325,563	368,497	(42,934)	(11.7%)
Other assets	220,854	210,588	10,266	4.9%
Non-current assets available-for-sale	35,267	12,645	22,622	178.9%
Total assets	**41,245,371**	**38,008,361**	**3,237,010**	**8.5%**
LIABILITIES				
Financial liabilities held for trading	6,888,344	4,373,146	2,515,198	57.5%
Financial liabilities valued at amortized cost	28,292,118	27,443,267	848,851	3.1%
Deposits from	27,904,792	27,001,251	903,541	3.3%
financial sector	7,994,592	7,243,219	751,373	10.4%
non-financial sector	19,910,200	19,758,032	152,168	0.8%
other liabilities	387,326	442,016	(54,690)	(12.4%)
Provisions	24,552	35,331	(10,779)	(30.5%)

PLN '000	As at 31.12.2008	31.12.2007	Change PLN '000	%
Income tax liabilities	-	93,351	(93,351)	(100.0%)
Other liabilities	500,907	587,188	(86,281)	(14.7%)
Total liabilities	**35,705,921**	**32,532,283**	**3,173,638**	**9.8%**
EQUITY				
Issued capital	522,638	522,638	-	0.0%
Share premium	2,944,585	2,944,585	-	0.0%
Revaluation reserve	(144,110)	(182,451)	38,341	21.0%
Other reserves	1,570,673	1,382,238	188,435	13.6%
Retained earnings	645,664	809,068	(163,404)	(20.2%)
Total equity	**5,539,450**	**5,476,078**	**63,372**	**1.2%**
Total liabilities and equity	**41,245,371**	**38,008,361**	**3,237,010**	**8.5%**

2.1.5 Assets

Gross loan receivables*

PLN '000	As at 31.12.2008	31.12.2007	Change PLN '000	%
Banks and other monetary financial institutions	3,021,723	8,268,115	(5,246,392)	(63.5%)
Non-banking financial institutions	891,935	718,930	173,005	24.1%
Non-financial sector entities	8,009,289	7,891,046	118,243	1.5%
Individuals	5,774,280	4,766,179	1,008,101	21.2%
Government units	71,597	60,464	11,133	18.4%
Other receivables	10,771	7,848	2,923	37.2%
Total	**17,779,595**	**21,712,582**	**(3,932,987)**	**(18.1%)**

* *Receivables with payable interest*

In 2008 loan receivables of the Bank declined by 18.1% compared to a year earlier and reached PLN 17,779.6 million. At the end of the year the portfolio of loans granted to business entities reached PLN 8,009.3, which represented an increase of 1.5% over the balance as at the end of 2007. At the same time the portfolio of loans granted to private individuals reached PLN 5,774.3 million, which represented an increase of 21.2%. The Bank registered substantial decline totalling PLN 5,246.4 million in the balance of receivables from banks and other monetary financial institutions.

The debt securities portfolio increased in 2008 by PLN 4,471.4 million or 58.9% and thus remained the second largest constituent of the Bank's assets.

Debt securities portfolio

PLN '000	As at 31.12.2008	31.12.2007	Change PLN '000	%
Treasury bonds	7,802,405	6,849,596	952,809	13.9%
NBP bonds	383,665	377,428	6,237	1.7%
Treasury bills	1,826,120	69,035	1,757,085	2545.2%
Certificates of deposit and banks' bonds	26,065	85,883	(59,818)	(69.7%)
Issued by non-financial entities	21,929	50,771	(28,842)	(56.8%)
Issued by financial entities	3,185	158,981	(155,796)	(98.0%)
NBP bills	1,999,722	-	1,999,722	-
Total	**12,063,091**	**7,591,694**	**4,471,397**	**58.9%**

2.1.6 Liabilities

Financial liabilities valued at amortised cost

	As at		Change	
PLN '000	**31.12.2008**	**31.12.2007**	**PLN '000**	**%**
Due to financial sector	**7,990,337**	**7,202,342**	**787,995**	**10.9%**
- banks and other monetary financial institutions	3,334,428	3,893,554	(559,126)	(14.4%)
- due to non-banking financial sector	4,655,909	3,308,788	1,347,121	40.7%
Due to non-financial sector including:	**19,883,284**	**19,745,256**	**138,028**	**0.7%**
- corporate clients	11,784,740	13,133,986	(1,349,246)	(10.3%)
- individuals	5,457,307	5,161,621	295,686	5.7%
Other liabilities including accrued interest:	**418,497**	**495,669**	**(77,172)**	**(15.6%)**
Total	**28,292,118**	**27,443,267**	**848,851**	**3.1%**

The key item funding the Bank's assets are liabilities due to non-financial sector clients. Compared with the end of 2007 strongest growth occurred in deposits of non-banking financial sector entities (by PLN 1,347.1 million or 40.7%) and in liabilities due to non-financial sector individual customers (by PLN 295.7 million or 5.7%).

2.1.7 Sources and uses of funds

PLN '000

Source of funds	**31.12.2008**	**31.12.2007**
Funds of banks and other monetary financial institutions	3,493,587	3,937,146
Funds of customers and government units	24,798,531	23,506,121
Own funds with net income	5,539,450	5,476,078
Other external funds	7,413,803	5,089,016
Total source of funds	**41,245,371**	**38,008,361**

Use of funds	**31.12.2008**	**31.12.2007**
Receivables from banks and other monetary financial institutions	3,017,685	8,266,228
Receivables from customers and government units	13,304,529	12,042,777
Securities, shares and other financial assets	18,990,749	11,902,224
Other uses of funds	5,932,408	5,797,132
Total use of funds	**41,245,371**	**38,008,361**

2.2 Equity and capital adequacy ratio

Compared to 2007 equity in the year 2008 increased (by PLN 225.9 million or 4.8%), this primarily due to increase of supplementary capital by PLN 188.4 million.

Equity

	As at		Change	
PLN '000	**31.12.2008**	**31.12.2007**	**PLN '000**	**%**
Issued capital	522,638	522,638	-	0.0%
Share premium	2,944,585	2,944,585	-	0.0%
Supplementary capital	1,180,673	992,238	188,435	19.0%
Revaluation reserve	(144,110)	(182,451)	38,341	21.0%
General risk reserve	390,000	390,000	-	0.0%
Other equity	-	900	(900)	(100.0%)
Total equity	**4,893,786**	**4,667,910**	**225,876**	**4.8%**

The Bank's capital is fully sufficient to ensure financial security to the institution and the deposits it accepts, and to ensure its financial growth.

Below table presents financial data for capital adequacy ratio calculation in accordance with the rules set out by resolution No. 1/2007 of the Banking Supervision Commission dated 13 March 2007 on the Scope and Detailed Rules of Determining Capital Requirements for Coverage of Respective Types of Risks (...) (Official Journal of NBP No. 2, item 3), which entered into force as of 1 April 2007. Pursuant to paragraph 14 point 3 of the abovementioned resolution, as at 31 December 2007, the Bank reduced the entire capital requirement to cover operational risk.

Capital adequacy ratio

PLN '000		**31.12.2008**	**31.12.2007**
I	**Own funds, as stated on the balance sheet, including:**	**3,339,326**	**3,111,326**
	less:		
	- interests in subordinated financial entities	270,857	272,279
	- intangible assets, including:	1,279,547	1,282,811
	goodwill	*1,245,976*	*1,245,976*
II	**Risk-weighted assets and off-balance sheet liabilities (bank portfolio)**	**18,144,125**	**16,450,740**
III	**Total capital requirement, including:**	**2,285,022**	**2,063,406**
	- capital requirement to cover credit risk (II*8%)	1,451,530	1,316,059
	- capital requirement to cover counterparty risk	272,222	123,926
	- capital requirement to cover excess exposure concentration and large exposures limit	88,214	362,264
	- total capital requirements to cover market risk	133,640	252,850
	- capital requirement to cover operational risk	327,882	-
	- other capital requirements	11,534	8,307
	Capital adequacy ratio (I/III*12.5)	**11.69%**	**12.06%**

As at 31 December 2008, capital adequacy ratio of the Bank stood at 11.69%, down 0.37 percentage points from its value as at the end of 2007. This resulted mainly from an increase in operational risk and also credit risk and counterparty risk related additional capital requirements. The increase was partially compensated by decrease in excess exposure concentration and large exposure limit and market risk requirements.

III. Activities of Bank Handlowy w Warszawie S.A. in 2008

1. Lending and other risk exposures

1.1 Lending

The Bank's lending policy is based on active portfolio management and precisely specified target markets, designed to facilitate exposure and credit risk analysis within a given industry of each client. In addition, individual borrowers are continuously monitored so that any signs of deterioration in creditworthiness can be detected promptly and appropriate corrective measures untaken as needed. In the year 2008 the Bank continued to optimise its lending process and to adjust its loan offer to the needs of its clients and customers and to the current market conditions. The portfolio of receivables from individual customers is managed with support of financial models, which provide for risk and profitability of the respective loans category groups in the portfolio. The credit risk and scorecard assessment process draws on information of the Credit Information Bureau. Between 2006 and 2008 the Bank implemented scorecard assessment models for portfolios of cash loans and unsecured credit lines.

Lending to non-bank customers, gross

	As at		Change	
PLN '000	**31.12.2008**	**31.12.2007**	**PLN '000**	**%**
Loans in PLN	12,760,055	12,300,972	459,083	3.7%
Loans in foreign currency	1,900,943	1,143,496	757,447	66.2%
Total	**14,660,998**	**13,444,468**	**1,216,530**	**9.0%**
Loans to non-financial sector	13,794,340	12,665,074	1,129,266	8.9%
Loans to financial sector	795,061	718,930	76,131	10.6%
Loans to public sector	71,597	60,464	11,133	18.4%
Total	**14,660,998**	**13,444,468**	**1,216,530**	**9.0%**
Non-financial corporates	8,009,289	7,891,047	118,242	1.5%
Individuals	5,774,280	4,766,179	1,008,101	21.2%
Non-bank financial entities	795,061	718,930	76,131	10.6%
Public entities	71,597	60,464	11,133	18.4%
Other non-financial receivables	10,771	7,848	2,923	37.2%
Total	**14,660,998**	**13,444,468**	**1,216,530**	**9.0%**

As at 31 December 2008 gross credit exposure to the non-bank customers sector amounted to PLN 14,661 million, representing an increase of 9.0% compared to 31 December 2007. The largest part of that credit portfolio, being loans to non-financial corporates (54.6%), increased by 1.5%. Loans to individuals grew in comparison with the end of 2007 by 21.2% to PLN 5,774.3 million. Their share in total gross loan receivables increased by 4 p.p.. The growth of the loans to individuals portfolio came from development of the offer addressed to retail customers and the intensification of the promotional and sales activity.

As at the end of December 2008 the currency structure of loans outstanding changed slightly as compared with the end of 2007. The share of foreign currency loans, which in December 2007 stood at 8.5%, rose to 13.0% by December 2007. Worth underscoring is the fact that the Bank grants foreign currency loans to clients and customers who have foreign currency cash flows or to the entities which, in the Bank's opinion, are able to predict or absorb the currency risk without significant risk to their financial position.

The Bank monitors the concentration of its exposures on a regular basis, seeking to avoid a situation where the portfolio is exposed to a limited group of clients. As at 31 December 2008, the Bank's portfolio exposure to non-bank entities did not exceed the exposure concentration limits required by the law.

Concentration of exposures to non-financial borrowers

PLN '000	**31.12.2008**			**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
CLIENT 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 10	**1,705,356**	**2,530,001**	**4,235,357**	**1,244,481**	**2,301,939**	**3,546,420**

* *Excluding equity and other securities exposures*

1.2 Loan portfolio quality

All of the Bank's receivables are attributed to two portfolios depending on the existing risk of their impairment: the portfolio of receivables not at risk of impairment and the portfolio of receivables at risk of impairment. Depending on the materiality of the receivables, the portfolio at risk of impairment is then classified into assets accounted for individually or collectively.

As at 31 December 2008, the share of loans at risk of impairment constituted 12.0% of total portfolio while as at 31 December 2007 it constituted 11.95% of total portfolio. The slight increase came primarily from the classifiable portfolio accounted for individually.

Loans to non-financial sector by risk of impairment, gross

	As at			
PLN '000	**31.12.2008**		**31.12.2007**	
Loans to non-banking sector, gross		**% share**		**% share**
Not at risk of impairment	12,900,624	88.0%	11,837,219	88.0%
At risk of impairment	1,760,374	12.0%	1,607,249	12.0%
accounted for individually	1,272,595	8.7%	1,156,383	8.6%
accounted for collectively, on a portfolio basis	487,779	3.3%	450,866	3.4%
Total loans to non-banking sector, gross	**14,660,998**	**100.0%**	**13,444,468**	**100.0%**

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

As at 31 December 2008 the impairment of the portfolio was PLN 1,453.3 million, which represented slight increase from PLN 1,401.7 million at the end of December 2007. The highest increase in impairment losses, of PLN 27 million, occurred in the portfolio accounted for individually, which represented a 2.7% growth compared to December 2007. Provision coverage index of the Bank fell from 10.4% in December 2007 to 9.9% in December 2008, a result of a slight increase in total impairment losses trailing increment in loan receivables by over PLN 1.2 billion over the same period.

Impairment of the non-bank loan portfolio

	As at		Change	
PLN '000	**31.12.2008**	**31.12.2007**	**PLN '000**	**%**
Impairment due to incurred but not reported (IBNR) losses	69,116	48,964	20,152	41.2%
Impairment of receivables	1,384,225	1,352,727	31,498	2.3%
accounted for individually	1,018,208	991,210	26,998	2.7%
accounted for collectively, on a portfolio basis	366,017	361,517	4,500	1.2%
Total impairment	**1,453,341**	**1,401,691**	**51,650**	**3.7%**
Total provision coverage index	9.9%	10.4%		
Provision coverage index for receivables at risk*	82.6%	87.2%		

** Including IBNR impairment*

1.3 Off-balance sheet exposures

As at 31 December 2008 off-balance sheet exposures amounted to PLN 13,941.9 million, representing an increase of 1.8% as compared with 31 December 2007. The largest change related to guarantees, which rose by PLN 189.7 million or 8.8%. Committed loans were the most prominent item in off-balance sheet contingent liabilities (81.5%); representing committed, but currently unutilised credit lines and current account overdraft facilities.

Off-balance sheet exposures

	As at		Change	
PLN '000	**31.12.2008**	**31.12.2007**	**PLN '000**	**%**
Guarantee	2,349,972	2,160,288	189,684	8.8%
Letters of credit issued	189,236	151,186	38,050	25.2%
Third-party confirmed letters of credit	10,141	13,131	(2,990)	(22.8%)
Committed loans	11,363,091	11,204,214	158,877	1.4%
Underwriting	29,500	172,000	(142,500)	(82.8%)
Total	**13,941,940**	**13,700,819**	**241,121**	**1.8%**
Provisions for off-balance sheet liabilities	8,520	13,574	(5,054)	(37.2%)
Provision coverage index	0.14%	0.10%		

As at 31 December 2008 total amount of collateral established on assets pr held on accounts of the Bank's borrowers amounted to PLN 4,597 million whereas as at 31 December 2007 this stood at PLN 3,980 million.

In the year 2008 the Bank issued 10,703 enforcement titles amounting to total of PLN 154.8 million while in 2007 the enforcement titles numbered 4,869 and stood as PLN 60.7 million.

2. External funding

As at 31 December 2008 overall external funds held by the Bank reached PLN 28,292.1 million, which was PLN 848.9 million or 3.1% higher than at the end of the year 2007. The main impact on this change in the sources of external funding for the Bank's operations came from liabilities to financial sector, which grew by PLN 751.4 million or 10.4%; primarily through deposit growth.

External funding

	As at		Change	
PLN '000	**31.12.2008**	**31.12.2007**	**PLN '000**	**%**
Due to financial sector	**7,994,592**	**7,243,219**	**751,373**	**10.4%**
Funds on current accounts, including:	2,039,931	2,369,149	(329,218)	(13.9%)
- funds on current accounts of banks and other monetary financial institutions	*1,212,270*	*2,188,118*	*(975,848)*	*(44.6%)*
Deposits, including:	5,950,406	4,833,193	1,117,213	23.1%
- deposits of banks and other monetary financial institutions	*2,122,158*	*1,705,436*	*416,722*	*24.4%*
Accrued interest	4,255	40,877	(36,622)	(89.6%)
Due to non-financial sector	**19,910,200**	**19,758,032**	**152,168**	**0.8%**
Funds on current accounts, including:	7,454,498	8,010,795	(556,297)	(6.9%)
- corporate clients	*3,329,289*	*3,933,764*	*(604,475)*	*(15.4%)*
- individuals	*3,166,196*	*3,466,163*	*(299,967)*	*(8.7%)*
- budgetary units	*611,348*	*224,502*	*386,846*	*172.3%*
Deposits, including:	12,428,786	11,734,461	694,325	5.9%
- corporate clients	*8,455,451*	*9,200,222*	*(744,771)*	*(8.1%)*
- individuals	*2,291,111*	*1,695,458*	*595,653*	*35.1%*
- budgetary units	*1,171,453*	*332,744*	*838,709*	*252.1%*
Accrued interest	26,916	12,776	14,140	110.7%
Other liabilities, including:	**387,326**	**442,016**	**(54,690)**	**(12.4%)**
Loans received	153,466	135,044	18,422	13.6%
Sell-Buy-Backs	-	69,155	(69,155)	(100.0%)
Accrued interest	3,932	3,009	923	30.7%
Total external funding	**28,292,118**	**27,443,267**	**848,851**	**3.1%**

Within the liabilities towards non-financial sector category the highest growth occurred in term deposits of budgetary units: by PLN 838.7 million or 252.1%. Term deposits of individuals also grew substantially: by PLN 595.7 million or 35.1%.

