TRANSLATION

BANK HANDLOWY W WARSZAWIE S.A.

2011 ANNUAL REPORT

MARCH 2012

SELECTED FINANCIAL DATA	In PLN '000		In EUR '000**	
	2011	2010	2011	2010
Interest income	1,894,419	1,941,366	457,578	484,808
Fee and commission income	664,877	671,052	160,594	167,579
Profit before tax	900,119	928,214	217,415	231,799
Net profit	721,294	748,026	174,221	186,801
Total comprehensive income	683,657	784,204	154,786	195,836
Increase/decrease of net cash	(2,257,442)	(831,840)	(545,263)	(207,731)
Total assets	41,542,014	36,701,673	9,405,455	9,267,397,
Amounts due to banks	5,543,891	2,951,518	1,255,183	745,276
Amounts due to customers	24,130,225	23,980,184	5,463,282	6,055,143
Shareholders' equity	6,355,587	6,422,092	1,438,957	1,621,618,
Share capital	522,638	522,638	118,330	131,969,
Number of shares (in pcs)	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN/EUR)	48.64	49.15	11.01	12.41
Earnings per share (PLN/EUR)	5.52	5.72	1.33	1.43
Diluted net earnings per share (in PLN/EUR)	5.52	5.72	1.33	1.43
Declared or paid dividends per share (PLN/EUR)*	2.76	5.72	0.62	1.44

** The presented ratios are related to declared dividend from the appropriation of the 2011 profit and dividend paid in 2011 from the appropriation of the 2010 profit.*

***The following foreign exchange rates were applied to transfer PLN into EUR: for the consolidated statement of financial position - NBP mid exchange rate as at 31 December 2011 - PLN 4.4168 (as at 31 December 2010: PLN 3.9603); for the consolidated income statement and consolidated cash flow statement - the arithmetic mean of NBP end-of-month exchange rates in 2011 – PLN 4.1401 (in 2010: PLN 4.0044).*

TRANSLATION

THE ANNUAL FINANCIAL STATEMENTS OF BANK HANDLOWY W WARSZAWIE S.A. AS AT 31 DECEMBER 2011

MARCH 2012

CONTENTS

Income statement

For a period *PLN '000*	Note	2011	2010
Interest and similar income	4	1,894,419	1,941,366
Interest expense and similar charges	4	(492,104)	(474,302)
Net interest income	4	**1,402,315**	**1,467,064**
Fee and commission income	5	664,877	671,052
Fee and commission expense	5	(81,350)	(71,723)
Net fee and commission income	5	**583,527**	**599,329**
Dividend income	6	26,271	12,509
Net income on financial instruments and revaluation	7	318,702	282,535
Net gain on debt investment securities	8	30,142	119,921
Net gain on equity investment instruments	9	-	3,888
Other operating income	10	54,777	68,482
Other operating expenses	10	(42,653)	(58,678)
Net other operating income	10	**12,124**	**9,804**
General administrative expenses	11	(1,336,206)	(1,276,558)
Depreciation expense	12	(52,518)	(56,762)
Profit/loss on sale of tangible fixed assets	13	2,073	1,045
Net impairment losses	14	(86,311)	(234,561)
Profit before tax		**900,119**	**928,214**
Income tax expense	15	(178,825)	(180,188)
Net profit		**721,294**	**748,026**
Weighted average number of ordinary shares (in pcs)	16	130,659,600	130,659,600
Net earnings per share (in PLN)	16	5.52	5.72
Diluted net earnings per share (in PLN)	16	5.52	5.72

Statement of comprehensive income

For a period *PLN '000*	Note	2011	2010
Net profit		**721,294**	**748,026**
Other comprehensive income:			
Net valuation of financial assets available-for-sale	17	(37,637)	36,178
Total comprehensive income for the period		**683,657**	**784,204**

Explanatory notes on pages 10-84 are integral part of the annual financial statements.

Statement of financial position

PLN '000	Note	31.12.2011	31.12.2010
		State as at	
ASSETS			
Cash and balances with Central Bank	18	979,616	3,206,554
Amounts due from bank	19	548,182	2,272,899
Financial assets held-for-trading	20	5,801,713	3,995,217
Debt securities available-for-sale	21	17,625,355	13,029,254
Equity investments	22	303,626	303,165
Amounts due from customers	23	14,049,241	11,665,611
Tangible fixed assets	24	406,632	431,366
Intangible assets	25	1,290,296	1,283,134
Income tax assets	27	318,015	305,253
Current		-	67,171
Deferred		318,015	238,082
Other assets	28	193,676	199,319
Non-current assets held-for-sale	29	25,662	9,901
Total assets		**41,542,014**	**36,701,673**
LIABILITIES			
Amounts due to banks	30	5,543,891	2,951,518
Financial liabilities held-for-trading	20	4,840,447	2,804,437
Amounts due to customers	31	24,130,225	23,980,184
Liabilities due to debt securities issuance	32	25,336	11,533
Provisions	33	34,857	32,227
Liabilities due to income tax	27	72,919	-
Current		72,919	-
Other liabilities	34	538,752	499,682
Total liabilities		**35,186,427**	**30,279,581**
EQUITY			
Share capital	36	522,638	522,638
Share premium	36	2,944,585	2,944,585
Revaluation reserve	36	(82,485)	(44,848)
Other reserves	36	2,249,555	2,251,691
Retained earnings		721,294	748,026
Total equity		**6,355,587**	**6,422,092**
Total liabilities and equity		**41,542,014**	**36,701,673**

Explanatory notes on pages 10-84 are integral part of the annual financial statements.

Statement of changes in equity

PLN '000	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total equity
Balance as at 1 January 2011	**522,638**	**2,944,585**	**(44,848)**	**2,251,691**	**748,026**	**6,422,092**
Total comprehensive income	-	-	(37,637)	-	721,294	683,657
Valuation of capital rewards program, including:	-	-	-	(2,789)	-	(2,789)
valuation change	-	-	-	(5,900)	-	(5,900)
deferred income tax	-	-	-	3,111	-	3,111
Dividends paid	-	-	-	-	(747,373)	(747,373)
Transfer to capital	-	-	-	653	(653)	-
Closing balance as at 31 December 2011	**522,638**	**2,944,585**	**(82,485)**	**2,249,555**	**721,294**	**6,355,587**

Note: 17, 36, 45

PLN '000	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total equity
Balance as at 1 January 2010	**522,638**	**2,944,585**	**(81,026)**	**2,223,274**	**525,152**	**6,134,623**
Total comprehensive income	-	-	36,178	-	748,026	784,204
Valuation of capital awards program, including:	-	-	-	(4,148)	-	(4,148)
valuation change	-	-	-	(3,017)	-	(3,017)
deferred income tax	-	-	-	(1,131)	-	(1,131)
Dividends paid	-	-	-	-	(492,587)	(492,587)
Transfers to capital	-	-	-	32,565	(32,565)	-
Closing balance as at 31 December 2010	**522,638**	**2,944,585**	**(44,848)**	**2,251,691**	**748,026**	**6,422,092**

Note: 17, 36, 45

Explanatory notes on pages 10-84 are integral part of the annual financial statements.

Statement of cash flows

PLN '000 For the period	2011	2010
A. Cash flows from operating activities		
I. Net profit	**721,294**	**748,026**
II. Adjustments to reconcile net profit or loss to net cash provided by operating activities:	**(2,128,249)**	**(1,007,896)**
Current and deferred income tax recognised in income statement	178,825	180,188
Depreciation expense	52,518	56,762
Impairment	85,416	260,443
Net provisions (recoveries)	895	(25,882)
Profit/loss on sale of investments	(917)	(1,435)
Interest received	1,460,000	1,631,653
Interest paid	(493,102)	(486,851)
Other adjustments	(1,562,226)	(1,689,456)
Cash flows from operating income before changes in operating assets and liabilities	**(278,591)**	**(74,578)**
Increase/decrease in operating assets (excl. cash and cash equivalents)	**(6,605,035)**	**(955,179)**
Increase/decrease in amounts due from banks	1,697,415	1,279,882
Increase/decrease in amounts due from customers	(2,379,273)	765,022
Increase/decrease in debt securities available-for-sale	(4,220,810)	(4,392,928)
Increase/decrease in equity investments	(531)	624
Increase/decrease in financial assets held-for-trading	(1,754,930)	1,371,485
Increase/decrease in assets available-for-sale	(18,308)	-
Increase/decrease in other assets	71,402	20,736
Increase/decrease in operating liabilities (excl. cash and cash equivalents)	**4,755,377**	**21,861**
Increase/decrease in amounts due to Central Bank	-	(973,058)
Increase/decrease in amounts due to banks	2,596,987	1,216,099
Increase/decrease in amounts due to customers	151,875	(7,328)
Increase/decrease in amounts due to debt securities issuance	13,802	11,533
Increase/decrease in liabilities held-for-trading	2,036,010	(304,056)
Increase/decrease in other liabilities	(43,297)	78,671
Cash flows from operating activities	**(1,406,955)**	**(259,870)**
Income tax paid	**(82,016)**	**(40,810)**
III. Net cash flows from operating activities	**(1,488,971)**	**(300,680)**
B. Cash flows from investing activities		
Purchase of tangible fixed assets	(41,646)	(22,916)
Disposal of tangible fixed assets	8,261	16,840
Purchase of intangible assets	(22,329)	(17,146)
Disposal of fixed assets/liabilities available-for-sale	-	9,801
Dividends received	20,697	6,938
Other investing inflows	70	1,227
Net cash flows from investing activities	**(34,947)**	**(5,256)**
C. Cash flows from financing activities		
Dividends paid	(747,373)	(492,587)
Inflows due to long-term loans from financial sector	24,730	10,365
Repayment of long-term loans from financial sector	(34,423)	(46,822)
Net cash flows from financing activities	**(757,066)**	**(529,044)**
D. Exchange rates differences resulting from cash and cash equivalent calculation	**23,542**	**3,140**
E. Net increase/decrease in cash and cash equivalent	**(2,257,442)**	**(831,840)**
F. Cash at the beginning of reporting period	**3,301,549**	**4,133,389**
G. Cash at the end of reporting period (see note 43)	**1,044,107**	**3,301,549**