Liabilities to non-bank customers and clients

	As at		Change	
PLN '000	**31.12.2008**	**31.12.2007**	**PLN '000**	**%**
Liabilities towards:				
Individuals	5,513,704	5,193,920	319,784	6.2%
Non-financial economic entities	12,288,910	13,757,808	(1,468,898)	(10.7%)
Non-profit institutions	451,278	374,503	76,775	20.5%
Non-bank financial institutions	4,654,258	3,440,062	1,214,196	35.3%
Public sector	1,784,507	557,377	1,227,130	220.2%
Other liabilities	73,070	94,215	(21,145)	(22.4%)
Total	**24,765,727**	**23,417,885**	**1,347,842**	**5.8%**
PLN	20,623,467	18,706,250	1,917,217	10.2%
Foreign currency	4,142,260	4,711,635	(569,375)	(12.1%)
Total	**24,765,727**	**23,417,885**	**1,347,842**	**5.8%**

3. *Corporate and Investment Banking*

3.1 *Transaction services*

The Bank offers comprehensive, differentiated and modern products in the area of trade and transaction services to corporate clients. In parallel with the traditional banking services, such as current accounts, domestic and international money transfers, accepting deposits, granting overdrafts, the Bank offers state-of-the-art solutions in liquidity management (Consolidated Account, Cash Pool), mass payments and receivables management (Speedcollect, Direct Debit, Unikasa). The Bank has also broadened extensively its product offer and carried out acquisition of customers in the scope of more sophisticated transaction services, including electronic and web-based banking solutions.

The Bank is a leader in a number of segments of the cash management products market. It holds 70% of the Polish prepaid cards market, 37% of the direct debit market. In many fields the Bank's product innovations define the trend for future market development: the MicroPayments product had no competitors at the time of their market launch and the actual (no reverse bookings) cash pooling's novel structure was a pioneering proposition in the Polish market. The Bank's activities in the field of cash management have consistently met positive market response. The Polish Bank Association awarded the Bank the distinction of Poland's SEPA Leader 2008 while its Reserved Account was honoured the Europrodukt in a contest organised under the auspices of Poland's Ministry of Economy and the Polish Agency for Enterprise Development.

The Bank complements its cash management offer with trade finance products, the key elements of which include factoring and the more sophisticated products which support the Bank's clients in efficient management of working capital. The Bank is also a major player in the foreign trade market; offering such transaction security instruments as export and import letters of credit and guarantees.

Other important components of the transactional banking offer are the custody and depositary services. The Bank addresses its custody services to foreign institutional investors and its depositary bank services to domestic financial entities, particularly pension funds, investment funds and investing insurance funds. The Bank has maintained positions of leadership in this market segment for years: its depositary banking market share exceeds 69% in the case of open pension funds (in asset value terms) and stands at close to 29% in the case of investment funds.

3.1.1 Transaction servicing

a) Cash management products

- *Reserved Account*

Reserved Account earned recognition as a prestigious Europrodukt, a first-rate product promotion, which has harmonised perfectly with the Bank's multifaceted Reserved Account promotion. This included dissemination of news about the service in the daily press of national circulation. One incontestable merit of Reserved Account, which the marketing campaign underscored, is its transaction risk reducing benefit. In a Reserved Account structure the Bank protects the interests of the respective transaction parties. A Reserved Account agreement, which involves three parties – the supplier, the buyer and the Bank – forms the basis for settlement of transactions on terms established by the same while the Bank actually executes the agreements. The solution is applicable under specific circumstances, in which funds designated for execution of the transaction need to remain under strict control and be used consistently with their contractual allocation agreed between the parties. Reserved Account secured multiple transactions, including some of the largest ones in the market, involving company takeovers, property acquisitions and FX transactions. The largest of those reached nearly PLN 1 billion.

b) Liquidity management products

The Bank is a leading provider of corporate liquidity management solutions in the Polish banking market. It has amassed over ten years of experience in offering solutions of that type and its clients perceive it as a reliable and credible partner. Many local and international capital groups committed management of their cash pooling structures to it.

In 2008 the Bank expanded its offer to include two types of actual cash pooling: cash pooling with reversal of the consolidating bookings on the following business day and a solution without the reverse booking, a pioneering one in the Polish market. The Ministry of Finance confirmed the Bank's position on tax treatment of that new product. Having secured this official positive decision, the Bank has been able to offer the new solution to its clients. The advantage of the actual over the virtual cash pooling is that the earlier involved actual consolidation of funds of the entire capital group to a single bank account. Fund consolidation facilitates more effective management of cash flows throughout the capital group. Funds are collected on a designated account, facilitating financial management substantially. Liquidity management structures permit activation of otherwise idle funds available within a group of related companies and help minimise borrowing needs, thus reducing debt service costs. Solutions of that type are of importance, particularly under conditions of credit restrictions prevailing in the financial markets. Liquidity management products allow companies to minimise bank debt and permit effective utilisation of funds, without the risk of losing the ability to service current obligations. The Bank benefits by being able to employment its assets is a smaller measure. Moreover, handling of a cash pooling structure for a client who had not previously used the Bank's services can subsequently develop into fruitful collaboration in other areas.

c) Electronic Banking

In 2008 the Bank continued to collaborate with the largest suppliers of Enterprise Resource Planning (ERP) systems in Poland. As a result it has improved compatibility between the financial and accounting systems its clients use and its CitiDirect electronic banking platform. This has facilitated distribution of the platform among potential clients and automation of the order submission process.
It is expected that the initiative aimed at enabling automation of the order submission process is going to facilitate in a substantial way distribution of the platform among potential clients.

In 2008 the Bank activated 1,200 clients in the CitiDirect electronic banking system. As a standard, activation in the system takes 48 hours from the client signing a relevant agreement. Top quality of service and of customer satisfaction is the Bank's priority. Rapid activation of the electronic banking systems is an important element of achieving those objectives.

At the end of 2008 the number of corporate clients activated in the CitiDirect electronic banking system reached nearly 9,500. Compared to the score at the end of 2007, that number rose by approximately 13%.

The CitiDirect electronic banking system processed a total of over 23 million transactions, which was over 2.5 million more than in 2007.
The scale of bank statements delivered to clients in the electronic form only remains high having presently reached approximately 86%.

d) Payments and receivables

- *Unikasa*

Unikasa is a modern product that facilitates servicing of the Bank customers' payables and allows payers settlement of their bills for products and services in the most frequently visited locations, such as hyper- and supermarket chains, petrol stations and the Bank's Customer Service Points. In 2008 the Bank was able to increase the number of the Unikasa Payment Processing Network locations as it implemented a new business model. Its partners have the choice of establishing payment network outlets under their proprietary brands (White Label) or the Unikasa Partner brand. With this new approach the Bank is now able to start up the Unikasa service points in smaller retail centres. In 2008 the initiative led to establishment of about 100 new Unikasa Partner branded agency outlets.

In parallel to rollout of new service outlets, the Bank commenced work aimed at optimising the fixed operating costs of the Unikasa network and eliminating its unprofitable distribution channels.

Unikasa is a well recognised brand of the mass payments market. In 2008 Bank continued to promote the network as fast and safe method of paying household bills. The Bank organised a series of information and marketing campaign promoting the Unikasa network. The most extensive of these was the Great Unikasa Lottery conducted in the first half of the year. In 2008 the base of invoice issuers who accept settlements via the Unikasa network was expanded to include insurance and media companies.

- *Direct Debit*

The Bank is a leader in Polish direct debit market, with a 37% market share.

In 2008 the Bank launched Comfort Direct Debit, a new product. This new solution represents a functional expansion of the Bank's current offer to include mobile technology, which involves notification of payers by their creditors of any approaching Direct Debit payment dates in the form of SMS messages. At reception of relevant notice, the payer can authorise or postpone execution of their Direct Debit by sending appropriate response message. The new service is highly consistent with the Bank's strategy of launching mobile payment products.

- *SpeedCollect*

In 2008 SpeedCollect was expanded to include a new functionality. Previously the product supported only domestic mass payments, but as of 2008 the Bank is able to settle mass payments in currencies. This applies to both oversees payments and internal domestic settlements in foreign currencies.

- *Electronic Postal Money Transfers*

Electronic Postal Money Transfers are a product addressed to corporate clients transferring funds in cash form to private individuals. In the year 2008 an 6.5% increase in the executed money transfers was noted compared to a year earlier while the value of these transfers rose by nearly 14.5%.
For the Consumer Bank customers the Bank activated Send Cash (*Wyślij Gotówkę*) service, which operates in the same way as the Electronic Postal Money Transfers offered to corporate clients. The service allows for simple and safe transfer of cash by individuals to any place throughout Poland.

- *Domestic Bank Transfers*

The volume of Domestic Bank Payments serviced by the Bank in 2008 increased by 8.5% compared to a year earlier.
In the course of the year 2008 the Bank implemented a project aimed at optimising the cost of servicing payments via the Elixir system. The modifications made to the operating process allow the Bank to send out the same volume of payments at lower cost.

- *Foreign Bank Transfers*

The volume of Foreign Bank Payments serviced by the Bank in 2008 increased by 11% compared to a year earlier.
One of the Bank's priorities is achievement of complete integration between its euro payment solutions and the payment system used throughout the European Union. The Bank continually adjusts its offer to relevant EU directives. Worthy of particular mention is the launch of SEPA (Single European Payments Area) payments, i.e. euro payments serviced in accordance with uniform rules. The Bank was one of a few banks in the Polish market to be ready from the very first day of SEPA implementation for both acceptance and dispatch of payments under the new system. As an expression of respect for the Bank's commitment and openness to change and appreciation for the effort of implementation of the SEPA project, the Polish Bank Association singled it out as the SEPA Leader in Poland. The Bank treats retention of its position of leadership in the Polish market of SEPA payments as a priority objective. In continuation of the success of adding the SEPA payments do its offer in early 2008, the Bank has worked to further optimise the service. It completed work aimed at automation and broadening of the time band in which payments are processed in the working day. These changes resulted in improved effectiveness of the SEPA service, which should translate into increased customer satisfaction.
In response to recommendations of the European Central Bank, the Bank joined the TARGET2 clearing system. The TARGET2 platform supports rapid settlement of euro transactions in real time within the European Union. Previously the payment transfer process between respective EU countries required involvement of at least two clearing systems. Now a single system is used to clear all, which increases precision and security of settlements.
Extensive changes were introduced in the field of foreign payments with the aim of optimising their charging rules. The streamlined and more transparent fee structure is expected to translate into increased customer satisfaction.

e) Card products

The Bank holds an uncontested position of leadership in the Polish market of prepaid cards. It held a 70% market share at the end of 2008. The Bank's prepaid cards are most frequently used under loyalty, promotional and incentive programs as they serve as an excellent instrument of social benefit distribution. In an effort to further disseminate information on its prepaid cards, the Bank organised a series of regional conferences for potential public sector clients. It also continued to actively promote its prepaid cards among corporate clients. At many conferences and seminars potential clients could learn of the many product benefits.
In 2008 the Bank issued over 200,000 new prepaid cards, which represents a 34% growth compared to 2007. In 2008 turnover on prepaid cards rose by over 42% compared to 2007. At the end of December 2008 the number of actively used prepaid cards exceeded 370,000, which is above 50% growth compared to the number at the end of 2007.

The Bank has sought to strengthen its position in business cards segment. At the end of 2008 the number of issued cards of that type reached 17,700, which constitutes nearly 10% growth compared to 2007. Implementation of a new service addressed to the Bank's business card users is also worth underscoring. Business card holders can now receive bank statements in PDF format as attachments to email messages. It is expected that the new form of bank statement distribution is going to increase customer service satisfaction further. The new service cuts down substantially on the time of document delivery to the client and reduces archiving costs.

f) Cash products

Many transactions continue to be settled in cash in the Polish market. The Bank provides its clients with comprehensive cash management services. In addition to the traditional payments and withdrawals, the Bank offers a broad range of supplementary solutions, such as: cash convoy services, secure payments in Polish Post outlets, identification of mass payments (SpeedCash), electronic transfer of documentation, sale of secure envelopes and co-operation with other banks in purchase and sale of legal tender.
In 2008 the Bank maintained the upward trend in value of the handled cash. Once more value of cash the Bank processes exceeded PLN 50 billion.
Corporate clients taking advantage of the cash products portfolio benefited in the significant expansion of the cash acceptance and disbursement network. Since the beginning of 2008 several dozen branches, previously serving only retail customers, have been also opened to corporate clients. As a result of these actions, the number of outlets executing cash transactions of corporate clients in 2008 more than doubled compared to a year earlier.
In 2008 the Bank continued actions aimed at expansion of the cash handling centres available to its clients. It is expected that adding of new locations of this type is going to increase customer service satisfaction further. In addition to this the benefits accruing to the Bank include optimisation of costs and diversification of risk.
With continued improvement of customer satisfaction in view, the Bank added electronic bank payment receipt (eBDW) to its offer of closed cash payments. The new solution simplifies the closed payment packet preparation process while the benefits to the Bank include cost savings and elimination of the risk of error.

g) EU Office

The Bank has been active in promoting absorption of EU funds in Poland. In 2008 it continued its promotion and information campaign focusing on the new 2007-2013 programming period. Actions were addressed to the Bank's current and potential clients. In this context representatives of the Bank participated in many meetings devoted to various aspects of innovation. The training courses and meeting created possibilities for presentation of opportunities for co-financing of projects with EU funds. The meetings also presented the benefits of the Technological Loan and of drawing on the EU Guarantee Fund. The campaign was primarily addressed to representatives of the small and medium enterprise sector (SMEs).
The Bank's branches in Gdańsk, Białystok, Rzeszów, Kraków, Kielce and Wrocław organised EU Advisory Open Days. At the Open Days all the interested parties were provided with practical knowledge on how to secure supplementary funding for implementation of investment projects from EU funds. The campaign was addressed to 2,500 firms of the SMEs segment.
The Bank's representatives participated in expert days held at the Warsaw School of Economics. The expert days events focused on the opportunities for appropriation of the EU funds earmarked for business start-ups, operation and development.

The Bank's priorities include its expansion into financing of EU co-funded investment projects and expansion of its advisory services offer addressed to the Bank's potential clients, representing both the private enterprise sector and the public sector. In the context of implementation of this EU strategy the Bank and Kreditanstalt für Wiederaufbau signed a Municipal Finance Facility, the 2nd agreement on implementation of a program addressed to local self-governments in Poland. The agreement provides for support of the Bank with EU funds in subsidised funding of territorial self-government units.

The Bank's representatives took part in a series of regional conferences devoted to corporate social responsibility and the role of EU funding in advancing voluntary employee activity. The seminar participants included representatives of regional self-government administrations and entrepreneurs of respective voivodships.

As a result the Bank mobilised the existing and acquired new clients, as the growing number of EU advisory agreements proves.

3.1.2 Trade finance products

In 2008 the Bank continued to reorganise the key processes in the Trade Finance area. For the most part the reorganisation touched the operational and implementation processes. The implemented changes were aimed at optimising the use of the Bank's resources allocated toward product support. The Bank also reengineered its new product implementation process. Fact worth noting is that the reorganisation of the key processes did not, in any way, damage service quality: the number of complaints lodged by clients in 2008 did not increase. New solutions were implemented rapidly. The accelerated development of Supplier Financing Programs can be cited as a case in point. In case of one client, a global cement industry leader, the number of participating suppliers exceeded 100 whereas a program set up for a leading retail chain currently involves over 80 suppliers.

The Bank has used its best endeavours in order ensure optimal use of resources and to minimise costs. These actions involved closing of an insurance agreement with a leading insurer within a trade debt insurance scheme. The new agreement provides unchanged level of insurance coverage at substantially lower cost.

An initiative was undertaken with the aim of better utilising the global resources of Citigroup in this respect. The highly developed Citigroup network is going to be used as a platform for expansion of trade finance services, particularly for increasing the number of the letters of credit (L/Cs) notified via the Citigroup network.

Technological platforms are an indispensible part of any banking services offer. Informed by this the Bank has been pursuing a number of technological projects, which can help utilise its existing product base ever more effectively. Internet Contract Creator is one such a project. At entering relevant data on their company in an internet-based form, a client will have a complete agreement or application ready for print-out and signature, once the project is implemented. Another such project involves modernisation of the Internet Client Platform, which will enable smoother exchange of information between the client and the Bank. The platform provides for uploading of electronic form applications, access to reports and internet based transfer to the Bank of files in any format.

In parallel to acquiring new factoring industry clients, the Bank also made sure that its existing customer base retains adequate portfolio quality. In the present continually shifting macroeconomic landscape, implementation of an 'early warning system' vis-à-vis factoring products proved a far-sighted move. The system involves rigorous monitoring of factoring payments combined with fraud prevention tools. It allows early stage detection of the factoring programs riddled with irregularities, which – in turn – permits implementation of appropriate remedial measures or resignation from running the irregular programs.

The most noteworthy trade finance transactions, programs and achievements of the year 2008 included:

- in value terms, opened import L/Cs grew by 7%, opened export L/Cs grew by 20% while granted guarantees grew by 26%;
- granting of a customs guarantee to one of the world's largest courier service firms;
- issuance of import L/Cs to one of Poland's biggest chemical companies and one of the biggest nitrogen fertiliser and plastics manufacturers;
- acceptance of export L/Cs for one of the world's biggest steel manufacturers;
- launch of a trade receivables discounting program for a telecommunication services leader;
- approval of an L/C for a global telecommunications and IT leader;
- underwriting a securities issue for a multinational machinery engineering company;
- issuance of a series of L/Cs for leading companies and institutions, particularly representatives of steel, crude and cosmetics trading sectors;
- launch of a Supplier Financing Program for a global vegetable oil production major;
- launch of limited recourse trade receivables discounting programs for a global leader in manufacture of electronic subassemblies;
- launch of a Distributor Financing Program for a global tobacco company; and
- granting of an advance repayment bond to an aircraft manufacturer.

3.1.3 Custody and depositary services

The Bank provides custody services on the basis of Polish regulations and in compliance with international depositary service standards, and thus meets the requirements of the largest and most demanding institutional clients.

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

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

The Bank also processes transactions closed by corporate customers via the electronic trading platform for debt securities operating under the name of MTS-Poland and organised by MTS-CeTO S.A., and processes transaction in securities for remote members of WSE and MTS-CeTO S.A.

As at 31 December 2008 the Bank maintained over 13,000 securities accounts, which is an increase nearly by 13% compared to 2007.

At the same time the Bank was the depositary for the following pension funds:

- AIG OFE,
- Commercial Union OFE BPH CU WBK,
- Generali OFE,
- ING OFE,
- OFE Pocztylion,
- Pekao OFE, and
- Nordea OFE.

The Bank also acted as the depositary of 43 investment funds and sub-funds managed by the following Investment Fund Companies:

- BZ WBK AIB TFI S.A.,
- PKO TFI S.A.,
- SEB TFI S.A.,
- PIONEER PEKAO TFI S.A.,
- LEGG MASON TFI S.A.,
- GE Debt TFI S.A., and
- COMMERCIAL UNION TFI S.A.

3.2 Treasury

As in the past years, the Bank achieved fine results in its FX transactions with corporate clients. Its revenue on that account rose by over 30% compared to 2007. The policy it pursued, allowed the Bank to increase the number of clients executing FX transactions by approximately 5% compared to a year earlier.

In 2008 the Bank put much effort into development of operations with clients. In particular, it sought to expand the segment of clients using its CitiTreasury Interactive (CTI) internet trading platform, which enables fast, safe and easy execution of FX transactions on line. Volume of transactions executed via the platform increased in 2008 by over 100% compared to a year earlier, which was accompanied growth of over 50% in the Bank’s income on that account. The platform yet again proved an excellent client acquisition tool. Growth in the number of its active users continued throughout 2008. The number of CTI users increased in 2008 by approximately 37% compared to 2007.

The above description of the Treasury's Division refers to operational activity, does not include impact of fx options transactions adjustment.

3.3 Commercial Bank

At the end of 2008 the Bank's market share in corporate loans stood at 3.3% compared to 4.2% at the end of 2007, while its share in corporate deposits stood at 7.4% compared to 8.5%.

The Bank believes that any company that operates in Poland, except sectors excluded permanently under the general policy of the Bank and companies included in the watch list due to international or U.S. sanctions, is its prospective corporate client.

The Bank's position is particularly strong in servicing international corporations and the largest Polish companies. As it serves its largest clients, the Bank has the significant advantage of being a member of Citigroup. The Bank can offer to these clients some unique services that blend its own knowledge of the local business environment with the international experience and global reach of Citigroup.

Through its Commercial Bank structures the Bank delivers comprehensive financial services to Poland's largest corporates and selected medium-sized enterprises with strong capacity for growth as well as the largest financial institutions and public sector companies.

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

Reengineering of the corporate customer service model – initiated in early 2008 with the aim of maximising corporate service platform effectiveness and its operational efficiency – has by now been fully implemented.

The process involved, among others, launch of an integrated service platform dedicated to macro-enterprises and companies with annual turnover of up to PLN 75 million, which has enable the Bank to achieve comprehensive and dynamic co-operation with the Small and Medium Enterprise (SME) segment.

The Bank has continued to pursue the strategy of sustainable asset base growth supported through efficient fund allocation.

Assets

PLN m	**31.12. 2008**	**31.12. 2007***	**Change**	
			Value	**%**
Commercial Bank	**9,773**	**8,693**	**1,080**	**12%**
including:				
SMEs	944	881	63	7%
MMEs	1,405	1,572	(167)	(11%)
Public Sector	97	93	4	4%
Global Clients	3,682	3,343	339	10%
Strategic Clients	2,461	1,907	554	29%

- *The comparative data in respect of 2007 presented here differ from the data presented in the Report on Activities of Bank Handlowy w Warszawie S.A. in 2007 due to a change in the presentation methodology. The results here include all the SME clients now served by the new integrated SME platform*

Liabilities

PLN m	31.12. 2008	31.12. 2007	Change	
			Value	%
Commercial Bank	**16,287**	**17,362**	**(1,075)**	**(6%)**
including:				
SMEs	2,077	2,172	(95)	(4%)
MMEs	1,287	1,775	(488)	(27%)
Public Sector	1,940	850	1,090	128%
Global Clients	7,439	9,720	(2,281)	(23%)
Strategic Clients	3,502	3,800	(298)	(8%)

3.3.1 Key events in the Small and Medium Enterprises segment

When taking into consideration the decision to implement the common service platform and the integrated product offer, which did away with the earlier traditional division into corporate and retail banking, the year 2008 was groundbreaking in terms of SME customer service. Drawing on the best solutions of both those areas, the integrated platform enables the Bank to deliver its unique offer to all its clients.

In July 2008 the Bank realigned its product offer addressed to SMEs to provide a seamless combination of the standardised product package designed for the mass market and the individualised approach meeting the more advanced needs of medium sized companies. The resulting new product packaging approach enables the bank advisers to structure offers tailored to the capacities of respective clients. These packages can now be offered to the Bank's clients through the SME advisers, irrespective of the platform of interaction the clients use, be it the branch outlet, the call centre or the internet channel.
As it launched the refreshed SME product packages in October 2008, the Bank also repositioned and provided them with new visualisations, including new package names.

Independent of the common product platform, the Bank also introduced a uniform service model, which follows the best practices of relationship and mass-market banking. Each client firm is provided with a dedicated banking adviser, who can be reached through one of the four regional corporate centres or by telephone. We have also standardised credit documentation and process for all the SME clients.

3.3.2 Key events in the Middle Market Enterprises segment

At implementation of the new customer service model, which takes into account the unique characteristics of large enterprises and local self-government units in terms of their unique service needs, the Bank rolled out a structure of dedicated advisers, as appropriate to the actual need of each of these clients.

We expanded the product offer addressed to MMEs to include input price hedging contracts and factoring as well as such new solutions for local self-government units as factoring. In this field the Bank closed two transactions involving the new "multipurpose line" credit product, a highly flexible form of financing for the client. We also executed a palm oil price hedging contract with a biofuel sector player, the first transaction of its kind in Europe for Citigroup.

The Bank continued its promotion and information campaign focusing on the new 2007-2013 programming period and utilisation of EU funds. As the EU corporate sector funding was coming on line, the Bank continued the promotion and information effort among its clients, which resulted in signing of subsequent EU advisory contracts.

The traditionally strong product offer addressed to the public sector convinced 32 of the country's courts to open bank accounts with the Bank.

3.3.3 Key events in the Global Clients segment

From the perspective of the Bank's Global Clients year 2008 was a period of continued good business. We entered into new collaborative relationships with 75 new entities, with the expectation of their fruitful development in the coming years. We completed a number of significant financings for automotive industry clients, which visibly reinforced the Bank's strong position of a strategic partner of multinational corporations co-operating with Citigroup's global network. We executed a number of major scale FX transactions with clients representing, among others, foreign financial institutions and the cement and construction industry. A number of Global Clients deposited their supplementary cash surpluses with the Bank, a true expression of their trust.
Since implementation of true cash pooling, we have been able to offer our clients a modern and effective liquidity management tool. We also implemented a number of trade finance projects.

3.3.4 Key events in the Strategic Clients segment

Rollout of improved cash management solutions proved instrumental in strengthening the Bank's position of the lead financier of one Strategic Client, a fuel sector major.

The scale of our collaboration with a major player in the logistics and distribution sector increased substantially, primarily through the use of our transactional banking products and temporary increase of financing.

In July 2008 the Bank signed a bilateral agreement with an FMCG segment player for a medium-term loan in an amount of USD 40 million for the purpose of financing acquisition of an entity in Russia. We also closed an innovative FX risk hedging transaction with a large media sector operator.

4. Retail Banking

4.1 Credit cards

In 2008 the Bank sold over 296,000 new credit cards, the best result to date in terms of the number of newly acquired credit cards and a 25% improvement on that achieved in 2007. Total number of cards issued at the end of the year exceeded one million.

In February and March the Bank conducted a joint promotional campaign with BP, which encouraged acquisition of BP MotoCards and registration with the BP PartnerClub loyalty program. Involving representatives of the Bank actively selling cards through over 140 BP petrol stations, the campaign yielded issuance of over 9,000 new Citibank-BP Credit Cards.

In July the Bank launched a campaign, which promoted Citibank-BP MotoCard payments. 30 winners of a lottery draw held for active users of the card in September were invited to an exclusive Porsche Unlimited Experience event. Its participants could test drive a Porsche vehicle, alongside an experienced instructor, on a designated racetrack.

Year 2008 was highly successful in terms of the partnership programs operated by the Bank. Co-branded cards constituted 85% of the total number credit cards the Bank acquired, the highest number to date in the history of Bank's credit cards.
By the end of the year the Bank had two products of that type with portfolio size exceeding 100.000: Citibank-BP Card and Citibank-Plus Card. At the end 2008 these portfolios numbered 261,000 and 123,000 respectively while the number of new cards acquired in the year reached 120,000 and 99,000 respectively.

The Bank also continued very successful co-operation with PLL LOT and Miles & More GmbH involving issuance of Citibank-LOT Credit Cards. The product is addressed to frequent flyers and allows conversion of shopping spent paid for with the cards into premium miles within the Miles & More program. At the end the year the number these cards exceeded 40,000.

Citibank-Elle Credit Card represents a unique co-branded card offer addressed to women. In the middle of the year the Bank began a promotional campaign in which new card holders receive free 3-month subscription of the Elle magazine. At the end of the year the product portfolio reached 81,000 cards.

In August the Bank launched an innovative service enabling customers to independently set up instalment plans on their Citibank Credit Card payments in eCard served internet shops.

Another step in development of the Bank's offer was the launch of an innovative SMS service by mid-2008, which helps holders of Citibank Credit Cards to locate the Discount Program partners. In a quick and easy manner – by sending an SMS message – the Bank's customers can check for the address of the nearest vendors, where they can obtain attractive discounts when paying with their Citibank Credit Cards.

In October Citi Handlowy launched another lottery for holders of Citibank Credit Cards, with promotional message of Check Your Numerological Fit – Win Cooper MINI. Every card holder participating in the lottery, which continued until the end of January 2009, could win one of 5,555 cash prizes or one of the grand prizes: 3 iconic Cooper MINI cars.

Year 2008 was also a period of dynamic development of the Discount Program. The number of outlets offering rebates for customers using Citibank Credit Cards increased by over 700 and the Discount Program currently covers a network of over 3,200 vendor outlets throughout Poland and is the largest program of its kind in the Polish market.

4.2 Consumer Bank

4.2.1 Bank accounts

In 2008 the Bank consistently added new solutions to its deposit offer; ultimately, providing its customers with a complete range of deposit products and complementary services. Customer numbers rose in the year: by 21% in the case of the CitiBlue customers and by 6% in the case of the Citigold customers.

The Bank launched *Konto SuperOszczędnościowe*, an account bearing interest at one of the highest rates in the market. Interest accrues in the months in which the customer does not execute any transactions debiting the account. From the customers' perspective, the functionality disciplines them toward systematic saving. The Bank also added to its deposit offer: a current account in Japanese yen and Progressive Deposit, in which interest raises in step with the duration of the savings deposit held with the Bank.

The range of access channels has been expanded: the Bank's customers can withdraw cash from eCard ATMs fee of charge. As a result, the nationwide network of ATM in which dispensing of cash is free for our customers has now expanded to over 1,900 such cash points. The Bank also launched SMS Locator, which informs interested customers of the branch or ATM nearest to them, where they can withdraw cash free-of-charge. The Bank also implemented Cash Back service, which permits commission-free withdrawal of cash while making payments with Maestro cards at vendor establishments, as well as the innovative Send Cash (*Wyślij gotówkę*) service, which enables ordering (also via internet) mail order delivery of cash to a designated addressee in Poland. Bank was also the first in the market to offer its customers the possibility of making payments directly from their bank account with the use of their mobile handset. The Pay By Mobile service was deemed the most innovative solution of the year 2008. Through a collaborative arrangement with the Warsaw Transport Authority, the Bank's customers can use their mobile handsets to pay their municipal transport fares and parking tolls in the city's metered parking zones.

In order to increase its deposit base, the Bank introduced short-term internet based deposits (including *Kapitalna Lokata*, a 3-month deposit bearing 8.08% interest) and attractive unit-linked offers, including deposits with Global Investment Portfolio and Foreign Funds Portfolio, deposits with Investment Life Insurance, or investments with Investment Program Plus.

The Bank also introduced to the local market the Citigold Global Access service, which is accessible in over 500 Citigold Centres in 34 countries throughout the world and which gives Citigold customers free and easy access to execution of transactions abroad. Citigold Clients can withdraw funds free-of-charge in all ATMs in the world.

The Bank also rolled out in its branch network a new sales process, which supports acquisition of customers seeking a comprehensive relationship with the Bank. The first contact with the customer is used to offer them the complete range of the available products, which on the basis of data captured in a single application. The range includes current accounts in the Polish złoty and other currencies, savings accounts, an overdraft facility, a credit card and insurance products.

Bank also organised attractive relationship building events for the current and potential Citigold customers. The picnic organised with LOT Polish Airlines for the best participants of the Miles & More program, the picnic with BMW and the seminars with participation of respected authorities met with great interest.

At the end of June 2008 the Bank commenced a unique summer promotional campaign of its Citibank Personal Account and Citibank Credit Card. Under the watchword of Card for the Summer – Card for Years (*Karta na lato – karta na lata*), new customers who open a personal account in any branch of the Bank and obtain a Citibank Credit Card before the end of September 2008 will be offered permanent exemption from the annual credit card fee. The two qualifying conditions include: initiation of the first credit card transaction within 2 months of the issuance date and initiation of pay transfers to the personal account.

The Bank continued with special promotions of personal accounts, aimed at acquiring customers transferring their salaries to the Bank: the CitiAccount Plus promotion (account fee exemption for the customers transferring their salaries), promotions for employees of selected companies (the Citibank at Work program), the Card for the Summer – Card for Years promotion (permanent exemption from the annual credit card fee for the customers opening an account and initiating pay transfers to their personal account).

In the 12th edition (2007/2008) of the EUROPRODUKT competition, the Bank's six products were recognised the most innovative products in the European market and awarded the Euro-product title, including its Keep the Change Savings Program and its offer addressed to Polish expatriates and their relations in the country. Citibank Mobile Payments and SMS Locator were singled out in the following edition competition (2008/2009).

In a ranking run by Manager Magazine, which the Bank joined in June and the results of which were announced in the July issue, the Bank was chosen the leader in Polish private banking and the leader in credit cards and investments funds. This confirms our strong position in those market segments.

4.2.2 Credit products

Cash Loan

In January and February of 2008 the Bank launched CitiFinancial Cash Loan offer in all the retail product distribution channels. The competitive features of the new product include its high amount loan of up to PLN 120,000, lending period of seven years, rapid credit decision and easy loan withdrawal in any Bank branch. Implementation of the new loan was accompanied by optimisation of the sales model and of the systems supporting the credit decision and verification process. The products were further harmonised through introduction in all of the Bank's distribution channels of a uniform offer adjusted to the needs and expectations of the customers and aimed at expanding the target market. The new offer combines the best elements of its predecessors and uses the modern scorecard credit assessment model, which permits improved management of risks of specific customer profiles.