Explanatory notes on pages 10-84 are integral part of the annual financial statements.

Explanatory notes to the financial statements

1. General information about the Bank

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

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

The Bank was set up for an unspecified period of time.

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

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

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

The Bank is a universal commercial bank that offers a wide range of banking services for individuals and corporate clients on domestic and foreign markets.

2. Significant accounting policies

Declaration of conformity

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

The annual unconsolidated financial statements of the Bank have been approved by the Board of Directors for publishing on 13 March 2012. The financial statements will be finally approved by The General Meeting of the Bank.

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

The annual consolidated financial statements were approved by the Board of Directors for publishing on 13 March 2012. The financial statements will be finally approved by The General Meeting of the Bank.

Basis of preparation

These annual financial statements have been prepared for the period from 1 January 2011 to 31 December 2011. The comparable financial data are presented for the period from 1 January 2010 to 31 December 2010.

The financial statements are presented in PLN, rounded to the nearest thousand.

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

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

Standards or Interpretations awaiting European Union's approval that can have influence on financial statement of the Bank:

- IFRS 9 'Financial Instruments'- In November 2009 the International Accounting Standards Board issued IFRS 9 'Financial Instruments', which changes IAS 39 provisions in respect of classification and measurement of financial assets. The main change is classification of financial assets into one of two categories: measured at amortized cost or at fair value. The new standard will be applicable for annual periods beginning on or after 1 January 2013 with earlier application permitted;
- IFRS 13 'Fair Value Measurements'- Standard was published in May 2011 and will become effective for periods starting from 1st of January 2013. Earlier application is permitted. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements;
- IAS 19 (2011) 'Employee benefits'- the standard will become effective for periods starting from 1st of January 2013. The amendment requires actuarial gains and losses to be recognized immediately in other comprehensive income. It prohibits recognition of all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under the requirements of IAS 19.

The Bank is estimating the impact of using the standards awaiting European Union's endorsement.

Additionally, standards which were endorsed by the EU but have not become effective or await endorsement:

- Amendments to IFRS 7 'Financial Instruments: Disclosures'- Transfers of financial assets endorsed and effective for periods starting from 1st of July 2011. The amendments require disclosure of information that enables users of financial statements: to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets;
- Amendments to IFRS 7 'Financial Instruments: Disclosures'- Offsetting financial assets and financial liabilities. Awaiting endorsement. The amendments contain new disclosure requirements for financial assets and liabilities that are: offset in the statement of financial position; or subject to master netting arrangements or similar agreements;
- Amendments to IAS 1 'Presentation of financial statements'- Presentation of items of other comprehensive income. Awaiting endorsement. The amendments require that an entity presents separately the items of OCI that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss;
- Amendments to IAS 32 'Financial instruments: Presentation'- Offsetting financial assets and financial liabilities. Awaiting endorsement. The amendments do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application.

The Bank does not expect that the above mentioned changes will significantly impact the financial statement.

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

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

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

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

In order to maintain comparability of financial data with the approach of the current period, changes were made to the presentation of financial data for 2010 as compared to previously published data in 'The Annual financial statements of Bank Handlowy w Warszawie S.A. for the period ending 31 December 2010'. These changes affected the way of grouping and presentation of financial data in the statement of financial position and income statement and do not affect the total balance and financial results of the Bank.

In 2011 the Bank has changed the presentation method of receivables and liabilities by grouping them as follows:

- The previous exhibition of receivables in "Loans, advances and receivables" divided into financial sector (including banks) and nonfinancial sector is now presented in two separate positions in the statement of the financial position "Amounts due from banks" and "Amounts due from customers". The "Amounts due from customers" includes receivables from financial sector entities other than bank and nonfinancial sector entities. The subject/type structure of "Amounts due from customers" is presented in the explanation note;
- The previous exhibition of liabilities in 'Financial liabilities valued at amortized cost" presenting liabilities by the financial sector deposits (covering bank deposits) and nonfinancial sector, liabilities due to own issuance and other liabilities is now presented as three separate positions "Amounts due to banks", 'Amounts due to customers" and "Liabilities due to debt securities issuance". The position "Liabilities due from customers" covers deposits from financial sector entities other than bank, nonfinancial sector entities deposits and other liabilities. The subject/type structure of "Amounts due to customers" is presented in the explanation note;
- The previous exhibition of "Tangible fixed assets" by the real estate and equipment and investment real estate is now presented without this division. The subject/type structure of "Tangible fixed assets" is presented in the explanation note.

Introduced presentation changes of comparable data present as follows:

PLN '000	Statement of financial position as at 31 December 2010				
2010 Report			2011 Report		
Position	Explanation note	Data presented previously	Comparable data	Position	Explanation note
ASSETS				**ASSETS**	
Loans, advances and other receivables	Note 22, 23	13,938,510	2,272,899	**Amounts due from banks**	Note 19
Financial sector		3,164,818	11,665,611	**Amounts due from customers**	Note 23
Non-financial sector		10,773,692			
Tangible fixed assets	Note 24	431,366	431,366	**Tangible fixed assts**	Note 24
Property and equipment		413,058			
Investment property		18,308			
LIABILITIES				**LIABILITIES**	
Financial liabilities valued at amortized cost	Note 31	26,943,235	2,951,518	**Amounts due to banks**	Note 30
Deposits		26,544,190	23,980,184	**Amounts due to customers**	Note 31
Financial sector		6,138,803	11,533	**Liabilities due to debt securities issuance**	Note 32
Non-financial sector		20,405,387			
Liabilities due to own issuance		11,533			
Other liabilities		387,512			

Furthermore, in 2011 the Bank has changed the method of data presentation of interest income due to matured transactions on derivative instruments by movement from “Other operating income” to “Income due to interests and of a similar character”. As a result, the adjusted data presents as follows:

PLN ‘000’	Income statement from 1 January till 31 December 2010			
Position	**2010 Report– data presented previously**	**2011 Report – comparable data**	**Difference**	**Change in explanation note**
Interests and similar income	1,939,998	1,941,366	1,368	Note 4 – pos. „Amounts due from customers– non-financial sector entities”
Interests expense and similar charges	(474,302)	(474,302)		
Net interests income	**1,465,696**	**1,467,064**	**1,368**	
Other operating income	69,850	68,482	(1,368)	Note 10 – pos. „Other”
Other operating expenses	(58,678)	(58,678)		
Net other operating income	**11,172**	**9,804**	**(1,368)**	

Foreign currency

Balance and off-balance items denominated in foreign currencies are converted to PLN equivalents using the NBP average exchange rate prevailing at the balance date.

Foreign currency transactions are converted to the functional currency using the exchange rates prevailing at the date of transactions.

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

The NBP average exchange rate prevailing at the balance date is applied for foreign exchanges.

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

in PLN		31 December 2011	31 December 2010
1	USD	3.4174	2.9641
1	CHF	3.6333	3.1639
1	EUR	4.4168	3.9603

Financial assets and financial liabilities

Classification

The Bank classifies its financial instruments into the following categories:

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

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

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

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

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

(b) Loans and receivables

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

(c) Financial assets available-for-sale

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

(d) Other financial liabilities

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

Recognition and exclusions

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

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

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

Valuation

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

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

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

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

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

Derivative instruments

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

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

Hedge accounting

The Bank does not apply hedge accounting.