In the first quarter of 2008 the Bank conducted a nationwide media campaign on all the major television channels that promoted a consolidation loan product with the name Good Bye to Multiple Instalments – Welcome to Cash (*Żegnajcie liczne raty – witajcie pieniądze*). In April the campaign was additionally carried by outdoor advertising media. It supported marketing of a loan product for repayment of debt in other banks, thus enabling customers to pay a single lower instalment in Bank and to obtain additional funds. The campaign met with great interest and allowed the Bank to increase the number new customer loans by over 25% compared to average of January and February.

Between March and May of 2008 the Bank launched special price offers for selected customers. Customers applying for a loan via the Internet are charged only 1% preparation fee as so are customers employed in one of the firms enrolled in the Citibank at Work program. Attractive reduced interest loans are also offered to customers using other Bank products.

In July and August 2008 the Bank conducted a summer campaign entitled Declaration Based Loan addressed to customers employed on work contract. The offer provides an opportunity of getting a cash loan of up to PLN 20,000 on the basis of a simple declaration; without the need to deliver any proof of income issued by the employer. In the case of the promoted loans, the documentation requirement has been reduced to absolute minimum, which typically includes the customer's personal identity card and handwritten statement of income. The promotion was supported through a nationwide radio campaign.

In September, with seasonal needs of its customers in mind, the Bank conducted a campaign entitled Loan for the New School Year. Schoolwork Success (*Pożyczka na nowy rok szkolny. Sukcesy w szkole*). Each customer taking advantage of the promotion in September and drawing a loan of at least PLN 12,000 was vested with a voucher of PLN 50, plus – irrespective of the loan amount – each borrower received a small gift: school attendance and child road safety related. The campaign received strong media support in the press of national circulation.

In the autumn season the Bank promoted debt consolidation loans. In October it ran a campaign with promotional message of The More You Consolidate, The More You Gain, in which each customer consolidating at least one loans in another bank pays reduced commission fee of just 1% plus interest reduced vis-à-vis the standard rate by 0.5% to 1%; this depending on the consolidated debt amount.
The campaign was continued in November on slightly modified terms. The customers taking advantage of the consolidation offer obtained interest terms reduced in relationship to the standard rate by as much as 2%; depending on the consolidated debt amount. The campaign received support in the national press and on the radio. The result was a 30% growth in the consolidation loan sales on average sales of the preceding 3 months.

In December 2008 the Bank gave each customer taking advantage of a loan in that season one teddy bear for their child and promised to send another exact same teddy bear to a local orphanage. The campaign, called Loan Can Make You a Twice Better Santa Claus, combined charity outreach – of particular significance in the holiday season – with the possibility of obtaining additional funds allowing customers to fulfil their seasonal needs. It had a strong support of national media, including daily and weekly publications and radio stations.

Credit Line

In 2008 the Bank introduced a series of important loan origination policy amendments to the Citibank Credit Line product involving introduction of a scorecard risk assessment system in June. At the same time major changes were made to the operational processes involving employment of ECUS, a new sales process support software tool, and introduction of the loan review process. This allowed the Bank to cut down on the operational activities executed at the branch level.

In the first half of 2008 the Bank conducted promoting the Citibank Credit Line by waiving the annual fee in the first year of use. Since June 2008 we decided to introduce the annual fee waiver as a permanent feature of the product.

The Citibank Credit Line sales support in the months of June and September 2008 involved offering reduced interest terms to new customers.

Throughout the period the Bank also marketed the product through cross-selling.

Secured Credit Line

In 2008 the Bank amended the Secured Credit Line documentation in order to adjust it to respective operational events, among others, changes in collateral, line amount, etc.

Within the framework of the Secured Credit Line, as of July 2008, the Bank provided its customers with options of borrowing against the Global Investment Portfolio, the Dollar Foreign Funds Portfolio and the Dollar Euro Foreign Funds Portfolio. As a result, the Portfolio Secured Credit Line has been accessible in PLN and other currencies, such as EUR and USD. Worth underscoring is that the Secured Credit Line can be granted in any currency, irrespective of the collateral currency, and for any amount within a lending limit of between PLN 80,000 and PLN 6,000,000. This product change is consistent with expectations of customers who are holders of these types of investment products seeking short term funding.

Additionally, as of August 2008 the Bank introduced new sales policy rules under which it can actively market the Portfolio Secured Credit Line to customers who have held potential collateral portfolios for minimum 6 months.

Mortgage products

Mortgage product related activities in the year 2008 included continuation and further development of the Open Architecture strategy adopted in 2007 (this involves offering of proprietary mortgage products, i.e. a housing loan granted for secondary property market purchases or repayment of another mortgage loan, with the option of increasing loan value by 10%, for discretionary use and a mortgage loan granted for repayment of the customer’s other debts or an unspecified purpose; and co-operation with external partners in marketing of their mortgage products). The Open Architecture strategy aims to meet the customers’ needs and expectations in the best available manner. In 2008 the Bank continued its co-operation with Dombank and Nykredit (until the end of 2008, when the co-operation was terminated as Nykredit ceased its lending operations in Poland), and executed a co-operation agreement with Lukas Bank.

4.2.3 Investment and insurance products

a) Investment products

In order to be able to offer its customers new possibilities of investment in the domestic and foreign markets, since the beginning of the year the Bank consistently expanded its offer of domestic and foreign investment funds, bringing their total number to nearly 150. The product range includes four domestic investment funds companies (DWS Poland TFI S.A., ING TFI S.A., Legg Mason TFI S.A. and Union Investment TFI S.A.) and four foreign investment funds companies (BlackRock, Franklin Templeton Investments, Legg Mason and Schroders).

In the course of the first half of the year 2008 this offer was expanded to include 20 additional foreign funds of Franklin Templeton and BlackRock and seven additional domestic funds managed by DWS Polska TFI S.A. available within a newly formed umbrella fund.

The new products in the Bank’s offer included for the first time funds denominated in PLN and dedicated to such fields of investment as BRIC, Climate Change, Infrastructure Sector, IT Sector, Export Companies, Real Estate and Construction Sector.

The foreign funds offer Franklin Templeton Investment Funds was expanded to include new hedge types participation units available in EUR, which help reduce the FX impact on investment performance: providing yields equivalent to those achievable on the base currency. Of particular note is the first foreign fund offered in PLN with an FX hedge (PLN-hedged): Templeton Global Total Return Fund.

In November 2008 Citi Handlowy became the first in the market to distribute directly investment funds of Schroder Investment Management (Luxembourg) S.A. The selected portfolio of 12 funds includes equity and fixed income funds denominated in EUR and USD. Moreover, five of these funds offer hedge type certificates of ownership. Implementation of the new range of funds was preceded by a series of training sessions for the Bank's investment advisers and seminars for its customers.

In co-operation with representatives of domestic and foreign debt and equity investment fund companies and product specialists, the Bank conducted teleconferences and training sessions for its customer account managers. It also conducted close to 200 seminars for its customers. These were devoted to discussion of the current market conditions and explored: the financial market mechanisms, the security of investing in fund products, the short- and long-term investment strategies, the cost averaging strategy and the need for asset diversification.

Structured products

On the back of the success of the earlier Investment Life Insurance issues, in 2008 the Bank conducted subsequent subscriptions for products of this type, including:

- Agricultural Products and Water subscriptions, with a bonus the customer is entitled to at the end of the insurance coverage period dependant on value growth of a Basket comprised of futures contracts for delivery of agricultural commodities (wheat, maize, soybean) and S&P Global Water Index EUR (based on shares of 50 leading and largest companies involved in water related businesses);
- Gold and Platinum subscriptions, with a bonus dependent on performance of gold and platinum prices;
- Climate Change subscriptions, with a bonus dependent on value evolution of a basket comprised of 40 enterprises involved in recovery and limiting consequences of climate change;
- Riches of Russia subscriptions, based on investments in stocks of five major Russian companies operating the oil and gas sector and the mining sector (Gazprom, Novatek, Rosneft, Surgutneftegaz and Severstal); and
- Trend Navigator subscription, within which insurance premiums collected from the customer are invested into a diversified portfolio covering 4 out of 6 pre-selected asset classes. The TrendSpotter Index the Trend Navigator subscription is based on represents a proprietary solution of Barclays Capital investment bank. The index basket offers the customers a choice of six different asset classes: Money Market, Bonds, Stocks, Minerals, Property Market and Hedge Funds. Product structure provides for investment of cash into assets achieving the highest yields in subsequent six-month periods. The four highest performing assets are assigned weights of 40%, 30%, 20% and 10% respectively. The remaining asset classes, with the lowest return rates, are not included in the investment portfolio in a given six-month period. Periodic review of the basket and adjustment of the weights assigned to the respective asset classes in it against the backdrop of current price trends is another important feature of the product.

Investment Life Insurance products also formed part of promotional offers together with high interest term deposits. Income accruing from these investments is capital gains tax exempt. The product also provides insurance coverage without the need for medical examinations.

Also, in the second quarter of 2008 the structured products offer was expanded to include a four-year luxury goods linked structured bond. The Luxury Goods Structured Bond was made available in a public offering (subscription continuing through to 25 July 2008). The Luxury Goods product, now traded on WSE, had Barclays Bank PLC as its issuer and Dom Maklerski Banku Handlowego (DMBH) as the issue organiser. The new product enables indirect investment in 10 luxury goods manufacturers. The bond is tradable at current market price, which provides for liquidity of the invested funds.

In September 2008 sales of structured products grew substantially. Within the year customers were provided with over 100 structured bond products. The bonds were offered in PLN, USD, EUR and GBP for periods of between 6 months and 5 years, and were linked to various indices (CECE Index, WIG20 Index, iShares MSCI Brazil Index, Merrill Lynch Renewable Energy Index) and to commodity prices (basket of agricultural products, crude oil), to currencies (BRIT – Indian rupee, Brazilian real, Russian ruble, Turkish lira) and to the interest rates market (LIBOR USD, PLN WIBOR, EURIBOR). Customers can also take advantage of fixed income products linked to the Polish capital market (PKO BP, KGHM Polska Miedź, PKN ORLEN S.A., WIG20).

b) Insurance products

In the first half of 2008 the Bank expanded insurance protection within the CreditShield insurance offered to holders of Citibank Credit Cards. The change introduced in March 2008 provides additional benefits paid out in case of death in an Accident, which occurred in a period when the Insured is retired before completing the 65th year of life. The Bank also launched the CreditShield Plus insurance policy, which provides coverage against the risk of the Insured person's Death, Permanent and Complete Inability to Work (Disability), Death in an Accident and Loss of Employment.

The Bank achieved very high CreditShield Plus option sales results: 50% more than combined CreditShield and CreditShield Plus sales.

Since 10 January 2008 holders of Investment Portfolio, i.e. unit-linked life insurance, are able to change their insurance policy agreements into Global Investment Portfolio agreements. Such a change permits customers to invest into 15 different foreign fund products, which were added to the Global Investment Portfolio in August 2007.

In January the Bank launched a new offer linking Global Investment Portfolio and Foreign Funds Portfolio products with term deposits. Customers who bought these products by the end of September 2008 were able to open a 3-month deposits yielding 12% interest per year. Within the same offer customers could also open 6-month deposits yielding 9% interest per year.

In January 2008, the Bank added 23 new funds to the EUR/USD Foreign Funds Portfolio, including 11 funds of Schroder Investment Management, an investment funds company. Within the enriched offer our customers can now invest into 26 fund products of the EUR Foreign Funds Portfolio and another 23 of the USD Foreign Funds Portfolio.

In February 2008 the Bank introduced new life insurance product linked to insurance capital funds and based on a flat monthly premium: referred to as the Investment Program Plus. This is an insurance policy with regular premiums, under which customers have the opportunity of investing into 45 funds, including 15 foreign funds. There is no obligation of withholding capital gains tax at transfers between funds. The insurance policy guarantees reimbursement of the paid up capital in case of death of the insured party. The insurer is AEGON TU na Życie S.A.

In May 2008 the Bank relaunched sales of the Safe Way accident insurance dedicated to selected Citibank Credit Card holders, since which time on average over 1,600 customers per month took out the insurance.

Insurance Policy for Good Life Savings Program – Life Insurance and Retirement Insurance was modified in the second quarter of 2008. The changes involved, among others, introduction of an additional 25-year insurance period, extension of the age in which the insurance can be taken out, enabling transfer of insurance policy and automatic insurance policy indexation.

In September 2008 the Bank added a new insurance product to its offer: The Orchid Guaranteed Payout Plan, with MetLife Europe Limited as the insurer. This Variable Annuity plan is a novel insurance solution in the Polish market.

The Orchid Guaranteed Payout Plan is a funded life insurance product involving a single annuity payment with the option of additional payments. The product provides the insured with benefits of long term investing in the financial markets and delivers guaranteed income paid on periodic basis, which the customer is entitled to trigger at any time at completion of the 55 year of their life. The product provides high level of assurance of payment of the guaranteed benefit. Furthermore value of the benefit is protected against volatility of the financial markets while, at the same time, allowing the insured to benefit from growth in these markets. The product provides high level of assurance of payment of the guaranteed benefit. Furthermore, value of the benefit is protected against volatility of the financial markets while, at the same time, allowing the insured to benefit from growth in these markets.

5. Achievements by respective distribution channels

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

Branch network

In the course of 2008 the branch network size did not change in any significant way. With the view of meeting the growing customer expectations and facing the mounting competition, the Bank took a decision of integrating all of its outlets. As at 1 January 2008 the networks of the Commercial Bank, the Consumer Bank and CitiFinancial were merged.

It is expected that the combined network is going to yield a number of benefits, both for the Bank as well as its customers and clients. These, among others, include:

- expansion of customer service in selected outlets and ultimately provision of standard customers service level in all of the Bank's outlets;
- delivery of expanded product offer to the Bank's customers and clients;
- mergers of selected outlets and their relocation to locations more accessible for customers and clients;
- expansion of the network of the authorised customer service points (so called "lite branch") offering loan products.

The merger of the branch networks will also deliver synergy related benefits, particularly in serving SMEs as well as between retail and corporate banking.

At the end of December 2008 the Bank's branch network consisted of 247 outlets and included the Commercial Bank branches, the Consumer Bank branches and those operating under the CitiFinancial brand. The CitiFinancial outlets included 26 authorised service points, at which clients can submit applications for cash loans the Bank offers. The number of the CitiFinancial service points increased by 14 in 2008. Currently the CitiFinancial branded network includes number of 122 outlets, including 96 own branches.

In the course of the year the Bank proceeded with the Branch Networks Merger Project. This involved, among others, selling of personal accounts via selected CitiFinancial outlets, which had previously focused exclusively on servicing loan products.

In 2008 the Branch Network Optimisation Project included such activities as:

- the Senatorska 16 branch in Warsaw was expanded to include additional CitiGold zone;
- the consolidated branches in Zabrze and Rybnik were expanded and reopened for the public;
- the Consumer Bank branches in Zielona Góra and Lublin were expanded and reopened for the public;
- two Consumer Bank branches in Warsaw – at 24 Jana Pawła II street and at 7/9 Traugutta street – were merged into a single joint outlet with primary location at 11 Polna street;
- new branches in Koszalin at 9 Rynek Staromiejski and in Łódź at 5 Karskiego street were opened to corporate clients and retail customers;

- CitiFinancial branches in Łódź at Zgierska street and Gorkiego street and in Koszalin at Domina street were closed down;
- branches in Wrocław at 6/7 Ruska street and in Kraków at 7 Karmelicka street and 6 Podwale street were moved to new locations; and
- a branch in Mielec at 8 Mickiewicza street was refurbished and consolidated with a Commercial Bank branch originally at 2 Przemysłowa street.

Number of outlets, year-end comparison

	2008	2007	Change
The number of outlets:	**247**	**237**	**+10**
Consumer Bank	**87**	**87**	**no change**
Multifunctional outlets	72	71	+1
CitiGold Wealth Management	14	15	(1)
Investment Centre	1	1	no change
- of which serving Commercial Bank clients	*86*	*84*	*+2*
CitiFinancial	**122**	**112**	+10
Branches	96	100	(4)
Agencies (partner outlets operating under the CitiFinancial logo)	26	12	+14
Commercial Bank	**38**	**38**	**no change**
- of which serving Consumer Bank customers	*38*	*38*	*no change*
Other sales / customer service outlets:			
Mini-branches (within “Citibank at work”)	6	6	no change
BP petrol station sales points	170	88	+82
Number of own ATMs	167	160	+7
- including those with deposit function	*155*	*154*	*+1*

In summary, as at the end of the year 2008:

- Commercial Bank clients were served by 124 outlets;
- Consumer Bank customers were served by 125 outlets;
- CitiFinancial customers were served by 122 outlets.

Electronic Banking and other remote service channels

In the course of the year 2008 the Bank popularised the Citibank Online (CBOL) internet platform, with the second stage involving implementation of its new version ending in March. At the end of the year the system had over 345,000 registered users, which represents growth of over 202% compared to the end of 2007. The number transactions executed via Citibank Online represented over 85% of total number of financial transactions initiated by individuals banking with the Consumer Bank.

The Bank also actively promoted its Online Account Statement and registered continued growth in the number of users while generating substantial savings. Online Account Statement represents the electronic version of Citibank Personal Account and Citibank Credit Card account statements, which the customer can receive instead of a paper form statement. The number of customers using this service at the end of 2008 exceeded 316,000, which represents annual growth of 132%.

Internet is a distribution channel growing in significance. At present internet initiated acquisition process involved three key product groups:

- credit cards;
- cash loans; and
- personal accounts.

In 2008 the Bank developed a new credit card acquisition channel: by telephone. It signed agreements with three external telephone sales firms, which began acquiring credit cards for the Bank. The project improves diversification of customer acquisition channels while optimising acquisition costs.

6. Developments in IT

IT projects are undertaken with the aim of optimising processes while ensuring data security and continuity, and implementing new solutions reflecting technological standards, product needs and changing regulatory requirements.

Implementation of all the technological projects was consistent with the priorities set out within the Bank's business strategy.

The most important project implemented in 2008 in Operations and Technology was the One Bank Project, which aimed at exploiting the synergies of the merged Operations and Technology units of the Bank's corporate and retail banking parts. The project sought to upgrade customer service quality while reducing the Bank's operating costs. The project involved especially separated Technology Division, which brought together all of the technological units.
In 2008 the following solutions – contributing to modernisation of the product offer, improvement of product quality and competitiveness, and reduction of costs – were implemented:

Product offer and functional expansion projects:

- Adjustment of the systems to SEPA requirements in respect of servicing foreign bank transfers;
- Expansion of the Keep the Change program functionalities;
- Implementation of the innovative Send Cash functionality enabling ordering and automatic dispatch of money orders through CitPhone branches;
- Modifications enabling presentation of investment funds through the internet platform;
- Implementation of expansions to Java Financial Platform (JFP), an internet platform including, among others, build out of such functionalities as postal money orders and international transfers;
- Upgrade of the Promak system, including expansion of the scope of services and products addressed to retail customers and corporate clients, and build out of DMBH's key system.

Process improvement and cost reduction projects:

- Automation of booking of incoming foreign transactions;
- Major modifications to the UWS application, which substantially cut down of the customer service time in branches and CitiPhone, among others, through streamlined processing of Sorbnet transactions;
- Modifications streamlining servicing of the system for recognition of tax on account and deposit interest;
- Implementation of a system streamlining and accelerating the uniform cash loan decision and authorisation process in all the Consumer Bank branches and the loan review team (ECUS – Cash Loan);
- Implementation of a system enabling credit line decision and authorisation process in branches and in credit review (ECUS – UOD);
- Implementation of the ATM management and debit card transaction authorisation systems: replacement of TP2 with TP2 Gold (hardware, operating system, database, software application);
- Expansion of the Aurum system; accelerating the card issuance process and enabling sale of credit cards through brokerage channels;
- Implementation of the ECS+ (Enhanced Card System) platform for servicing credit cards; enabling, among others, more flexible credit pricing management, expansion of the insurance functionality, implementation of cards with a microprocessor and enriching of offers addressed to the CitiBusiness segment;
- Implementation of a comprehensive platform supporting the sale of investment, insurance and deposit products; helping customers to define and achieve their financial goals by enabling their and their advisers to monitor utilised products and their transaction histories;

- Mobile payments enabling execution of payments via mobile handsets;
- Implementation of the Cash Back functionality for holders of debit cards;
- Implementation of a functionality facilitating use of funds on bank accounts in securities brokerage transactions;
- Changes to the system used by branches and CitiPhone cutting down on customer service time and upgrading customer service;
- Migration of the MasterCard link to BankNet; in compliance with MasterCard requirements;
- Transfer of the redundant retail customer data processing centre from Singapore to Hong-Kong; sanctioned by the Polish Financial Supervision Authority;
- Preparations for migration of bank applications module to a new desktop platform;
- Functional expansion of the acquisition process module in the CRM software application;
- Completion of the Data Warehouse functionality implementation; aimed at increasing effectiveness of processing reporting and analysis in various parts of the Bank;
- Implementation of a functionality enabling issuance of cards with embedded microprocessors;
- Implementation of the FX authorisations functionality in FlexCube, the Bank's main transaction system; reducing the number of FX transactions booked manually;
- Implementation of new modules to the CRM OPS application on the Lotus Domino platform. The new module supports calculation of corporate income tax, reconciliation of data and transfer of CIT-10R and IFT2 applications to Tax Office. As a result, a time consuming process has been streamlined with scope for error eliminated;
- Transfer of the RCS software application production environment to a new hardware platform; leading to substantial growth in productivity of the RCS electronic banking system and substantial reduction of the settlement session time overrun risk;
- Implementation of an expansion to the CitiGateway application software supporting local settlements via the National Clearing House (KIR);
- Implementation of the GERS system, a fully automated tool for review of users and authorisations in all database environments and platforms, such as: Oracle, SQL or Sybase; implementation of the system on all the databases under administration;
- Implementation of a number of expansions in the FlexCube system as required by the Regional Clearing Centre in Olsztyn, including: increase of transaction processing authorisation limits and introduction of supplementary verification elements;
- GIIF – implementation of the local regulator's requirements in order to ensure legal compliance. The solution enables tracking every financial transaction's original initiator;
- Modernisation of the hardware infrastructure for XDDS, a software application used for generation and distribution of customer account statements; cutting down on the time required for preparation of the electronic account statements by 20% ;
- Implementation of the first module of the Focus software application as required by the Regional Clearing Centre in Olsztyn;
- OneSME – integration of CitiBusiness CRM and SME1234 software applications on the Lotus Domino platform in order to reflect the new organisational structure of the Commercial Bank Division and the Small and Medium Enterprises Product Development Department;
- Build-out of the L700 tape library, from 384 to 666 slots, which constituted long term strategic action aimed at ensuring proper level of data backup on infrastructural servers;
- Building of a redundant core for Avaya PBX, which supports the Call Centre services delivered through multiple scattered locations (e.g. CitiPhone agents in Warsaw, Łódź and Katowice form a single virtual Call Centre team).

Information of future modifications that can have a significant impact on the Bank's operations in the near term

Key projects commenced in 2008 and pending further implementation in the year 2009 included:

- Substantial build-out of the Autodialer system, with the aim of increasing work efficiency of telephone sales and collection units;
- Implementation of an advanced system supporting SMS text communication;

- Continued expansion of the offer addressed to expatriate Poles: enabling international cash transfers in real time;
- Implementation of a system that facilitates surveillance and prevention of transactions executed with stolen debit cards;
- Implementation of a capability for immediate loan application assessment and issuance of EMV cards at the branch level;
- Implementation of a new debt card, which will replace the existing debt cards;
- Implementation of subsequent modules of the Focus system (required by the Regional Clearing Centre in Olsztyn); to enable elimination of EUC tools and improvement of review processes throughout the bank;
- Implementation of the Feniks system based on EMC Documentum software, which will enable modelling of business processes and upgrade electronic document processing;
- Upgrading of the Promak system; further development of the currently used platform;
- Implementation of the new ESDK system (electronic message distribution system) within the Custody Services Office serving messaging with the National Depository for Securities. The project must be implemented by the end of March 2009 in respect of all capital market participants;
- Implementation of Predictive Autodialer, which will automate the business processes in banking product sales.

Capital expenditures incurred by the Technology Division in 2008 reached circa PLN 15 million towards the Consumer Bank and circa PLN 9.3 million towards the Commercial Bank; totalling PLN 24.3 million.

7. Equity investments

All capital investments of the Bank are classified as part of either the strategic or the divestment exposures portfolios. In 2008 the Bank continued its previously chosen capital investment policy. In managing the strategic portfolio it sough to: maximise profits in the long term; grow the market share; stimulate development of co-operation with the Bank; and to expand of the it's offer. In managing its divestment portfolio the Bank aimed to: optimise financial result on the transactions and to minimise the risk inherent in such transactions.

7.1 Strategic portfolio

The strategic holdings include entities operating in the financial sector, whose performance has an impact on earnings of the banking operations, has contributed to expansion of the Bank's product offer and strengthens its reputation and competitive advantage in the Polish financial services market, e.g. Handlowy-Leasing Sp. z o.o., Dom Maklerski Banku Handlowego S.A. Its strategic portfolio holdings also include infrastructure providers operating for the benefit of the financial sector. In these the Bank does not hold controlling interests, yet they are of strategic importance for it in view of the operations they perform, e.g. the Warsaw Stock Exchange, MTS-CeTO, the National Clearing House or the Credit Information Bureau.

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

7.2 Divestment portfolio

The interests held 'for sale' include entities in which the Bank's exposure is not strategic. The portfolio includes entities held directly and indirectly, e.g. Pol-Mot Holding S.A., and special purpose investment companies used by the Bank for execution of capital transactions, specifically Handlowy Investments

S.A., Handlowy Investments II S.a.r.l. Some of these holdings are restructured exposures, which originate from debt-to-equity swap transactions.

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

8. Other information about the Bank

8.1 Rating

The Bank has a full rating of Moody's Investors Service ("Moody's") international rating agency. In 2008 there were the following rating changes.
On 23 April 2008 Moody's notified the Bank on a change of the prospect for rating of long-term domestic currency deposits: from stable to negative. This change was a consequence of the Moody's decision to reduce the rating of the financial strength outlook of Citibank NA to negative. The agency maintained the stable perspective for the rating of the financial strength of Bank Handlowy w Warszawie S.A.

On 19 December 2008 Moody's reduced its rating for the Bank's long-term domestic currency deposits from Aa3 to A2 with stable outlook. The rating decision was a consequence of the Moody's decision to change ratings for Citigroup Inc. and Citibank N.A. on 18 December 2008. At the same time, the rating agency retained the previous financial strength outlook rating of the Bank at C- and the rating for the Bank's long-term currency deposits at A2, both with stable outlook. The Moody's also maintains unchanged the ratings for short-term currency and Polish zloty deposits of the Bank at Prime-1.

On 20 January 2009 the Moody's rating agency changed the rating outlook, previously stable, and placed it on the watch list, with a possibility of downgrading its ratings for the Bank's long-term currency and Polish zloty deposits, and the Bank's financial strength. The Bank's ratings, being the assessment of its long- and short-term liabilities and of its financial strength, remain unchanged (A2, P-1 and C- respectively). The change described here was a consequence of the rating decisions adopted in respect of Citigroup Inc. and Citibank N.A. on 16 January 2009.

On 3 March 2009 the Moody's rating agency downgraded local and foreign currency deposit ratings of the Bank to A3 from A2 on rating under review for possible downgrade. The short-term deposit ratings were downgraded to P-2 from P-1. Bank Financial Strength Rating (BFSR) of C- was not affected and remains on review for possible downgrade. The change described here was a consequence of the rating decisions adopted in respect of Citigroup Inc. and Citibank N.A. on 27 February 2009.

To sum up, at the end of 2008 the Bank had the following ratings awarded by Moody's:

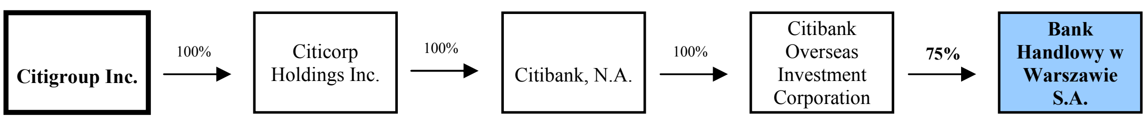
Rating for long-term deposits in the domestic currency	A2
Rating for long-term deposits in foreign currencies	A2
Rating for short-term deposits in the domestic currency	Prime-1
Rating for short-term deposits in foreign currencies	Prime-1
Financial condition *Financial strength rating outlook* *Long-term deposits in the domestic currency rating outlook*	C- *Stable* *Stable*

To sum up, at the date of 2008 annual report disclosure the Bank had the following ratings awarded by Moody's:

Rating for long-term deposits in the domestic currency	A3
Rating for long-term deposits in foreign currencies	A3
Rating for short-term deposits in the domestic currency	Prime-2
Rating for short-term deposits in foreign currencies	Prime-2
Financial condition *Financial strength rating outlook* *Long-term deposits in the domestic currency rating outlook*	C- *Watch list* *Watch list*

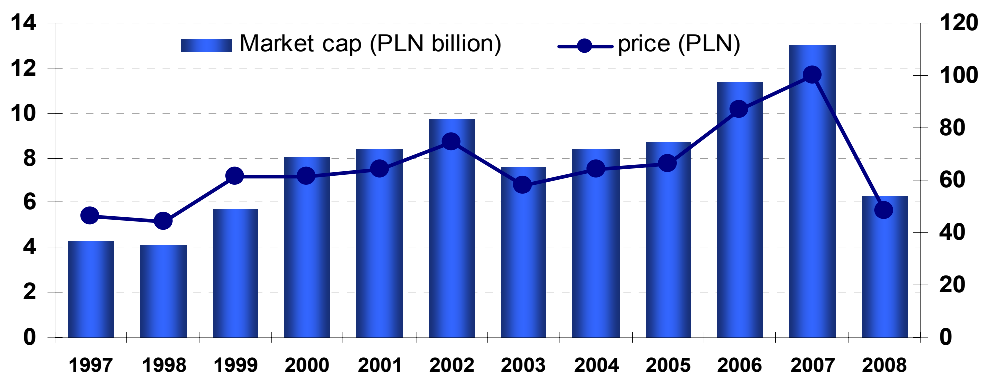
8.2 *The Bank's shareholding structure and performance of its stock on the Warsaw Stock Exchange*

Shareholders of the Bank that holds a minimum 5% participation in its share capital and votes at its General Shareholders Meeting (GSM) are Citibank Overseas Investment Corporation (COIC), a Citigroup company that holds the group's oversees investments and Pioneer Pekao Investment Management S.A. COIC is at the same time the strategic majority shareholder of the Bank. Throughout the year 2008 neither the number of shares held by COIC not its participation in the share capital and votes at the GSM of the Bank changed and stood at 97,994,700 shares representing a 75% participation in the share capital and votes at the GSM. The following diagram depicts the positioning of Bank Handlowy w Warszawie S.A. in the organisational structure of Citigroup:



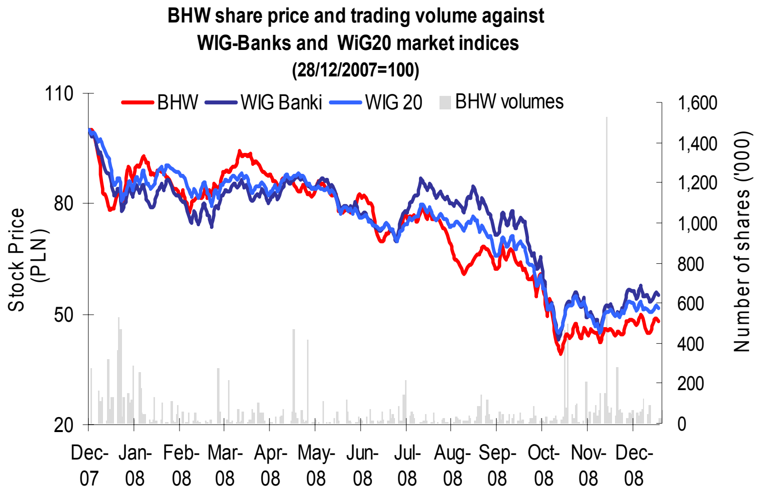
Number of shares held by Pioneer Pekao Investment Management S.A. stands at 6,547,467 representing 5.01% participation in the share capital and votes at the GSM
The remaining shares (26,117,433, equivalent to 19.99% of the share capital) constitute free float, in other words, remain in free trading and are listed on WSE.
Eleven years elapsed since floatation of Bank Handlowy w Warszawie S.A. on WSE. The year 2008 was a period in which the Bank's share price experienced declines; its market capitalisation at the end of 2008 stood at PLN 6.3 billion (compared to PLN 13.1 billion at the end 2007). It market price ratios were as follows: price to earnings (P/E) at 10,4 (13.7 in 2007); price to book value (P/BV) at 1.1 (2 in 2007).

BHW market capitalisation and share price over the 11 years of trading on the WSE



The financial crisis and the dampened investment sentiment around the financial sector stocks impacted the price of the Bank shares in 2008. Devaluations of the biggest Polish bank equities exceeded 50 per cent.

In 2008 the Bank's share price on WSE fell by 52%: from PLN 100 (2 January 2008) to PLN 48 (31 December 2008).



In the first half of the year the share price remained largely stable; with fluctuations within the PLN 77.5 to PLN 100 band. In the second half of 2008 deeper stock price fluctuations occurred (between PLN 39 and PLN 79).