Offsetting financial instruments

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

Cash pooling

The Bank offers its clients cash management services which consolidate balances within the structure of related accounts (‘cash pooling’). Such transactions net the positive and negative balances of participants' current accounts on a designated account of the entity which manages the settlements. The consolidation of balances is executed at the end of the working day and at the beginning of the next working day the transaction is reversed.

Cash pooling transactions are presented on a net basis only if they meet the requirements of IAS 39 regarding derecognition of financial assets and liabilities from the statement of financial position. Accounts receivable presented on a gross basis are presented as loans and accounts payable as deposits.

Repurchase and resale agreements, Repo / reverse repo transactions

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

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

Impairment of assets measured at amortized cost

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

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

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

The losses expected as a result of future events regardless their probability, are not recognized.

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

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

Write-downs for impairment of individually significant assets

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

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

Write-downs for impairment of individually not significant assets

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

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

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

Impairment of financial assets available-for-sale

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

Impairment of financial assets valued at cost

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

Impairment of assets other than financial assets

The carrying amounts of Bank’s assets, excluding deferred tax assets, are reviewed at each balance date to determine whether there is any evidence of impairment. If so, the asset’s recoverable amount is estimated.

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

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

Calculation of recoverable amount

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

Reversal of impairment losses

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

Equity investments – shares in subordinated entities

Subordinated entities comprise subsidiaries and associates.

Subsidiaries

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

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

Associates

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

Subsidiaries and associates - recognition and measurement

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

Investments - shares in other entities

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

Goodwill

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

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

Property and equipment and intangible assets (excluding goodwill)

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

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

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

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

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

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

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

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

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

Investment properties

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

Employee benefits

Short-term employee benefits

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

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

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

Share-based payments

The employees are entitled to participate in equity compensation plans. In accordance with these plans, employees may receive awards under stock option programs based on stock options granted on

Citigroup common stock and also under stock award programs based on shares of Citigroup common stock in the form of deferred stock. These programs are deemed to be cash-settled programs. A provision is created for future payments and is shown in “Other liabilities” and in “General administrative expenses” in the profit and loss account. The costs of the program are determined on the basis of a valuation model. According to IFRS 2, the fair value is, measured at grant date and, subsequently, at each reporting date until the final settlement. Total expenses recorded in a given period are based on the fair value of the options or deferred shares at the reporting date and the part of the rights that were deemed acquired in that period.

Long-term employee benefits

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

Defined contribution plans

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

Provisions

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

Restructuring provision

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

Equity

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

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

Calculating net income

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

Accruals and prepayments

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

Interest income and interest expenses

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

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

Penalty interests resulting from income tax exposition are included in "Other operational income" or "Other operational expenses" in the income statement.

Fee and commission income and expenses

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

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

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

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

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

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

Other operating income and expenses

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

Income tax

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

A deferred tax provision is calculated using the carrying value method by computing temporary

differences between the carrying value of assets and liabilities in the statement of financial position and the tax base of assets and liabilities. In the statement of financial position the Bank discloses deferred tax assets net of deferred tax provisions.
A deferred tax asset is recognized only to the extent that it is probable that a tax benefit will be realized in the future.

Segmental reporting

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

Non-current assets held-for-sale

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

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

Accounting estimates and judgments

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

Fair value of derivatives

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

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

- FX forwards – discounted cash flows model;
- options – option market-based valuation model;
- interest rate transactions – discounted cash flows model;
- futures – current quotations.

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

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

Impairment of loans

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

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

Impairment of assets available-for-sale

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

Impairment of financial assets valued at cost

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

Impairment of goodwill

The Bank carried out impairment tests of goodwill as at 31 December 2010 and 31 December 2011. The estimate of goodwill has been performed on the basis of the provisions of IAS 36 concerning determination of the value in use of cash generating units. The tests did not show any impairment.

Employee benefits

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

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

3. Segmental reporting

According to the Standard an operating segment is a separable component of the Bank engaged in business activities, generating income and expenses (including intergroup transactions between segments), whose operating results are regularly reviewed by the Management Board, as chief operating decision-maker of the Bank, in order to allocate resources and assess its performance.

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

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

Corporate Banking

Within the Corporate Bank segment the Bank offers products and renders services to business entities, municipal units and the public sector. Apart from traditional banking services covering credit and deposit activities, the segment provides services in the area of cash management, trade financing, leases, brokerage and custody services in respect of securities, offers treasury products on financial and commodity markets. In addition, the segment offers a wide range of investment banking services on the local and international capital markets, including advisory services, obtaining and underwriting financing via public and non-public issues of financial instruments. The activities also comprise proprietary transactions in the capital, debt and derivative instruments market

Consumer Banking

Within the Consumer Bank segment the Bank provides products and financial services to individuals as well as to micro enterprises and individual entrepreneurs within the framework of CitiBusiness offer. Apart from keeping bank accounts and providing an extensive credit and deposit offer, the Bank offers cash loans, mortgage loans, credit cards, provides asset management services, and acts as agent in the sale of investment and insurance products sale.

The Bank conducts its operations solely on the territory of Poland.

Income statement by business segment

For the period	2011			2010		
PLN '000	Corporate Bank	Consumer Bank	Total	Corporate Bank	Consumer Bank	Total
Net interest income	638,057	764,258	1,402,315	679,197	787,867	1,467,064
Net interest income, including:	8,556	(8,556)	-	18,916	(18,916)	-
internal income	8,556	-	8,556	18,916	-	18,916
internal costs	-	(8,556)	(8,556)	-	(18,916)	(18,916)
Net fee and commission income	247,768	335,759	583,527	249,494	349,835	599,329
Dividend income	21,897	4,374	26,271	9,368	3,141	12,509
Net income on financial instruments and revaluation	287,717	30,985	318,702	252,879	29,656	282,535
Net gain on debt investment securities	30,142	-	30,142	119,921	-	119,921
Net gain on capital investment instruments	-	-	-	428	3,460	3,888
Other operating income	36,957	(24,833)	12,124	39,275	(29,471)	9,804
General administrative expenses	(560,002)	(776,204)	(1,336,206)	(554,417)	(722,141)	(1,276,558)
Depreciation expense	(19,642)	(32,876)	(52,518)	(24,218)	(32,544)	(56,762)
Profit/loss on sale of tangible fixed assets	105	1,968	2,073	(57)	1,102	1,045
Net impairment losses	10,608	(96,919)	(86,311)	35,588	(270,149)	(234,561)
Profit before tax	**693,607**	**206,512**	**900,119**	**807,458**	**120,756**	**928,214**
Income tax expenses			(178,825)			(180,188)
Net profit			**721,294**			**748,026**

As at	31.12.2011			31.12.2010		
	Corporate Bank	Consumer Bank	Total	Corporate Bank	Consumer Bank	Total
Total assets, including:	**35,930,194**	**5,611,820**	**41,542,014**	**30,919,287**	**5,782,386**	**36,701,673**
Non-current assets held-for-sale	15,761	9,901	25,662	-	9,901	9,901
Total liabilities and equity, including:	**33,840,792**	**7,701,222**	**41,542,014**	**28,123,920**	**8,577,753**	**36,701,673**
Liabilities	29,263,809	5,922,618	35,186,427	23,849,910	6,429,671	30,279,581

4. Net interest income

PLN '000	2011	2010
Interest and similar income due to:	34 7	26 9
Balances with Central Bank	34,757	26,957
Amounts due from banks	39,088	26,897
Amounts from customers, including:	1,147,048	1,163,255
Financial sector entities	34,983	37,943
non-financial sector entities	1,112,065	1,125,312
Debt securities available-for-sale	625,633	618,450
Debt securities held-for-trading	47,893	105,807
	1,894,419	**1,941,366**
Interest expense and similar charges due to:		
Balances with Central Bank	(1)	(14,565)
Amounts due to banks	(46,573)	(28,390)
Amounts due to financial sector entities	(87,013)	(68,230)
Amounts due to non-financial sector entities	(353,022)	(358,586)
Loans and advances received	(4,331)	(4,465)
Debt securities issuance	(1,164)	(66)
	(492,104)	**(474,302)**
	1,402,315	**1,467,064**

Net interest income for 2011 includes interest received on impaired loans, of PLN 16,821 thousand (for the 2010: PLN 26,649 thousand).

5. Net fee and commission income

PLN '000	2011	2010
Fee and commission income:		
Insurance and investment products (agency)	128,430	136,334
Payment and credit cards	236,909	237,022
Payment services	114,598	122,690
Custody services	87,585	82,427
Charges from cash loans	9,778	11,975
Cash management services on customers' accounts	29,072	30,617
Off-balance-sheet guarantee liabilities	15,483	15,363
Off-balance-sheet financial liabilities	7,100	7,499
Other	35,922	27,125
	664,877	**671,052**
Fee and commission expense:		
Payment and credit cards	(52,012)	(49,937)
Fees paid to the National Depository for Securities (KDPW)	(16,889)	(12,544)

PLN '000	**2011**	**2010**
Brokers fees	(4,451)	(3,270)
Other	(7,998)	(5,972)
	(81,350)	**(71,723)**
	583,527	**599,329**

The net commission result for 2011 comprises commission incomes (other than incomes covered by the calculation of the effective interest rate process), which are related to financial assets and liabilities not valued at their fair value through financial result in amount of PLN 245,128 thousand (for 2010: PLN 246,354 thousand) and commission expenses in amount of PLN 52,012 thousand (for 2010: PLN 49,937 thousand).

6. Dividend income

Dividend income amounted to PLN 26,271 thousand in 2011 (2010: PLN 12,509 thousand) and is related to Bank's equity investments. Total amount of dividends income include dividends received from Bank's subsidiaries: Dom Maklerski Banku Handlowego S.A. – PLN 20,697 thousand (in 2010: PLN 6,938 thousand). The remaining amount of dividend was received from entities with not exercising control equity interest.

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

PLN '000	**2011**	**2010**
Net income on financial instruments valued at fair value through financial result from:		
Debt instruments	20,255	(28,343)
Derivative instruments, including:	(25,675)	(382)
Interest rate	(31,764)	(3,707)
Capital	-	966
Commodity	6,089	2,359
	(5,420)	**(28,725)**
Net profit on foreign exchange		
Net profit on foreign currency derivatives	280,064	122,485
Revaluation	44,058	188,775
	324,122	**311,260**
	318,702	**282,535**

Movement in write-offs resulting from increased counterparty credit risk on derivative transactions in the amount of PLN 1,665 thousand (in 2010 net write-offs amounted to PLN 20,984 thousand) are included in net income on financial instruments and revaluation.

The losses were determined through the assessment of the clients' financial standing and their needs to use derivative instruments. The amounts at which the derivative transactions will be settled remain uncertain and the actual losses depend on the changes in the future foreign exchange rates and counterparties' financial standing.

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

Income from derivative instruments includes net income due to transactions connected with interest rate swaps, options, futures and other derivatives.

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

8. Net gain on debt investment securities

PLN '000	**2011**	**2010**
Profit on debt securities available-for-sale	30,142	122,667
Loss on debt securities available-for-sale	-	(2,746)
	30,142	**119,921**

9. Net gain on investment equity securities

PLN '000	**2011**	**2010**
Income on equity instruments available-for-sale	**-**	**3,888**

10. Net other operating income

PLN '000	**2011**	**2010**
Other operating income		
Data processing for related parties	16,729	49,471
Income due to interests excess payment return from income tax from previous years	17,030	-
Income due to rental of office space	4,654	2,986
Investment property	118	106
Other	16,246	15,919
	54,777	**68,482**
Other operating expenses		
Amicable procedure and vindication expenses	(16,265)	(17,229)
Reserve for recognition of Lehman Brothers Treasury Co.B.V. bonds from customers *	-	(9,571)
Costs related to compensation paid	-	(3,000)
Investment property	(2,134)	(2,912)
Fixed assets held-for-sale valuation	(2,548)	-
Other	(21, 706)	(25,966)
	(42,653)	**(58,678)**
	12,124	**9,804**

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

11. General administrative expenses

PLN '000	**2011**	**2010**
Staff expenses*		
Remuneration costs, including:	(549,788)	(539,559)
Provisions for retirement benefits	(23,933)	(22,631)
Bonuses and rewards, including:	(99,059)	(98,593)
Payments related to own equity instruments	8,705	(12,296)
Rewards for long time employment**	(824)	11,740
	(648,847)	**(638,152)**
Administrative expenses		
Telecommunication fees and hardware purchases	(163,247)	(153,179)
Advisory, audit, consulting and other external services costs	(88,925)	(88,202)

PLN '000	2011	2010
Building maintenance and rent costs	(104,849)	(110,478)
Transactional costs	(56,134)	(44,437)
Marketing costs	(55,352)	(59,300)
Costs of external services related to the distribution of banking products	(68,264)	(42,522)
Postal services, office supplies and printmaking costs	(30,759)	(32,978)
Training and education costs	(7,981)	(10,146)
Banking supervisory expenses	(4,171)	(3,496)
Other expenses	(107,677)	(93,668)
	(687,359)	**(638,406)**
	(1,336,206)	**(1,276,558)**

* Staff expenses in 2011 include PLN 20,189 thousand of remuneration and bonuses paid and payable to current and former members of the Management Board (in 2010: PLN 11,523 thousands).

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

12. Depreciation expense

PLN '000	2011	2010
Depreciation of property and equipment	(38,018)	(44,006)
Depreciation of intangible assets	(14,500)	(12,756)
	(52,518)	**(56,762)**

13. Profit/loss on sale of tangible fixed assets

PLN '000	2011	2010
Profits on:		
Sale of fixed assets	2,622	1,324
Sale of fixed assets held-for-sale	-	179
	2,622	**1,503**
Losses on:		
Sale of fixed assets	(549)	(435)
Sale of fixed assets held-for-sale	-	(23)
	(549)	**(458)**
	2,073	**1,045**

14. Net impairment losses

PLN '000	2011	2010
Net impairment write-downs of financial assets		
Impairment write-downs:		
Equity investments	(3,596)	-
Amounts due from banks	(1,276)	(2,670)
Amounts due from customers	(349,743)	(588,078)
Amounts due from matured transactions on derivative instruments	(2,841)	(15,040)
Other	(16,821)	(26,649)
	(374,277)	**(632,437)**
Reversals of impairment write-downs:		
Equity investments	-	875
Amounts due from banks	1,719	2,943
Amounts due from customers	284,182	342,957
Amounts due from matured transactions on derivative instruments	2,960	25,218

PLN '000	2011	2010
	288,861	**371,993**
	(85,416)	**(260,444)**
Net charges to / releases of provisions for off-balance-sheet liabilities		
Charges to provisions for off-balance-sheet commitments	(39,785)	(53,629)
Releases of provisions for off-balance-sheet commitments	38,890	79,512
	(895)	**25,883**
Net impairment losses	**(86,311)**	**(234,561)**

15. Income tax expense

Recognized in the income statement

PLN '000	2011	2010
Current tax		
Current year	(238,804)	(186,799)
Adjustments for prior years	(232)	5,453
	(239,037)	**(181,346)**
Deferred tax		
Origination and reversal of temporary differences	60,563	1,258
Movement in receivables arising from tax deductions	(352)	(100)
	60,211	**1,158**
Total income tax expense in income statement	**(178,825)**	**(180,188)**

Reconciliation of effective tax rate

PLN '000	2011	2010
Profit before tax	900,119	928,214
Income tax at the domestic corporation tax rate at 19%	(171,023)	(176,361)
Non-deductible expenses, including:	(11,417)	(9,826)
loss on sale of receivables disposal	(698)	-
updating deduction expenses	(4,895)	-
Deductible income not recognized in the income statement	(204)	(382)
Non taxable income	4,979	1,318
Other	(1,160)	5,063
Total tax expenses	**(178,825)**	**(180,188)**
Effective tax rate	**19.87%**	**19.41%**

Deferred tax recognized directly in equity

Deferred tax recognized directly in equity as at 31 December 2011 is related to debt and capital instruments available-for-sale and capital awards program and amounted to PLN 19,348 thousands (31 December 2010: covering also tax connected with capital grants in amount PLN 634 thousands).

16. Earnings per share

As at 31 December 2011 earnings per share amounted to PLN 5.52 (31 December 2010: PLN 5.72).
The calculation of earnings per share at 31 December 2011 was based on profit attributable to ordinary shareholders of PLN 721,294 thousand (31 December 2010: PLN 748,026 thousand) and a weighted

average number of ordinary shares outstanding during the year ended 31 December 2011 of 130,659,600 (31 December 2010: 130,659,600).

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

17. Changes in other comprehensive income

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

PLN '000	Gross value	Deferred income tax	Net value
As at 1 January 2011	**(47,938)**	**3,090**	**(44,848)**
AFS valuation change	(23,753)	10,531	(13,222)
Valuation of sold AFS moved to profit and loss account	(30,142)	5,727	(24,415)
As at 31 December 2011	**(101,833)**	**19,348**	**(82,485)**

PLN '000	Gross value	Deferred income tax	Net value
As at 1 January 2010	**(100,190)**	**19,164**	**(81,026)**
AFS valuation change	172,173	(38,859)	133,314
Valuation of sold AFS moved to profit and loss account	(119,921)	22,785	(97,136)
As at 31 December 2010	**(47,938)**	**3,090**	**(44,848)**

18. Cash and balances with the Central Bank

PLN '000	31.12.2(	31.12.2010
Cash available	503,980	475,227
Current balances with Central Bank	122,080	2,731,327
Deposits	353,556	-
	979,616	**3,206,554**

On the current account in the National Bank of Poland (NBP), the Bank maintains an obligatory reserve with the declared balance as at 31 December 2011 of PLN 927,619 thousand (31 December 2010: PLN 842,441 thousand). The Bank may use the obligatory reserve provided that the sum of the average monthly balance on the current account in NBP is not lower than the declared balance.