In spite of its declines in early January the stock began to rapidly reclaim the lost ground to reach the price per share of PLN 92.8 by 4 February, after which it began tracking the market's downward spiral; carried by the universal wave of market pessimism. Another peak occurred on 4 April, when share price reached PLN 94.5. In the subsequent months the Bank's stock price succumbed to general tendency and began to decline gradually again.

On 27 October the share price reached the lowest value in the year of PLN 39. In the final months of the year WSE experienced significant recovery, with consequent raise in the Bank's share price. Finally, as at 31 December the price stood at PLN 48 per share.

Compared to the other WIG-Banks equities (the sub-index lost 43.8%), the Bank's stock lost what was the average of the sector. Price reductions of some Polish banks reached over 70%. The Bank's "result" was only slightly below that of the WIG20 index, which registered a 47.7% decline.

8.3 Interest rates

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

As at 31 December 2008:

in %	Commercial Bank			Consumer Bank		
	PLN	**EUR**	**USD**	**PLN**	**EUR**	**USD**
ASSETS						
Receivable from financial and non-financial sector entities						
- fixed term	7.03	4.14	3.11	19.17	4.14	7.40
Debt securities	5.57	4.08	5.49	-	-	-
LIABILITIES						
Payable to financial and non-financial sector entities						
- fixed term	5.53	2.95	1.87	7.39	3.78	2.93

As at 31 December 2007:

in %	Commercial Bank			Consumer Bank		
	PLN	EUR	USD	PLN	EUR	USD
ASSETS						
Receivable from financial and non-financial sector entities						
- fixed term	5.70	4.50	5.06	19.63	6.75	9.05
Debt securities	5.29	3.57	4.83	-	-	-
LIABILITIES						
Payable to financial and non-financial sector entities						
- fixed term	4.36	4.52	5.03	4.21	3.36	3.92

8.4 Awards and honours

In 2008 Bank Handlowy w Warszawie S.A. and the Leopold Kronenberg Foundation received a number of prestigious honorary titles:

- The Bank was honoured with the emblem of the Entrepreneur Friendly Bank in the 9th edition of a competition organised by the Polish Chamber of Commerce and the Polish-American Advisory Foundation;
- The Bank's Reserved Account received awards in the 12th edition of the Europrodukt competition;
- The Bank was awarded the title of the High Reputation Brand in the Premium Brands ranking;
- The Bank's Comfort Direct Debit was awarded in the 13th edition of the Europrodukt competition as an innovative receivables management product for corporate clients;
- According to a ranking prepared by Manager Magazine, the Bank is a leader in private banking in the Polish market. The Bank took the first place in the Private Banking Leaders category as well as the Cards and the Investments categories;
- The Bank was granted the Galeon 2008 award by the National Depository for Securities for its creative co-operation with financial market institutions;
- The Bank was honoured with the title of the Sponsor of the Year 2008 of the National Philharmonic in Warsaw;
- The Leopold Kronenberg Foundation was honoured with the Award of the Association for Civic Financial Security in Poland (STOB); granted for its commitment and action for financial education;
- The Bank received the highest BI-NGO Index in 2008. In this second edition of the study the Institute for Responsible Business looked at 500 websites of the largest companies in Poland in terms of their content on social responsibility.

8.5 Engagement in cultural patronage and social responsibility projects

Social responsibility projects

The Bank has pursued its mission of social responsibility via the Leopold Kronenberg Foundation, a charitable institution which supports on the Bank's behalf various public benefit activities. In 2008 the Foundation focused its efforts on such areas of interest as: economic education and promotion of entrepreneurship, and initiation and coordination of the Bank's employee volunteer projects addressed to the socially disadvantaged as well as those aiming at preservation of cultural heritage.

The Leopold Kronenberg Foundation intermediated in implementation of the most far-ranging programmes of economic education in Poland:

My Finances (*Moje Finanse*) – the largest Polish economic education programme conducted in co-operation with the National Bank of Poland and the Foundation of Entrepreneurship of Young People; and addressed to pupils of higher secondary level schools. Since November 2007 the programme proceeded with its second edition, with the educational curriculum expanded to include additional topical modules, including educational activities for the parents. In this new release – expected to run until the end of 2010 – the programme will have doubled in its scope; to reach some 450,000 students. Within the framework of the programme and in collaboration with the Gazeta Wyborcza daily, we organised the My Finances – from the Class to a Teller Window competition, with the aim of assisting the students in acquiring the skills of making reasonable financial decisions. Over 70,000 pupils of lower and higher secondary schools participated in it to date.

From a Grosz to a Złoty (*Od grosika do złotówki*) – the first Polish financial education programme for pupils of primary schools executed in the context of integrated learning, in collaboration with the Foundation of Entrepreneurship of Young People. This is run jointly by teachers and volunteers from the Bank with collaboration of the parents. The programme is intended to help children develop habits of saving money, developing their awareness of the value of work, learning what money can be used for and preparing children for the task of taking rational shopping decisions. The programme is comprised of two parts: the second form primary school children are involved in the educational module that takes the form of a journey through the Finance Galaxy, while the third form primary school children are involved in a day-long workshop devoted to the topic of saving, which is entitled Grosz Journeys. In 2008 the programme participants included circa 13,800 pupils, 18,000 parents and 480 teachers.

Banks in Action (*Banki w Akcji*) – an economic education programme addressed to higher secondary school students with expanded finance and banking curriculum. It takes the form of a management course, which provides knowledge and opportunities for exploring such areas as strategic management, analytical thinking, financial analysis and decision making, as it develops general knowledge on operation of the banking sector. Implemented by the Leopold Kronenberg Foundation and the Foundation of Entrepreneurship of Young People, the programme is made up of two modules:

1) Banks in Action – Enterprise Day (*Banki in akcji - Dzień przedsiębiorczości*) – one day in the year on which higher secondary school students are invited to the Bank so that they can see what the work of bankers involves. The project is executed in the context of the nationwide Enterprise Day programme. In 2008 the Enterprise Day was held on 3 April, on which day the Bank received 269 students: the largest number among all the firms taking part in the programme.

2) The Banks in Action Competition (*Olimpiada Wiedzy o Finansach – Banki in Akcji*) – organised with the Foundation of Entrepreneurship of Young People and a group of eight university schools of banking. The 'Olympic' competition fits within a larger framework of subject 'Olympiads' authorised by the Polish Ministry of National Education and addressed to students of upper secondary schools seriously interested in economy. The young people engaging in the school competition complete an on-line test. In the district and ultimately central level competition the students compete via an interactive English language computer game entitled Banks in Action, which simulates management of a commercial bank. The success in the competitive struggle with secrets of economy ensures not only high grades in Basics of Enterprise, but is also an opportunity for winning a student card for enrolment in a university school of banking. Over 8,000 pupils of 589 secondary schools took part in the first edition of the competition.

Week for Savings (*Tydzień dla Oszczędzania*) – an educational campaign, which the Bank organised for the second time jointly with the Financial Supervision Authority, this in the context of the World Savings Day celebrations held 31 October. The programme aims to promote the habits of saving and the skills of rational management of own financial resources among the Polish population. In 2008 the campaign was executed between 27 and 31 of October. The local Newsweek weekly published an occasional supplement devoted to the personal savings while the Polish Radio broadcast educational spots on the subject. The effort received additional support from a multimedia educational portal http://tdo.edu.pl, which published topical articles, advice, multimedia presentations, film and video blogs. Another important element involved some actions undertaken in schools, where students were given the task of organising celebrations of the World Savings Day. One of the new programme features introduced in 2008 was an internet-based competition for the best amateur film on management of personal finances, with the pool of prize money totalling PLN 45,000. The winning productions were subsequently structured into a video encyclopaedia on the subject of savings.

Competition for the Award of Bank Handlowy w Warszawie S.A. for outstanding contribution to development of economics and finance – this annually held competition organised since 1995 aims to promote the most valuable publications on theory of economics and finance. The award is perceived as one of the most prestigious ones in Poland in the field of economics. The Leopold Kronenberg Foundation has organised the competition for the past 14 years.

Within the framework of the 14th edition of the competition 10 submissions were considered. These were reviewed in a selection process conducted by a jury including: Prof. Leszek Zienkowski, the chairman, Prof. Zdzisław Sadowski, Prof. Marek Dąbrowski, Prof. Stanisław Gomułka, Prof. Urszula Grzelońska, Prof. Wacław Wilczyński, Prof. Andrzej Sławiński and Prof. Witold Koziński. The winner of the competition was Dr Cezary Wójcik; for his "Integration with the Eurozone. The theoretical and practical aspects of the convergence". The official award ceremony was held on 23 October 2008. The award proceedings were followed by the prize winner's lecture and an economic conference entitled Poland's Way to the Euro – Opportunities and Threats, presided over by Piotr Kalisz, Bank's Chief Economist. The invited panellists included: Prof. Stanisław Gomułka, chief economist of the Business Centre Club; Aleksandra Natalli-Świat MP, deputy chair of the Parliamentary Public Finance Committee; Prof. Witold Orłowski, chief economic adviser of PricewaterhouseCoopers Poland and, at the same time, the prize winner of the 4th edition award competition; Prof. Andrzej Sławiński, member of the Monetary Policy Council of the National Bank of Poland; Katarzyna Zajdel-Kurowska, under-secretary of state at the Ministry of Finance; and Dr Cezary Wójcik, the current competition winner.

ZrozumFinanse.pl, Bank's educational portal was visited by over 500,000 users in 2008. The project was launched in November 2007 and hence developed and evolved ever since. Its innovative segmentation allocates users into three groups: Singles, Couples and Families. Website content that has enjoyed unabating popularity is the Strategic Game, a financial management simulation game. The player's task over the game's 30 rounds (each symbolising one month in their life) is to manage their personal finances in such a way as to maximise their financial resources by the game' end, this including: cash, savings (deposits, investment trust funds), personal property (e.g. a vehicle) and real property (e.g. a flat), and the relevant financial security instruments (pension fund, life insurance policy).
To facilitate navigation and access to its content, the portal has been structured into respective sections, in which content is grouped thematically. The visitor is provided with the choice of the following: Step By Step, Financial World, What Do You Do When, Know the Consequences, Topic of the Day and Glossary. The varied selection of multimedia solutions includes presentations, films and survey presenting the practical aspects of respective banking products.

Micro-entrepreneur of the Year 2007 is a unique competition addressed to owners-operators of small businesses. Through organisation of the event the Foundation seeks to promote active stance toward entrepreneurship, stimulate establishment of small businesses and to present the best of them as effective business models. The Micro-entrepreneur of the Year 2008 titles went to: Marek Łangowski, Jerzy Michalski, Andrzej Magiera and Robert Magiera, the persons who established TeleMobile Electronics, and who were nominated by the Gdynia Innovation Centre. TeleMobile is an innovative firm operating in the telecommunications market, a provider of base station equipment diagnostic, testing and repair services for mobile systems.

The Foundation has run the **Employee Volunteer Programme** with the aim of assisting the Bank employees in developing their social responsibility and involvement. The four main pillars of the programme include employee engagement in: dissemination of financial education; construction of homes for underprivileged families together with the Habitat for Humanity foundation; and the innovative voluntary work projects – executed in the course of corporate integration trips and Citi's Global Community Day; Additionally, the Bank employees can choose from among hundreds of voluntary work offers posted by the Volunteer Centre. The employees offer their voluntary assistance individually and in organised groups. In 2008 the voluntary activities of various types engaged 1,335 Bank volunteers across the country, who contributed overall 7,500 hours of their time to social causes. The third edition of Citi's Global Community Day encompassed 45 localities and 87 projects across Poland involving 1,226 Bank volunteers together with their families and fiends and 15,000 beneficiaries.

The Bank and the Kronenberg Foundation were the main partners of the Newsweek Poland magazine in organisation of a series of 16 regional conferences on **Social Responsibility** of Business involving local business circles; between October 2007 and May 2008. The main purpose of these meetings is to disseminate the idea of social responsibility of business among local businessmen in Poland, to demonstrate to them how they can engage in activity of this kind and what they stand to gain from engaging in the life of the community in which their run their business. The regional conferences promote the idea of social responsibility, show some best practices and encourage the audiences to apply for EU funding available for socially responsible actions. The 10 conferences held in 2008 brought together nearly 700 participants (over 1,000 in the entire conference cycle to date). The programme included the Good Deal competition for the most socially engaged firm in the region. The Academy for Development of Philanthropy in Poland acted as the project's consultant partner. At the final conference held in Warsaw on 27 May, with participation of Sławomir S. Sikora, President of the Bank Management Board, the project presented, among others, the first comprehensive report on socially responsible business at the local level in Poland.

The Bank and the Leopold Kronenberg Foundation together with Our Earth Foundation implemented the **More Trees Thanks to You** project. Within it the Bank would plant a tree on behalf of each customer who decided to move to electronic bank statements. Within the programme, in spring of 2008, 40 000 trees were planted in the Mazowieckie Voivodship, which is affected by the problem of loss of 'green corridors' (migration trails for animals and plants). Selected schools of the Mazowieckie Voivodship, Bank clients and employees, including the President and Members of the Management Board took part in the tree planting campaign. Aforestation was carried out under the supervision and in keeping with a plan adopted by the State Forests. On 26 April, during the Earth Day, the grand finale was held in the Młocińskie Forests in Warsaw of the first tree planting campaign combined with ecological picnic, with over 300 employees and customers of the Bank attending.

The Foundation also runs the **Subsidies Programme**. In the first half of 2008 the project work focused on implementation of an innovative, electronic application submission system. Instead of the tradition form of a paper-based application filed in 5 duplicate copies, the applications will be accepted in a novel Electronic Subsidy Application Processing System. The software system will support handling of the entire application acceptance and assessment process. This will facilitate the process and clear environmental benefits.

8.5.1 Cultural patronage

For its **co-operation with the National Philharmonic** the Bank's was awarded the title of the Sponsor of the Year 2008. In March 2008 the Bank sponsored a concert of Nigel Kennedy, a megastar virtuoso violinist. The performance took place at the National Philharmonic. The artist performed Sir Edward Elgar's Violin Concerto in B minor with the Wrocław W. Lutosławski Philharmonic Orchestra conducted by Jacek Kaspszyk, its Musical Director. The conductor led the same ensemble in Johannes Brahms' Piano quarter No. 1 in G minor in Arnold Schönberg's transcription and arrangement for symphony orchestra.

In 2008 the Bank was **the strategic partner of Colloquia Tischneriana**, a series of debates organised at the Warsaw University by its Erasmus of Rotterdam Department and the Institute for Human Sciences, Vienna. The debates set out to discuss the key issues of modern democracy, which involve intellectuals, scientists and politicians of international renown. In the year 2008 the Colloquia hosted, among others, Madeleine Albright, Lord Anthony Giddens, Shimon Peres, Henryka Bochniarz, Waldemar Pawlak and Magdalena Środa.

In the field of cultural heritage, the Foundation completed the ninth edition of granting the **Professor Aleksander Gieysztor Award**. This most prestigious award is granted for activity aimed at preservation of the Polish cultural heritage. It is granted annually to institutions and individuals, among others, for:

- museum, restoration, archive and library work;
- commemoration and preservation of the Polish cultural heritage abroad;
- initiatives aimed at collection and preservation of traces and mementos of cultural heritage;

- dissemination of knowledge on the needs and methods of preservation of cultural heritage in Poland.

This year's award went to the Ossolinski National Institute in Wrocław, which was recognised for near two centuries of acquisition and collecting of the most precious archives and book items of unique significance for the Polish national culture. The award was conferred on 18 March 2008 at a gala held at the Royal Castle in Warsaw. The Foundation also engaged in production of a documentary on the Ossolinski National Institute entitled Memory and Identity.

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

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

1.1 *Economy*

The Bank's economic forecasts indicate that the financial crisis, spreading from developed to emerging economies, can inhibit Poland's economic growth considerably. The recessionary trends in the euro area are highly likely to have an adverse effect on Polish exports. Moreover, should financial condition of the corporate sector deteriorate further as export markets continue to shrink, Polish companies will likely curtail their investment expenditures.

Economic downturn can be accompanied by gradual inflation fall, which comes, among others, from diminished inflation and pay related expectations of households faced with financial crisis. Thus, gradual realignment of inflation with the inflationary target of the Monetary Policy Council would allow the authorities responsible for monetary policy to continue on course of cutting interest rates, with the aim of easing the adverse effects of the financial market collapse.

Continued financial market turbulences could lead to volatility of Polish zloty vis-à-vis currencies of developed economies. Under the pessimistic scenario, such changes in the currency markets could cause collateral deterioration in financial condition of households and companies burdened with foreign currency loans.