19. Amount due from banks

Amounts due from banks (by category)

PLN '000	31.12.2011	31.12.2010
Current accounts	68,047	94,995
Deposits	108,108	1,977,502
Credits and advances	19,599	35,824
Liabilities due to purchased securities with repurchase agreement	313,635	105,594
Other receivables	38,856	59,477
Total gross value	**548,245**	**2,273,392**
Imapirment write- downs	(63)	(493)
Total net value	**548,182**	**2,272,899**

Movement in Amounts due from banks presents as follows:

PLN '000	2011	2010
As at 1 January	**(493)**	**(766)**
Increases (due to):		

PLN '000	2011	2010
Write- downs creation	(1,276)	(2,670)
Other	(13)	-
Decreases (due to):		
Write-downs release	1,719	2,943
As at 31 December	**(63)**	**(493)**

As at 31 December 2011 and 31 December 2010 recognized impairment on amounts due from banks concerned incurred but not reported (IBNR) write-downs.

20. Financial assets and liabilities held-for-trading

Financial assets held-for-trading

PLN '000	31.12.2(	31.12.2010
Debt securities held-for-trading		
Bonds and notes issued by:		
Banks*	115,718	37,577
Financial sector	-	63,111
Government	1,826,069	1,495,597
	1,941,787	**1,596,285**
Including:		
Listed	1,234,008	1,461,545
Unlisted	707,779	134,740
Derivative financial instruments	**3,859,926**	**2,398,932**
	5,801,713	**3,995,217**

* Securities (bonds) covered by Government Treasury guarantee.

Financial liabilities held-for-trading

PLN '000	31.12.2011	31.12.2010
Short positions in financial assets	679,529	279,344
Derivative financial instruments	4,160,918	2,525,093
	4,840,447	**2,804,437**

As at 31 December 2011 and 31 December 2010 the Bank did not hold any financial assets and liabilities designated for valuation at fair value through the financial result at initial recognition.

As at 31 December 2011 financial assets from derivatives transactions including provisions concerning valuation adjustments resulted from contractor's credit risk for unsettled transactions of PLN 26,964 thousand (31 December 2010: PLN 25,391 thousand).

Derivative financial instruments as at 31 December 2011

PLN '000	Notional amount with remaining life of					Fair values	
	less than three months	between three months and one year	between one year to five years	more than five years	Total	Assets	Liabilities
Interest rate instruments	**49,092,194**	**56,766,669**	**87,644,135**	**16,758,891**	**210,261,889**	**3,058,771**	**3,490,639**
FRA	27,850,000	18,100,000	3,000,000	-	48,950,000	18,645	19,538
Interest rate swaps (IRS)	17,097,427	33,589,830	73,622,494	13,583,367	137,893,118	2,671,577	3,113,698
Currency- interest rate swaps (CIRS)	466,912	1,176,654	9,394,045	3,175,524	14,213,135	363,783	343,956
Interest rate options purchased	-	-	813,798	-	813,798	129	-
Interest rate options sold	-	-	813,798	-	813,798	-	129
Future contracts *	3,677,855	3,900,185	-	-	7,578,040	4,637	13,318
Currency instruments	**24,040,990**	**9,931,336**	**7,114,396**	**24,305**	**41,111,027**	**784,474**	**654,042**
FX forward	4,973,582	891,364	961,862	24,305	6,851,113	106,704	38,162
FX swap	18,178,367	8,395,665	776,417	-	27,350,449	460,741	399,536
Foreign exchange options purchased	448,984	318,553	2,474,711	-	3,242,248	216,389	640
Foreign exchange options sold	440,057	325,754	2,901,406	-	3,667,217	640	215,704
Securities transactions	**301,477**	**17,156**	**-**	**-**	**318,633**	**3,566**	**3,122**
Share options (purchase)	9,308	8,578	-	-	17,886	2,530	522
Share options (sale)	9,308	8,578	-	-	17,886	522	2,530
Securities purchased pending delivery	117,172	-	-	-	117,172	448	-
Securities sold pending delivery	165,689	-	-	-	165,689	66	70
Commodity transactions	**1,500,744**	**1,164,562**	**-**	**-**	**2,665,306**	**13,115**	**13,115**
Swap	35,452	31,124	-	-	66,576	8,128	8,128
Purchase options	732,646	566,719	-	-	1,299,365	3,839	1,148
Sold options	732,646	566,719	-	-	1,299,365	1,148	3,839
Derivative instruments total	**74,935,405**	**67,879,723**	**94,758,531**	**16,783,196**	**254,356,855**	**3,859,926**	**4,160,918**

**Exchange-traded products*

Derivative financial instruments as at 31 December 2010

PLN '000	Notional amount with remaining life of					Fair values	
	less than three months	between three months and one year	between one year to five years	more than five years	Total	Assets	Liabilities
Interest rate instruments	**41,433,445**	**70,278,983**	**59,349,977**	**16,361,845**	**187,424,250**	**2,001,557**	**2,142,072**
FRA	35,329,500	44,300,000	3,300,000	-	82,929,500	13,140	13,247
Interest rate swaps	5,162,459	21,614,707	48,607,127	14,504,988	89,889,281	1,733,129	1,869,777
Currency- interest rate swaps	847,391	1,133,845	5,810,840	1,856,857	9,648,933	252,624	256,330
Interest rate options purchased	-	-	816,005	-	816,005	2,152	-
Interest rate options sold	-	-	816,005	-	816,005	-	2,152
Future contracts*	94,095	3,230,431	-	-	3,324,526	512	566
Currency instruments	**9,998,641**	**9,698,311**	**1,843,113**	**17,156**	**21,557,221**	**374,947**	**360,340**
FX forward	1,691,918	1,403,638	816,314	17,156	3,929,026	69,382	98,878
FX swap	6,527,372	4,765,592	612,453	-	11,905,417	140,204	95,768
Foreign exchange options purchased	855,241	1,690,132	197,971	-	2,743,344	165,324	37
Foreign exchange options sold	924,110	1,838,949	216,375	-	2,979,434	37	165,657
Securities transactions	**642,122**	**22,516**	**33,386**	-	**698,024**	**4,554**	**4,807**
Share options (purchase)	3,040	11,258	16,693	-	30,991	3,416	640
Share options (sale)	3,040	11,258	16,693	-	30,991	640	3,416
Securities purchased pending delivery	194,702	-	-	-	194,702	70	278
Securities sold pending delivery	441,340	-	-	-	441,340	428	473
Commodity transactions	**1,023,475**	**842,383**	**-**	-	**1,865,858**	**17,874**	**17,874**
swap	376,175	221,747	-	-	597,922	15,424	15,424
Purchase options	323,650	310,318	-	-	633,968	2,450	-
Sold options	323,650	310,318	-	-	633,968	-	2,450
Derivative instruments subtotal	**53,097,683**	**80,842,193**	**61,226,476**	**16,379,001**	**211,545,353**	**2,398,932**	**2,525,093**

**Exchange-traded products*

21. Debt securities available-for-sale

PLN '000	31.12.2(	31.12.2010
Bonds and notes issued by:		
Central bank	8,492,235	5,994,140
Other banks*	2,287,740	535,180
Non-financial sector	423,185	165,075
Government	6,422,195	6,334,859
	17,625,355	**13,029,254**
Including:		
Listed instruments	4,943,141	5,874,033
Unlisted instruments	12,682,214	7,155,221

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

PLN '000	2011	2010
As at 1 January	**13,029,254**	**8,290,225**
Increases of:		
Purchases	339,111,992	309,015,102
Revaluation	-	52,252
Foreign exchange differences	271,606	-
Depreciation of discount, premium and interest	396,036	395,326

PLN '000	2011	2010
Decreases of:		
Purchases	(335,108,047)	(304,613,366)
Revaluation	(54,621)	-
FX differences	-	(61,060)
Amortisation of discount, premium and interest	(20,865)	(49,225)
As at 31 December	**17,625,355**	**13,029,254**

* As at 31 December 2011 a part of the securities (bonds) issued by other banks is covered by Government Treasury guarantee in amount PLN 1,004,847 thousand (31 December 2010: PLN 535,180 thousand)

22. Equity investments

PLN '000	31.12.2011	31.12.2010
Stocks and shares in subordinated entities	342,825	338,580
Stocks and shares in other entities*	46,241	66,453
Impairment*	(85,440)	(101,868)
	303,626	**303,165**
Including:		
Listed instruments	740	14
Unlisted instruments	302,886	303,151

The movement in equity investments is as follows:

PLN '000	Subordinated entities	Other entities	Total
As at 1 January 2011	**279,226**	**23,939**	**303,165**
Increases of:			
Revaluation	-	726	726
Decreases of:			
Revaluation	(195)	-	(195)
Settlement due to payments	(70)	-	(70)
As at 31 December 2011	**278,961**	**24,665**	**303,626**

PLN '000	Subordinated entities	Other entities	Total
As at 1 January 2010	**280,886**	**24,130**	**305,016**
Increases of:			
Take-over for receivables**	-	18,074	18,074
Decreases of:			
Disposals	-	(3,803)	(3,803)
Revaluation	(433)	(14,462)	(14,895)
Settlement due to payments	(1,227)	-	(1,227)
As at 31 December 2010	**279,226**	**23,939**	**303,165**

* In September 2011 PIA Piasecki S.A w upadłości shares have been removed from the Banks statement of financial position, representing 19.1% of the share in the capital and 19.1% of votes at the General Meeting of Shareholders. The exclusion was a result of the company cancelation from National Court Register and finishing the bankruptcy proceeding. The balance value of the shares which was excluded from the Bank's statement of financial position was equal to zero (the purchase value was PLN 20,940 thousand with the same amount of impairment).

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

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

Financial information on subordinated entities 31.12.2011

PLN '000

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit/ loss
HANDLOWY – LEASING Sp. z o.o	Warsaw	Leasing	Subsidiary undertaking	97.47	120,000	765,548	603,829	161,719	71,689	11,356
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary undertaking	100.00	70,950	405,420	295,768	109,652	113,387	24,607
PPH SPOMASZ Sp. z o.o. w likwidacji	Warsaw	-	Subsidiary undertaking	100.00	9,442	Entity under liquidation				
BANK ROZWOJU CUKROWNICTWA S.A. w likwidacji *	Poznań	Banking	Subsidiary undertaking	100.00	40,255	Entity under liquidation				
HANDLOWY INVESTMENTS S.A. 1/	Luxembourg	Investment activity	Subsidiary undertaking	100.00	28,687	30,015	544	29,471	731	(3,070)
HANDLOWY INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	80.97	7,016	7,174	113	7,061	502	(809)
HANDLOWY – INWESTYCJE Sp. z o.o. 2/	Warsaw	Investment activity	Subsidiary undertaking	100.00	2,611	12,250	268	11,882	1,486	1,047
					278,961					

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

The explanation of indirect relationships:

1/ Indirect relationship via Handlowy Investments S.A

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit/ loss
HANDLOWY INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	19.03	36	7,174	113	7,061	502	(809)

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

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit/ loss
HANDLOWY – LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	2.53	3,125	765,548	603,829	161,719	71,689	11,356

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

Financial information on subordinated entities 31.12.2010

PLN '000

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit/ loss
HANDLOWY – LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	97.47	120,000	913,089	762,725	150,364	53,853	(7,823)
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary undertaking	100.00	70,950	535,565	429,392	106,173	88,327	22,497
PPH SPOMASZ Sp. z o.o. w likwidacji	Warsaw	-	Subsidiary undertaking	100.00	9,442	Entity under liquidation				
BANK ROZWOJU CUKROWNICTWA S.A. w likwidacji	Poznań	Banking	Subsidiary undertaking	100.00	40,255	Entity under liquidation				
HANDLOWY INVESTMENTS S.A. 1/	Luxembourg	Investment activity	Subsidiary undertaking	100.00	28,764	29,574	127	29,447	1,859	1,516
HANDLOWY INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	80.97	7,134	7,151	192	6,959	433	308
HANDLOWY – INWESTYCJE Sp. z o.o. 2/	Warsaw	Investment activity	Subsidiary undertaking	100.00	2,681	15,868	4,962	10,905	299	70
					279,226					

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

The explanation of indirect relationships:

1/ Indirect relationship via Handlowy Investment S.A.

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

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

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit/ loss
HANDLOWY - LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	2.53	3,125	913,089	762,725	150,364	53,853	(7,823)

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

23. Amounts due from customers

Amounts due from customers (by category)

PLN '000	**31.12.2(**	**31.12.2010**
Amounts due from financial sector entities		
Loans, advances	598,044	682,622
Purchased receivables	18,069	15,522
Receivables subject to securities sale and repurchase agreements	397,030	210,491
Other receivables	22,695	4,862
Total gross value	**1,035,838**	**913,497**
Impairment write-downs	(19,086)	(21,578)
Total net value	**1,016,752**	**891,919**
Amounts due from non-financial sector entities		
Loans, advances	12,523,646	11,182,107
Unlisted debt securities	693,217	141,459
Purchased receivables	949,453	685,624
Effected guarantees	3,660	3,574
Other receivables	15,627	17,787
Total gross value	**14,185,603**	**12,030,551**
Impairment write-downs	(1,153,114)	(1,256,859)
Total net value	**13,032,489**	**10,773,692**
Total net value of amounts due from customers	**14,049,241**	**11,665,611**

The Bank does not act as a leaser under finance leases.

The movement in amounts due from customers is as follows:

PLN '000	**2011**	**2010**
As at 1 January	**(1,278,437)**	**(1,387,493)**
Increases (due to):		
Creation of write downs	(349,743)	(588,078)
Transfer from other group of assets	-	(1,236)
Other	(8,748)	(9,625)
Decreases (due to):		
Creation of write-down in the period for receivables in respect of matured derivative instrument transactions	119	10,178
Restating receivables into write- downs	149,844	187,807
Write-downs release	284,182	342,957
Sale of receivables	30,583	167,053
As at 31 December	**(1,172,200)**	**(1,278,437)**

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

PLN '000	**31.12.2011**	**31.12.2010**
Portfolio impairment loss	684,275	689,023
Individual impairment loss	345,318	425,900
Incurred but not reported losses (IBNR)	142,607	163,514

24. Tangible fixed assets

Property and equipment

PLN '000	Land and buildings	Vehicles	Other	Under construction	Total
Gross amount					
Balance as at 1 January 2010	**695,195**	**29,663**	**534,764**	**1,397**	**1,261,019**
Additions:					
Purchases	88	-	11,936	11,075	23,099
Reclassification	4,023	-	2,466	(6,489)	-
Decreases:					
Disposals	(16,886)	(9,619)	(6,036)	-	(32,541)
Liquidation	(9,385)	-	(64,955)	-	(74,340)
Other decreases	(196)	-	(3,692)	(1,139)	(5,027)
Balance as at 31 December 2010	**672,839**	**20,044**	**474,483**	**4,844**	**1,172,210**
Balance as at 1 January 2011	**672,839**	**20,044**	**474,483**	**4,844**	**1,172,210**
Additions:					
Purchases	318	18	21,680	19,630	41,646
Reclassification	5,246	-	2,411	(7,657)	-
Other increases	-	-	3,020	-	3,020
Decreases:					
Disposals	(2,257)	(17,506)	(12,057)	-	(31,820)
Liquidation	(3,874)	-	(69,074)	-	(72,948)
Other decreases	-	-	(378)	(2,413)	(2,791)
Balance as at 31 December 2011	**672,272**	**2,556**	**420,085**	**14,404**	**1,109,317**
Depreciation and amortization					
Balance as at 1 January 2010	**302,573**	**12,132**	**493,519**	**-**	**808,224**
Increases:					
Depreciation charge for the year	20,203	3,839	19,964	-	44,006
Other increases	-	-	183	-	183
Decreases:					
Disposals	(5,435)	(5,538)	(6,007)	-	(16,980)
Liquidation	(8,225)	-	(64,364)	-	(72,589)
Other decreases	-	-	(3,692)	-	(3,692)
Balance at 31 December 2010	**309,116**	**10,433**	**439,603**	**-**	**759,152**
Balance as at 1 January 2011	**309,116**	**10,433**	**439,603**	**-**	**759,152**
Increases:					
Depreciation charge for the year	18,913	1,973	17,132	-	38,018
Other increases	-	-	3,020	-	3,020
Decreases:					
Disposals	(1,751)	(10,698)	(12,027)	-	(24,476)
Liquidation	(3,701)	-	(68,956)	-	(72,657)
Other decreases	-	-	(372)	-	(372)
Balance at 31 December 2011	**322,577**	**1,708**	**378,400**	**-**	**702,685**
Carrying amounts					
As at 1 January 2010	392,622	17,531	41,245	1,397	452,795
As at 31 December 2010	**363,723**	**9,611**	**34,880**	**4,844**	**413,058**
As at 1 January 2011	363,723	9,611	34,880	4,844	413,058
As at 31 December 2011	**349,695**	**848**	**41,685**	**14,404**	**406,632**

Investment properties

As at 31 December 2011 the Bank does not possess investment property and equipment. In 2011 previously held investment property, matching IFRS 5 criteria was reclassified into tangible assets held-for-sale (see note 29).