1.2 *Regulatory risk*

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

The most relevant of these regulations include and cover:

- acceptable concentration of loans and total receivables (Banking Law Act);
- maximum limit of equity that may be invested in the capital market (Banking Law Act);
- liquidity, solvency and credit risk standards (resolutions of KNB and KNF);
- risk management in banks (Banking Law Act, resolutions of KNB and KNF);
- mandatory reserves, establishment and transfer (NBP Act, Banking Law Act, resolutions of KNB and KNF, and resolutions of the NBP Management Board);
- taxes and similar charges;
- Act Amending the Civil Code Act and Certain Other Acts of 7 July 2005 limiting the maximum interest rates on consumer loans and the maximum fees chargeable on such loans;

- restrictions in granting mortgage-secured foreign currency loans arising from Recommendation S of KNB;
- Competition and Consumer Protection Act of 16 February 2007;
- Countering Unfair Market Practices Act of 23 August 2007;
- Countering Introduction into Financial Circulation of Property Values Derived from Illegal or Undisclosed Sources and Counteracting the Financing of Terrorism Act of 16 November 2000;
- Consumer Credit Act of 29 July 2001.

Also, because of the failure to implement in the Polish law within the required timescales, i.e. by 1 November 2007, of the Commission Directive 2004/39/EC of 21 April 2004 on markets in financial instruments (MiFID Directive) and of relevant executive legislation, including the Commission Regulation (EC) 1287/2006 and the Commission Directive 2006/73/EC (both dated 10 August 2006), the process of adjustment of the institutions MiFID Directive applies to (investment firms and lending institutions conducting investing activities) has not been conducted in compliance with the provisions specified by the European Union. Legislative process proceeded in the year 2008 with the aim of transposing European on to national regulations, and in particular to the Trading in Financial Instruments Act and the ordinances issued by the Minister of Finance on the basis of the act. On 4 September 2008 the Polish Parliament passed: the Act on Amendment of the Trading in Financial Instruments Act and Certain Other Acts; the Act on Amendment of the Public Offerings, the Conditions for Admitting Financial Instruments to the Regulated System of Trading and the Publicly Traded Companies Act and on Amendment of Certain Other Acts; and the Act on Amendment of the Investment Funds Act, the Banking Law Act and the Financial Market Supervision Act; thus completing the legislative process and implementation of the MiFID Directive in Poland. On 23 September 2008 the President of the Republic of Poland referred to the Constitutional Tribunal a motion for examining the constitutionality of the Act on Amendment of the Trading in Financial Instruments Act and Certain Other Acts, while the remaining two acts were published on 29 December 2008 and entered into force as of 13 January 2009. As a result, the process of implementing the MiFID Directive solutions into the Polish legal order will have extended at least into the year 2009.

1.3 *Competition within the banking sector*

At the time of uncertainty plaguing global financial markets, Polish banking sector seems a relatively attractive and fast-developing market. The problem of ‘toxic’ assets, which are the source of the present global crisis, only marginally relates to the Polish banking sector, nonetheless, negative effects of the economic downturn are unavoidable in 2009.

One significant risk factor in 2009 will be that relating to securing stable sources of financing, which enable continued delivery of credit at the appropriate level. The mutual mistrust between domestic banking institutions – stagnation in the interbank market being its manifestation – has caused significant loss of liquidity in the system. Total loans have exceeded total deposits; meaning that we cannot exclude continuing fierce competition for deposits, which can have an adverse effect on margins.

Another risk factor which can adversely affect the Bank’s earnings is the projected raise in net impairments resulting from the economic downturn, which would translate into poorer results of the corporate sector and higher unemployment, which, in turn, can lead to problems with timely debt service. Another risk factor that can contribute to growth in impairment losses are the negative valuations of some derivative instruments; driven by substantial depreciation of the zloty.

Aware of these risk factors, the Bank is, nonetheless, well prepared to compete under these demanding conditions, has a strong capital base and is perceived in the Polish market as a stable and trustworthy banking institution. It is, however, likely that the mounting banking sector competition and the economic downturn can adversely affect the Bank’s earnings.

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

2.1 Liquidity risk

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

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

Within the framework of liquidity management activities, the Asset and Liability Committee is responsible for the preparation and implementation of a unified policy towards liquidity risk. In addition, it approves annual liquidity plans, plans of funding of the Bank's assets and its liquidity limits as well as contingency action plans in the area of liquidity. It also determines threshold limits for particular sources of funding and carries out regular reviews of liquidity risk reports.
The Bank's deposit base is stable and diversified. In addition, the Bank has good access to interbank funding and adequately high capital base. The level of liquidity risk is thus low.

2.2 Foreign exchange risk

The Bank performs foreign exchange operations both on behalf of its customers and on its own account, and holds open foreign exchange positions within established limits. As a result, the Bank is exposed to exchange rate risk and there is no certainty that future movements in exchange rates will not have an adverse effect on the Bank's financial standing. The control of foreign exchange risk is the responsibility of the Market Risk Department, which cooperates with the Treasury Department, the unit managing the Bank's liquidity and its foreign exchange position. The market risk is moderate and the limit of value at risk (VaR) arising from open foreign exchange positions is established at below 1% of the Bank's equity.

2.3 Interest rate risk

Along with the other Polish banks, the Bank is exposed to a risk arising from mismatch in timing of changes in interest rates on its assets and the underlying liabilities. Interest rate risk can arise when a fall in income caused by lower rates of interest on loans proves impossible to offset through a corresponding reduction in the rates of interest paid to depositors. This risk also applies to situations where a rise in deposit rates cannot be offset by a corresponding rise in lending rates. The management of interest rate risk is one of the functions of the Bank's Asset and Liability Committee, which, among others, determines the Bank's pricing policy in the context of interest rate risk. In the year 2008 the level of interest rate risk ranged between moderate and high.

2.4 Credit risk

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

2.5 *Equity investment risk*

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

2.6 Operating risk

The Bank defines operating risk as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. Operating risk includes the risk relating to business practices and legal risk, in other words, the risk of non-compliance with the effective regulations of law and internal regulations of the Bank. Operating risk does not include the reputational risk, the strategic risk or the risk of potential losses arising from decisions relating to undertaking the credit risk, the market of potential, the liquidity risk or the insurance and underwriting activity risk.

The rules of operating risk management are regulated by the Policy for the Operating Risk Management.

The key roles and responsibilities for operating risk at different levels of the Bank's top management:

- the Bank Management Board is responsible for development and implementation of the risk management strategy, and within that for organisation and functioning of operating risk management process and – if needed – for ensuring the adjustments necessary for improving that process. The operating risk management rules and procedures cover the entire scope of the Bank's operations. All the strategic decisions on the Bank's policy, its organisation, allocation of roles and responsibilities, process reengineering, automation and centralisation represent the sole domain of the Bank Management Board;
- the Supervisory Board exercises oversight over the control of the operating risk management system and assesses its adequacy and effectiveness;
- Each of the main business segments and each subsidiary have the obligation of implementing their operating risk management processes that are consistent with the requirements of the operating risk management policy. Though risk identification, self-assessment and the reporting processes and largely regulated and uniform in the business units, each business unit defines own risk containment, monitoring and measurement processes, which can differ between them.

The operating risk management process in the Bank is aimed at ensuring:

- consistent and effective approach to identification, control, assessment, monitoring and measurement of operating risk and reporting in this respect;
- effective reduction of the level of exposure to operating risk, and consequently reduction of the number of operating risk events and severity of their effects (the policy of low level of tolerance for operating losses);
- fulfilment of the operating risk related capital requirement; and

- compliance with regulations relating to operating risk management.

The Bank has employed various tools and methods in managing operating risk (including in particular policies, procedures, checklists, limits, the self-assessment process, data security management tools, contingency plans, insurance policies and audits). The operating risk management process is further supported through the qualitative and quantitative measurements of operating risk. The risk management processes the Bank applies serve to limit the sources of adverse consequences of any operational events (including operational losses) in order to reduce the probability of occurrence of such events and to minimise the severity of the potential effects.

Management of operating risk is based on the following key elements:

- risk identification
- risk limitation
- risk self-assessment and control
- risk monitoring
- risk measurement, and
- reporting of the areas exposed to operating risk.

The self-assessment process implemented by the Bank includes ongoing identification, control, assessment, monitoring, measurement and reporting of both the control process quality and of any potential threats. Data on the impact of operating risk (loss) related events are collected and analysed on regular basis.

The following categories of risk related losses are the subject of assessment:

- losses resulting from fraud, theft and/or unauthorised events
- losses resulting from execution of transactions, delivery of services and management of processes
- losses resulting from human resource management and/or work safety practices
- losses resulting from damage to tangible fixed assets.

The responsibility for ongoing monitoring of operating risk rests with the Risk, Control and Compliance System Committee. All detected instances of oversight, remedial actions, operational events and operating risk indicators are the subject of regular reports submitted with relevant committees for review. At the same time, the operating risk management process quality (including the self-assessment process) in the respective organisational units of the Bank is the subject of inspections and assessments carried out by the internal audit structures.

In the Bank Management Board’s opinion, the general level of the Bank’s operating risk can be assessed as moderate, typical to the scope and scale of the Bank’s operations. The Bank will concentrate its future actions in this area on the processes included in the Bank’s risk profile.

The Bank follows the standard method of calculation of the operating risk related capital requirement.

2.7 *Contributions to the Bank Guarantee Fund*

Pursuant to the Act on the Bank Guarantee Fund, the Bank is included in a mandatory deposit insurance scheme for personal deposits. The banks included in the scheme are required to make specific contributions to the Bank Guarantee Fund.

In the event of general deterioration of standing of the banking sector institutions or of bankruptcy or financial distress of one of the participating institutions, the Bank and other participants in the Bank Guarantee Fund may be required to make large payments to the Fund, in proportion to the guaranteed deposit insurance fund calculated in respect of a given institution or institutions. This could adversely affect the Bank’s earnings.

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

1. The Bank's general development objectives

The Bank's overriding long-term objective is to systematically increase shareholder value by ensuring appropriate return on equity and growth of market share in its key market segments.

Our objective is to operate a liquid, adequately capitalised Bank characterised by selective approach to the business, and its clients and customers, as well as by prudential approach to risk, with the aim of achieving optimal financial results in the economic downturn. The Bank intends to continue active acquisition of potential customers and clients, both for the Consumer Bank and its corporate banking business, with particular focus on medium-net-worth individuals and SMEs. It perceives customer satisfaction the key factor of success in acquisition of customers and clients, and thus intends to follow through with a series of initiatives aimed at improving that further, such as streamlining operating processes or operation though shared branch network.

In the medium term the Bank continues to pursue the objective of achieving double-digit market share, measured as participation in the result on banking activity of the entire sector. In 2008 that share stands at approximately 5%. The objective can be achieved as the Bank retains its position of leadership in corporate banking and as it continues with the dynamic improvement in results achieved to date in the Consumer Bank.

Throughout the period of economic downturn, the Bank will offer products tailored to the need of its customers and clients, and will undertake actions aimed at retaining financial stability and trust of its customers and clients. The Bank pays much attention to cost discipline; a significant contribution to earnings, particularly in the face of an economic slowdown in Poland.

1.1 Corporate and Commercial Bank

As a leader in corporate banking in Poland, the Bank addresses a rich and continually tailored and readjusted offer to all companies, irrespective of the market segment in which they operate, with the exception of those that belong to the sectors permanently excluded from the Bank's target markets due to the Bank's policy or to their blacklisting, a consequence of them being sanctioned by either international organizations or the U.S. government.

At the end of 2008 the Bank's market share in corporate loans reached 3.3% compared to 4.2% at the end 2007 while its share in corporate deposits stood at 7.4% and 8.5% respectively.

The Bank retains a particularly strong position in servicing international corporations and the largest Polish companies. It also holds a leading position in handling money market and foreign exchange transactions. Its goal is to retain its present market share in all these segments and to improve its position in all the other areas of corporate banking.

The Bank intends to continue acquiring new customers on this market and to deepen the relationships with its existing customers. The Bank also intends to continue its expansion into the small and medium enterprises (SMEs) segment while it puts emphasis on loan portfolio quality and proper fund allocation.

Substantial part of the Bank's revenue will come from Treasury Division products, including cash management and trade finance. Innovative products of the highest quality will be one of the key determinants of the Bank's competitive advantage, particularly in its cooperation with the most demanding domestic and international clients. The Bank's aim is to gain a position among the top three banks in terms of revenue from banking activity in the corporate banking segment.

1.2 Consumer Bank

The Bank's aim is to become the most frequently recommended consumer bank in Poland, one which delivers lasting benefits to its customers, employees and shareholders.

The Bank's product offer is responsive to needs of customers representing various market segments. By developing comprehensive product offers tailored to their financial needs, it seeks to further strengthen relationships with its customers.

Launching of innovative banking product and service solutions is one of its priorities. The Bank will continue developing its offer of solutions addressed to the most demanding customers.

In 2008 the Bank consistently expanded its deposit offer to include new solutions and at the end of the year provided a complete range of deposit products and added services. Customers could take advantage of a comprehensive offer of: personal accounts; term deposits, including the new progressive deposit; and savings accounts, including the new *Konto SuperOszczędnościowe*. All these products are also available in foreign currencies.

Consequently, in 2009 the Bank intends to undertake actions aimed at acquiring new deposit customers; this by stressing the broad range of solutions dedicated to savings. It will also continue its strategy aimed at delivering comfort through innovative solutions. We will continue developing Pay By Mobile, the recently implemented mobile payments solution. At the same time, we intent to retain our leading position in the segment of high-net-worth individuals; reaching them with our comprehensive product offer, unique international banking solutions as well as insurance and investment products. In addition to developing its classic branch network, the Bank will also concentrate on increasing its reliance on intermediary distribution channels.

The broad offer of investment and insurance products is a response to the continuing interest in products of that type. The Bank offers carefully selected highest quality products of prestigious financial institutions and enhances its offer with new services as it take into account the changing needs of its customers, which includes guaranteed capital products. The Bank has also developed a competitive offer of structured products. In these times of pressure in the capital markets, the Bank has paid great attention to educating customers in the principles of systematic saving strategy.

The Bank intends to retain its position of leadership on the highly competitive credit cards market. With that purpose in view, it will concentrate in the year 2009 on developing its portfolio of co-branded cards, thus offering customers additional benefits. We also plan to cut down further on the credit decision times and to diversify our distribution channels.

Year 2008 was also one devoted to implementation of a new strategy for the SME segment: combining the best practices of the Consumer Bank and the Commercial Bank. In the near term we will implement all elements of the new strategy and continue adjusting them to the realities of the fast-changing market conditions. What remains unchangeable is the Bank's commitment to all the sub-segments of the SME landscape: to serving micro- and small enterprises through the branch network; and to complementing its offer addressed to retail customers and SMEs by drawing on the strengths of its Commercial Bank.

1.3 Distribution network

In the course of the year 2009 the Bank will use its best endeavours in order to ensure appropriate level of customer service. It will, at the same time, respond to market developments as they occur. The plans include opening of 11 new partnership outlets: agencies. The Bank will also implement novel solutions aimed at streamlining and stepping up cash management services for the customers.
The priorities include increasing functionality and accessibility of remote distribution channels and further upgrading the qualifications of the Bank consultants, in particular those serving large entities that require more sophisticated financial products. In the case of the Consumer Bank substantial emphasis will be placed on further growth of internet usage (Citibank Online). As a target, internet is to become for private individuals the basic transaction medium.

2. Synergies

The Bank combines its longstanding traditions and experience gained in the Polish market with the global experience of Citigroup to offer comprehensive solutions and service to all the customer and client segments, whatever their need. In this it takes advantage of the opportunities afforded by the synergies between corporate and consumer banking and between banking, leasing and brokerage services.

The Bank will continue exploiting the synergies between its consumer and corporate parts, among others, in such areas as: offering attractive consumer banking products to employees of the largest companies being the Bank's clients; offering corporate products (inter alia, specialist treasury, brokerage and asset management products) to customers of the CitiGold segment; offering a tailored product offer of the Treasury Division to micro-enterprises; and using a uniform branch network accessible to all customers and clients.

VI. Declaration of Bank Handlowy S.A. regarding compliance with corporate governance rules

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

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

Corporate governance rules as per the "Best Practices in Listed Companies", which were not applied by the Bank in 2008

The Bank declared its willingness to comply with the "Best Practices in Listed Companies", except for the following three rules:

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

(ii) rule IV.8 for ensuring a change of the entity authorized to audit the financial statements at least every seven financial years.

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

Bank's operations is submitted to the Supervisory Board on a monthly basis, which includes among others information on related party transactions exceeding PLN 100,000.

Rule IV.8 of the "Best Practices in Listed Companies" may not be applied as the Bank belongs to the Citi Capital Group and is included in the consolidated financial statements drawn up by Citigroup Inc., which applies separate principles of cooperation with entities auditing financial statements. At the same time, the Bank informs that it complies with the applicable regulations on statutory auditor rotation in line with Directive 2006/43/EC of the European Parliament of 17 May 2006 on statutory audits of annual accounts and consolidated accounts.

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

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

The process of drawing up the financial statements is subject to the Bank's internal control system, aimed at supporting decision-making processes which ensure credibility and reliability of financial reporting. The internal control system includes control mechanisms applicable to risks related to the process of drawing up the Bank's financial statements, auditing the Bank's compliance with legal provisions and internal regulations in this respect as well as internal audit.