Movement in investment properties presents as follows:

PLN '000	**2011**	**2010**
As at 1 January	**18 308**	**18 308**
Reclassification of tangible assets held-for-sale	(18 308)	-
As at 31 December	**-**	**18 308**

25. Intangible assets

PLN '000	Goodwill	Patents and trademarks	Software	Other intangible assets	Prepayments	Total
Gross amount						
Balance as at 1 January 2010	**1,245,976**	**740**	**258,530**	**18,242**	**6,368**	**1,529,856**
Additions:						
Purchases	-	-	4,368	-	12,778	17,146
Disposals:						
Reclassification	-	-	14,388	-	(14,436)	(48)
Other decreases	-	-	(8,412)	-	-	(8,412)
Balance as at 31 December 2010	**1,245,976**	**740**	**268,874**	**18,242**	**4,710**	**1,538,542**
Balance as at 1 January 2011	**1,245,976**	**740**	**268,874**	**18,242**	**4,710**	**1,538,542**
Additions:						
Purchases	-	-	1,643	-	20,687	22,330
Disposals:						
Reclassification	-	-	10,605	-	(11,273)	(668)
Balance as at 31 December 2011	**1,245,976**	**740**	**281,122**	**18,242**	**14,124**	**1,560,204**
Depreciation and amortization						
Balance as at 1 January 2010	**-**	**740**	**232,504**	**17,819**	**-**	**251,063**
Increases:						
Depreciation charge for the period	-	-	12,333	423	-	12,756
Decreases:						
Other decreases	-	-	(8,411)	-	-	(8,411)
Balance as at 31 December 2010	**-**	**740**	**236,426**	**18,242**	**-**	**255,408**
Balance as at 1 January 2011	**-**	**740**	**236,426**	**18,242**	**-**	**255,408**
Increases:						
Depreciation charge for the period	-	-	14,500	-	-	14,500
Decreases:						
Other decreases	-	-	-	-	-	-
Balance as at 31 December 2011	**-**	**740**	**250,926**	**18,242**	**-**	**269,908**
Carrying amounts						
As at 1 January 2010	1,245,976	-	26,026	423	6,368	1,278,793
As at 31 December 2010	**1,245,976**	**-**	**32,448**	**-**	**4,710**	**1,283,134**
As at 1 January 2011	1,245,976	-	32,448	-	4,710	1,283,134
As at 31 December 2011	**1,245,976**	**-**	**30,196**	**-**	**14,124**	**1,290,296**

As at 31 December 2011, goodwill includes the amount of PLN 1,243,645 thousand arising from the merger of Bank Handlowy w Warszawie S.A. and Citibank (Poland) S.A. as at 28 February 2001 and the amount of PLN 2,331 thousand as a result of the purchase of an organized part of the enterprise from ABN AMRO Bank (Poland) S.A. as at 1 March 2005.

26. Impairment test for goodwill

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

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

Book value of goodwill allocated to unit

PLN '000	
Corporate Banking	851,944
Consumer Banking	394,032
	1,245,976

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

The discount rate, which is equivalent to the required rate of return, has been used in the valuation. The required rate of return is assessed on the basis of the capital assets pricing model using a beta coefficient for the banking sector, bonus for risk and Treasury bond yield curves. In 2011 the discount rate amounted to 12.1% (in 2010: 12.9%)

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

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

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

27. Income tax assets and liabilities

PLN '000	**31.12.2(**	**31.12.2010**
Income tax assets*		
Current tax	-	67,171
Deferred tax	318,015	238,082
	318,015	**305,253**

PLN '000	**31.12.2011**	**31.12.2010**
Liabilities due to income tax		
Current tax	72,919	-
	72,919	**-**

** Deferred income tax assets and liabilities are presented jointly in the statement of financial position.*

Positive and negative taxable and deductible temporary differences are presented below

Deferred tax assets are attributable to the following:

PLN '000	31.12.2(	31.12.2010
Interest accrued and other expense	17,654	8,742
Impairment	140,939	147,959
Unrealised premium	1,170	2,393
Unrealised financial instruments valuation expenses	625,597	384,377
Negative valuation of securities	920	1,435
Income collected in advance	14,099	17,198
Valuation of shares	2,886	8,849
Commissions	8,447	9,644
Debt securities available-for-sale	19,348	634
Staff expenses and other cost due to pay	50,632	47,523
Other	16,584	17,243
Deferred tax assets	**898,276**	**645,997**

Deferred tax liability is attributable to the following:

PLN '000	31.12.2(	31.12.2010
Interest accrued (income)	29,790	29,825
Unrealised premium from options	96	263
Unrealised financial instruments valuation income	517,162	339,991
Unrealised securities discount	513	2,713
Incomes to receive	4,069	5,534
Positive valuation of securities	1,036	376
Investment relief	17,166	17,796
Other	10,429	11,417
Deferred tax liabilities	**580,261**	**407,915**
Net assets from deferred tax liability	**318,015**	**238,082**

Movement in temporary differences during the year 2011

Changes in temporary differences relating to deferred tax assets:

PLN '000	Balance as at 1 January 2011	Adjustments recognised in income	Adjustments recognised in equity	Balance 31 December 2011
Interest accrued and other expense	8,742	8,912	-	17,654
Impairment	147,959	(7,020)	-	140,939
Unrealised premium	2,393	(1,223)	-	1,170
Unrealised financial instruments valuation expenses	384,377	241,220	-	625,597
Negative valuation of securities	1,435	(515)	-	920
Income collected in advance	17,198	(3,099)	-	14,099
Valuation of shares	8,849	(5,963)	-	2,886
Commission	9,644	(1,197)	-	8,447
Debt securities available-for-sale	634	-	18,714	19,348
Staff expenses and other cost due to pay	47,523	3,109	-	50,632
Other	17,243	(659)	-	16,584
	645,997	**233,565**	**18,714**	**898,276**

Changes in temporary differences relating to deferred tax liabilities:

PLN '000	Balance 01 January 2011	Adjustments recognised in income	Adjustments recognised in equity	Balance 31 December 2011
Interest accrued (income)	29,825	(35)	-	29,790
Unrealised premium from options	263	(167)	-	96
Unrealised financial instruments valuation income	339,991	177,171	-	517,162
Unrealised securities discount	2,713	(2,200)	-	513
Incomes to receive	5,534	(1,465)	-	4,069
Positive valuation of securities	376	660	-	1,036
Investment relief	17,796	(630)	-	17,166
Other	11,417	(988)	-	10,429
	407,915	**172,346**	**-**	**580,261**
Change in net assets for deferred income tax	**238,082**	**61,219**	**18,714**	**318,015**

Movement in temporary differences during the year 2010

Changes in temporary differences relating to deferred tax assets:

PLN '000	Balance as at 01 January 2010	Adjustment of opening balance	Balance as at 01 January 2010 after adjustment of opening balance	Adjustments recognised in income	Adjustments recognised in equity	Balance 31 December 2010
Interest accrued and other expense	8,634	-	8,634	108	-	8,742
Impairment	169,309	(49,298)	120,011	27,948	-	147,959
Unrealised premium	15,993	-	15,993	(13,600)	-	2,393
Unrealised financial instruments valuation expenses	445,371	-	445,371	(60,994)	-	384,377
Negative valuation of securities	25,541	-	25,541	(24,106)	-	1,435
Income collected in advance	20,931	-	20,931	(3,733)	-	17,198
Valuation of shares	6,101	-	6,101	2,748	-	8,849
Commission	7,475	-	7,475	2,169	-	9,644
Debt securities available-for-sale	17,184	-	17,184	-	(16,550)	634
Cost related to asymmetric transaction	69,399	(69,399)	-	-	-	-
Staff expenses and other cost due to pay	48,530	-	48,530	(1,007)	-	47,523
Other	21,012	-	21,012	(3,113)	(656)	17,243
	855,480	**(118,697)**	**736,783**	**(73,580)**	**(17,206)**	**645,997**

Changes in temporary differences relating to deferred tax liability:

PLN '000	Balance 01 January 2010	Adjustment of opening balance	Balance as at 01 January 2010 after adjustment of opening balance	Adjustments recognised in income	Adjustments recognised in equity	Balance 31 December 2010
Interest accrued (income)	36,644	-	36,644	(6,819)	-	29,825
Unrealised premium from options	490	-	490	(227)	-	263
Unrealised financial instruments valuation income	373,646	-	373,646	(33,655)	-	339,991
Unrealised securities discount	11,428	-	11,428	(8,715)	-	2,713

PLN '000	Balance 01 January 2010	Adjustment of opening balance	Balance as at 01 January 2010 after adjustment of opening balance	Adjustments recognised in income	Adjustments recognised in equity	Balance 31 December 2010
Incomes to receive	7,724	-	7,724	(2,190)	-	5,534
Positive valuation of securities	29,339	-	29,339	(28,963)	-	376
Investment relief	18,646	-	18,646	(850)	-	17,796
Other	4,837	-	4,837	6,580	-	11,417
	482,754	**-**	**482,754**	**(74,839)**	**-**	**407,915**
Change in net assets for deferred income tax	**372,726**	**(118,697)**	**254,029**	**1,259**	**(17,206)**	**238,082**

On the basis of obtained individual interpretation of tax law and verdict of the Administrative Court in Warsaw, the Bank has changed approach to taxation of IRS / CIRS contracts and unsettled derivative transactions, as a result in 2010 the Bank has made adjustments to tax returns CIT-8 for the past years.