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

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

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

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

On a periodic basis, at least once per annum, the Head of the ARR Department provides the Supervisory and the Management Boards with information on irregularities identified and conclusions arrived at in the course of the internal audits performed as well as measures undertaken with the objective to remove the irregularities or implement the conclusions. The ARR Head has the right to participate in meetings of the

Management and Supervisory Boards during which issues related to the Bank's internal control are considered.

Significant shareholdings

The Bank's shareholder holding directly or indirectly through its subsidiaries at least 5% of votes at the General Meeting of Bank Handlowy w Warszawie S.A. as of 31 December 2008 Citibank Overseas Investment Corporation (COIC) – a subsidiary of Citibank N.A. holding 97,994,700 shares, which accounted for 75% of the Bank's share capital. The number of votes corresponding to COIC's shareholding was 97,994,700, which accounted for 75% of the total number of votes at the Bank's General Meeting.

All shares issued by the Bank are ordinary bearer shares which do not involve any special control privileges with respect to the Bank.

In addition to restrictions under the Article 25 of the Banking Act – the act of assuming or acquiring the Bank's shares exceeding the threshold of 10%, 20%, 25%, 33%, 50%, 66% or 75% requires the approval of the Polish Financial Supervision Authority. Additionally, permission is required in the event of disposing of shares by an entity which has previously exceeded the thresholds specified above. The Bank's Articles of Association do not provide for any other restrictions as regards the transfer of its shares.

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

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

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

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

Based on resolutions, the Management Board decides on the Company's matters not reserved by the applicable laws and the Articles of Association to be a responsibility of another corporate body, in particular:

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

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

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

President of the Management Board:

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

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

Amendments to the Articles of Association

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

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

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

General Meeting procedure

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

It is the Company's practice that the General Meeting is held at the registered office of the Company in Warsaw. Pursuant to the Company's Articles of Association, the Ordinary General Meeting is held within six months from the end of each financial year. The Supervisory Board is entitled to convene the General Meeting in the event the Management Board fails to exercise this right within the aforementioned deadline. The Company complies with the rule of convening the Ordinary General Meetings not later than in the last week of June, before noon. The Extraordinary General Meeting is convened by the Management Board on its own initiative, upon the request of the Supervisory Board or shareholders representing at least one tenth of the share capital. For the purpose of General Meetings the Company provides a conference room whose size corresponds to the number of the Shareholders, professional interpreters as well as an electronic system for casting and counting votes.

It is the Company's practice that all important materials to be used at the General Meeting, including draft resolutions with a statement of reasons as well as opinions of the Management and Supervisory Boards are provided to the Shareholders at least 15 days (financial statements) or 7 days (copies of draft resolutions) prior to the General Meeting date. Additionally, materials to be used at the General Meeting are made available at the Company's registered office at the time of announcement of convening the General Meeting as well as published at the Company's website. Notwithstanding the foregoing, the Company fulfills all disclosure requirements related to convening General Meetings imposed by the applicable laws.

A General Meeting whose agenda included specific issues incorporated to it upon the motion of authorized entities or which has been convened upon such motion, may be cancelled only with the consent of the parties submitting the respective motions. Otherwise the General Meeting may be cancelled in the event its organization meets unusual obstacles (force majeure) or is obviously pointless. Cancellation is governed by the same rules as those applicable to convening and should ensure the least negative consequences for the Company and its shareholders, not later than three weeks prior to the initially planned date. Any changes to the General Meeting date are introduced in line with the cancellation procedure, even if the proposed agenda is not modified. The General Meeting is convened by placing an announcement in the Court and Business Monitor (Monitor Gospodarczy i Sądowy) at least three weeks prior to the General Meeting date.

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

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

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

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

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

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

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

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

General Meetings may be attended by the media.

Fundamental powers of the Company's General Meeting

The General Meeting should be convened to:

1) examine and approve the Management Board's report on the activities of the Company, its financial statements for the previous financial year as well as the consolidated financial statements of the Company's capital group;

2) adopt a resolution on profit distribution or loss coverage;

3) grant a discharge to members of the governing bodies of the Company with respect to fulfillment of their duties.

In addition to the competences set forth in absolutely applicable laws, the General Meeting is responsible for:

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

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

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

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

Shareholders' rights and their exercise method

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

The right to participate in the General Meeting is vested in owners of bearer shares who deposit their shares at the registered office of the Company at least one week prior to the General Meeting or in case of dematerialized shares – a name-bearing certificate of deposit.

A shareholder participating in the General Meeting is entitled to vote, file motions and raise objections as well as present a concise statement of reasons for their position.

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

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

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

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

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

1) could be detrimental to the Company, its related party or subsidiary, in particular through the disclosure of technical, trade or organizational secrets of the enterprise;
2) could expose a member of the Management Board to penal, civil or administrative liability.

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

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

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

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

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

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

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

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

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

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

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

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

Management Board

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

At present, the Management Board of the Company is composed of five members, including:

Sławomir S. Sikora – President of the Management Board;

Michał H. Mrożek – Vice-President of the Management Board;

Peter Rossiter – Vice-President of the Management Board;

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

Witold Zieliński – Vice-President of the Management Board.

The aforementioned persons were also members of the Management Board in 2008. In 2008, the Bank's Management Board comprised also Lidia Jabłonowska-Luba – Member of the Board and Edward Wess – Vice-President of the Board.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Supervisory Board

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

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

Chairman:	Stanisław Sołtysiński
Vice-Chairmen:	Shirish Apte, Andrzej Olechowski
Members:	Susan Blaikie, Sanjeeb Chaudhuri, Goran Collert, Mirosław Gryszka, Sabine S. Hansen, Krzysztof L. Opolski, Aneta Polk, Michael Schlein, Wiesław A. Smulski.

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

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

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

In addition to the rights and regulations stipulated in the applicable laws, the competences of the Supervisory Board include:

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

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

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

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

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

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

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

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

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

Meetings of the Supervisory Board are chaired by Chairman of the Supervisory Board and in their absence – by one of Vice-Chairmen of the Supervisory Board. In the event both the Chairman and Vice-Chairman are absent – the meeting is chaired by a member of the Supervisory Board elected by the remaining members.

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

1) any performances made by the Company or its related parties for the benefit of members of the Management Board;

2) granting consent to entering into a material agreement by the Company or its subsidiary and the Company's related party, member of the Supervisory Board or Management Board or their related parties;

3) appointment of a statutory auditor responsible for auditing the financial statements of the Company.

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

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

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

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

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

Supervisory Board Committees

Standing Committees of the Supervisory Board include:

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

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

In line with the aforementioned procedure, in 2003 the Supervisory Board appointed the **Strategy and Management Committee** responsible for ongoing analyses of all issues related to the activities performed by the Bank's corporate bodies as well as streamlining their functioning. The Committee is composed of: Shirish Apte acting as the Chairman and Goran Collert, Mirosław Gryszka, Andrzej Olechowski, Krzysztof Opolski and Stanisław Sołtysiński acting as Committee members. The Committee meets as convened by the Chairman.

Audit Committee

The Audit Committee is composed of:

1) Mirosław Gryszka – Chairman of the Committee;
2) Susan Blaikie – Deputy Chairman of the Committee;
3) Shirish Apte – Member of the Committee;
4) Krzysztof Opolski – Member of the Committee;
5) Aneta Polk – Member of the Committee;
6) Wiesław Smulski – Member of the Committee.

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

The roles and responsibilities of the Audit Committee include supervision over financial reporting, internal control, risk management as well as internal and external audits.

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

The Audit Committee consists of at least three members of the Supervisory Board, including at least two independent members of the Supervisory Board, one of whom performs the function of Committee Chairman. Committee members, including its Chairman and Deputy Chairman, are elected by the Supervisory Board. All Committee members have qualifications and experience in the field of finance. For the resolutions adopted by the Committee to be valid, at least three members must participate in the meeting.

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

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

At least on an annual basis the Audit Committee meets:

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

At its discretion, the Audit Committee may also meet with individual members of the Company's management.

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

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

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

The meetings of the Committee are chaired by Chairman of the Audit Committee. In the event of the Chairman's absence, the meetings are chaired by the Deputy Chairman. Upon consultation with the

Deputy Chairman of the Committee, the Chairman may remove an issue from the agenda, in particular for the purpose of supplementing a motion or obtaining an opinion.

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

Remuneration Committee

The Remuneration Committee is composed of:

1) Stanisław Sołtysiński – Chairman of the Committee;
2) Shirish Apte – Member of the Committee;
3) Sabine Hansen – Member of the Committee;
4) Andrzej Olechowski – Member of the Committee.

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

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

The competences of the Remuneration Committee include:

1) evaluating the remuneration paid to members of the Company's Management Board against arm's length criteria. The evaluation involves analysis of reports prepared by independent experts or independent market research companies and providing the Supervisory Board with information on material changes to arm's length conditions for remunerating management board members of competitive entities;
2) evaluating the remuneration paid to members of the Company's Management Board with respect to their scopes of duties and their performance. The evaluation involves analyses of the relationship between remuneration paid to individual members of the Company's Management Board and the present scope of their duties and the performance of such duties by members of the Company's Management Board as well as informing the Supervisory Board of material changes in the relationship referred to above;
3) providing the Supervisory Board with recommendations as to the amount of remuneration paid to individual members of the Company's Management Board each time prior to its determination or modification. Recommendations are submitted following the assessment of qualifications and scopes of duties of each member of the Company's Management Board as well as suggestions as to the adequate remuneration. The suggestions presented by the Remuneration Committee ought to apply to both the total amount of remuneration and its individual components;
4) performing a general assessment of the correctness of the remuneration policy adopted by the Company with respect to its management not being members of the Management Board.

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

Remuneration Committee meetings are convened by the Committee Chairman on their own initiative or by the Deputy Chairman in the event the Committee Chairman is unable to convene a meeting for any reasons whatsoever. Meetings are also convened upon the motion of a Committee member or Chairman of the Supervisory Board. Meetings of the Remuneration Committee are held at least twice per annum at dates determined by the Chairman of the Committee. The agenda of the Remuneration Committee includes standing items as well as issues considered upon motion.

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

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

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

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

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

Risk and Capital Committee

The Risk and Capital Committee is composed of:

1) Susan Blaikie – Chairman of the Committee;
2) Sabine Hansen – Member of the Committee;
3) Andrzej Olechowski – Member of the Committee;
4) Krzysztof Opolski – Member of the Committee.

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

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

The Committee consists of at least four members of the Supervisory Board, one of whom performs the function of the Committee's Chairman. For the resolutions adopted by the Committee to be valid, at least three members must participate in the meeting.
Committee meetings are convened by the Committee Chairman on their own initiative or upon the motion of a Committee member. Should the Committee Chairman be unable to convene a meeting for any reason whatsoever, the above right is exercised by the Deputy Chairman. Meetings are also convened upon the motion of a Committee member or Chairman of the Supervisory Board.
Meetings of the Committee are held at least on a semi-annual basis at dates determined by the Committee Chairman upon consultation with the Deputy Chairman of the Committee.
Notice of the meeting, including the agenda and materials subject to discussion are distributed to members of the Committee by the Secretary of the Committee (this role is performed by the Secretary of the Supervisory Board). The notice should include the agenda as well as materials related to the matters discussed at the meeting. The agenda of the Committee includes standing items as well as issues considered

upon motion. The Supervisory Board, individual Committee members as well as the remaining members of the Supervisory Board have the right to propose issues to be considered at the Committee's meetings.
All members of the Committee are obliged to participate in its meetings.
The Committee has the right to consult advisors and invite the Bank's employees or other parties to its meetings with the objective to discuss or examine the issues considered by the Committee.
Parties invited by the Committee Chairman or Deputy Chairman may participate in the meeting or its relevant part.

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

VII. Other information about Bank's authorities and corporate governance rules

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

The total amount of salaries, awards and benefits paid or payable to the current and former members of the Bank Management Board in 2008 is as follows:

PLN '000	Short terms salaries, awards and benefits		Capital assets granted
	Base salaries and awards	*Other benefits*	
Sławomir Sikora	2,771	574	239
Peter Rossiter	1,030	377	-
Sonia Wędrychowicz-Horbatowska	1,505	115	81
Witold Zieliński	1,262	97	90
Michał Mrożek	1,432	35	105
Former Members of the Bank Management Board:			
Lidia Jabłonowska-Luba (1)	377	44	65
Edward Wess (2)	2,151	1,330	139
Reza Ghaffari (3)	-	969	-
Philip King (4)	-	13	-
Sanjeeb Chaudhuri (5)	-	253	-
	10,528	**3,807**	**719**

(1) until 1 April 2008
(2) until 30 November 2008
(3) until 31 May 2006
(4) until 31 October 2005
(5) until *21 September 2006*

'Base salaries and awards' include gross salary paid and payable in respect of the year 2008 as well as awards granted in respect of 2008.

According to a decision of the Supervisory Board, the remaining amount of awards granted to members of the Bank Management Board in respect of 2007 paid in 2008 amounted to a total of PLN 5,082,000.

The total amount of 'other benefits' includes the gross amount of paid remuneration arising from indemnification for employment contract termination, benefits in kind, lump-sum payment for the use of company car, insurance policy premium, holiday leave equivalent, dividend and any supplementary benefits consistent with the employment contracts of foreign employees.

'Capital assets granted' include Citigroup shares granted in the previous years and distributed in 2008 as well as value of options on Citigroup common stock for which exercise rights were granted in 2008.

The total amount of salaries, awards and benefits paid or payable to the current and former members of the Bank Management Board in respect of the year 2007:

PLN '000	Short terms salaries, awards and benefits		Capital assets granted
	Base salaries and awards	*Other benefits*	
Sławomir Sikora	2,994	270	604
Edward Wess	2,314	218	223
Sonia Wędrychowicz-Horbatowska	1,515	123	229
Witold Zieliński	1,347	122	365
Lidia Jabłonowska-Luba	1,156	45	188
Michał Mrożek	1,777	44	261
	11,103	**822**	**1,870**

'Base salaries and awards' include gross salary paid and payable in respect of the year 2007 as well as awards granted in respect of 2007.

According to a decision of the Supervisory Board, the remaining amount of awards granted to members of the Bank Management Board in respect of 2006 paid in 2007 amounted to a total of PLN 4,613,000.

The total amount of 'other benefits' includes the gross amount of paid remuneration arising from indemnification for employment contract termination, benefits in kind, lump-sum payment for the use of company car, insurance policy premium, holiday leave equivalent, dividend and any supplementary benefits consistent with the employment contracts of foreign employees.

'Capital assets granted' include Citigroup shares granted in the previous years and distributed in 2007 as well as value of options on Citigroup common stock for which exercise rights were granted in 2007.

The total amount of salaries, awards and benefits paid or payable to the current and former members of the Bank Supervisory Board in the years 2008 and 2007 is as follows:

PLN '000	**2008**	**2007**
Stanisław Sołtysiński	240	267
Göran Colbert	120	120
Mirosław Gryszka	168	195
Andrzej Olechowski	216	203
Krzysztof L. Opolski	216	177
Wiesław Smulski	120	119
	1,080	**1,081**

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

No member of the Management Board is a shareholder of the Bank or any subsidiary company of the Bank. One member of the Supervisory Board holds 1,200 shares of Bank Handlowy w Warszawie S.A. of nominal value of PLN 4,800.

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

There is one agreement between the Bank and a member of the Management Board that includes a provision for cash compensation in case of termination.

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

4. Corporate governance rules

In the course of 2008 no principles of management followed by the Bank were amended. These principles are presented in the relevant Note to the Bank's Financial Statements.

VIII. Agreements concluded with registered audit company

On 20 March 2008, the Supervisory Board of the Bank appointed a registered audit company, KPMG Audyt Sp. z o.o. (KPMG) having its registered office in Warsaw, at ul. Chłodna 51, a registered audit company No. 458, to conduct an audit and a review of financial statements of the Bank and the Capital Group of the Bank for the year ended 31 December 2008. KPMG was selected in compliance with the applicable laws and regulations.

The contractual fees of KPMG (paid or payable) for the years ended 31 December 2008 and 2007 are presented in the table below:

PLN '000	**Applicable to year**	**2008**	**2007**
Audit fees (1)		741	741
Review fees for the Bank-parent company (2)		366	366
Other assurance fees (3)		-	12
		1,107	**1,119**

(1) The contract fees for the audit include fees paid or payable to KPMG for audit of the stand-alone financial statements of the Bank and consolidated financial statements of the Bank Capital Group (agreement signed on 10 October 2008);

(2) The contract fees for the review of the semi-annual stand-alone financial statements of the Bank and consolidated financial statements of the Bank Capital Group (agreement signed on 14 July 2008);

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

Other information required by the Ordinance of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and conditions of recognition of equivalent information required by the law of the non-member country (Journal of Laws No. 33, item 259) are included in the financial statements of the Bank.

Signatures of the Management Board Members

Date	Forename and surname	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	