28. Other assets

PLN '000	31.12.20	31.12.2010
Interbank settlements	966	879
Interbranch settlements	-	1,710
Accounts receivable	41,174	55,415
Staff loans out of the Social Fund	24,559	25,452
Sundry debtors	113,020	103,687
Prepayments	13,957	12,149
Other assets	-	27
	193,676	**199,319**

29. Non-current assets held-for-sale

As at 31 December 2011 non-current assets held-for-sale include Bank's own property with the total value of PLN 25,662 thousand (31 December 2010: PLN 9,901 thousand), that fulfils the requirements of IFRS 5 and therefore was reclassified to this group from fixed tangible assets.

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

PLN '000	2011	2010
Balance as at 1 January	**9,901**	**19,546**
Increases:		
Reclassify from banking investment properties	18,308	-
Decreases:		
Valuation updating	(2,547)	-
Sales	-	(9,645)
Balance as at 31 December	**25,662**	**9,901**

30. Amounts due to banks

Amounts due to banks (by category)

PLN '000	31.12.2011	31.12.2010
Current accounts	1,303,709	755,099
Time deposits	4,132,304	2,089,107
Credits and advances received	90,144	95,714
Liabilities due to sold securities under repurchase agreements	-	4,543

Other liabilities	10,518	4,572
Accrued interests	7,216	2,483
	5,543,891	**2,951,518**

31. Amounts due to customers

Amounts due to customers (by category)

PLN '000	31.12.2(	31.12.2010
Deposits from financial sector		
Current accounts	234,041	706,717
Time deposits	2,079,456	2,585,196
Accrued interest	1,114	1,413
	2,314,611	**3,293,326**
Deposits from non-financial sector entities		
Current accounts, including:	12,918,332	11,899,958
corporate customers	5,583,942	5,616,892
individual customers	4,726,892	4,309,255
budgetary units	2,607,498	1,973,811
Time deposits, including:	8,704,210	8,488,451
corporate customers	6,697,147	6,424,140
individual customers	1,244,180	1,395,785
budgetary units	762,883	668,526
Accrued interest	19,230	16,978
	21,641,772	**20,405,387**
Total Deposits	**23,956,383**	**23,698,713**
Other liabilities		
Securities sold under repurchase agreements	-	108,991
Other liabilities, including:	173,089	171,483
cash collateral	73,729	96,716
Accrued interest	753	997
Total value of other liabilities	**173,842**	**281,471**
Total value of Amounts due to customers	**24,130,225**	**23,980,184**

32. Liabilities due to debt securities issuance

Within the Emisja Bankowych Papierów Wartościowych (Debt Security of the Bank Issue) Program, the Bank effected the issue of certificates of deposit ('BPW') in the total amount of PLN 25,336 thousand as at 31 December 2011 (31 December 2010: PLN 11,533 thousand)

PLN '000

Type of issued own financial instruments	Nominal Value	Date of issuance	Date of purchase
Certificates of deposit	673	02.07.2010	06.01.2012
Certificates of deposit	2,275	04.05.2011	30.10.2012
Certificates of deposit	1,193	01.07.2011	02.04.2012
Certificates of deposit	8,662	01.08.2011	01.08.2012
Certificates of deposit	4,495	01.09.2011	03.09.2012
Certificates of deposit	7,000	26.09.2011	26.09.2012
Certificates of deposit	1,027	02.12.2011	31.08.2012
	25,325		

The movement in debt securities issuance is as follows:

PLN '000	2011	2010
As at 1 January	**11,529**	**-**
Increase - issue	62,607	11,529
Decrease - buyout	48,811	-
As at 31 December	**25,325**	**11,529**

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

33. Provisions

PLN '000	31.12.2(	31.12.2010
For disputes	23,383	21,648
For off-balance-sheet commitments	11,474	10,579
	34,857	**32,227**

The movement in provisions is as follows:

PLN '000	2011	2010
Balance as at 1 January	**32,227**	**49,527**
Provisions for:		
Disputes	21,648	11,963
Off-balance-sheet commitments	10,579	37,564
Increases		
Charges to provisions:	42,414	66,054
for litigations	2,629	12,425
for off-balance-sheet liabilities	39,785	53,629
Decreases		
Release of provisions	(39,784)	(82,252)
for litigations	(894)	(2,740)
for off-balance-sheet liabilities	(38,890)	(79,512)
Transfer to another group of assets – off-balance-sheet liabilities	-	(1,102)
Balance as at 31 December	**34,857**	**32,227**

34. Other liabilities

PLN '000	31.12.2011	31.12.2010
Staff benefits	53,426	57,775
Interbank settlements	84,564	42,667
Interbranch settlements	624	-
Settlements with Tax Office and National Insurance (ZUS)	15,153	22,764
Sundry creditors	105,198	102,748
Accruals:	254,970	239,507
Provision for employee payments	63,088	70,099
Provision for employees retirement and jubilee payments	35,344	37,691
IT services and bank operations support	63,177	45,242
Consultancy services and business support	38,887	33,061
Other	54,474	53,414
Deferred income	24,817	34,221
	538,752	**499,682**

35. Assets and liabilities according to maturity date

As at 31 December 2011

PLN '000	Note	Total	Less than 1 month	Between 1 and 3 moths	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
Amounts due from banks (Gross)	19	548,245	536,832	7,550	3,863	-	-
Financial assets held-for-trading							
Debt securities available-for-trading	20	1,941,787	-	148	67,856	1,042,710	831,073
Financial assets available-for-sale							
Debt securities available-for-sale	21	17,625,355	8,915,419	350,887	-	2,703,399	5,655,650
Amounts due from customers (Gross)							
Amounts due from financial sector entities	23	1,035,838	589,211	-	279,174	150,366	17,087
Amounts due from non-financial sector entities	23	14,185,603	8,283,268	938,816	1,011,178	3,344,476	607,865
Amounts due to banks	30	5,543,891	4,549,601	873,480	30,957	49,280	40,573
Amounts due to customers							
Amounts due to financial sector entities	31	2,315,027	2,239,642	70,036	4,669	17	663
Amounts due to non-financial sector entities	31	21,815,198	20,747,091	552,599	462,567	52,930	11
Liabilities due to debt securities issuance	32	25,336	684	-	24,652	-	-

As at 31 December 2010

PLN '000	Note	Total	Less than 1 month	Between 1 and 3 moths	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
Amounts due from banks (Gross)	19	2,273,392	2,262,932	6,928	3,532	-	-
Financial assets held-for-trading							
Debt securities available-for-trading	20	1,596,285,	-	-	567,994	882,220	146,071
Financial assets available-for-sale							
Debt securities available-for-sale	21	13,029,254	6,159,215	-	-	5,117,820	1,752,219
Amounts due from customers (Gross)							
Amounts due from financial sector entities	23	913,497	653,676	-	-	245,000	14,821
Amounts due from non-financial sector entities	23	12,030,551	6,878,579	473,777	1,483,963	2,769,175	425,057
Amounts due to banks	30	2,951,518	2,625,657	190,000	40,147	63,849	31,865
Amounts due to customers							
Amounts due to financial sector entities	31	3,402,670	3,391,189	8,492	700	1,695	594
Amounts due to non-financial sector entities	31	20,577,514	19,362,923	708,134	456,213	50,233	11
Liabilities due to debt securities issuance	32	11,533	4	-	10,856	673	-

36. Capital and reserves

Share capital

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

Par value of 1 share = PLN 4.00

As at 31 December 2011, the Bank's share capital amounted to PLN 522,638,400 divided into 130,659,600 common bearer shares with nominal value of PLN 4 each that has not changed since 31 December 2010.

The Bank has not issued preference shares.

Principal shareholders

The following table presents the shareholders who, as at 31 December 2011 and 31 December 2010, held at least 5% of the total number of votes in the General Assembly or at least 5% of Bank's share capital:

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

During 2011 and during the period from passing previous interim quarterly report for third quarter 2011 till the day of passing current report for 2011 the structure of major shareholdings has not changed.

Supplementary capital

As at 31 December 2011 the supplementary capital equaled PLN 2,944,585 thousand (31 December 2010: PLN 2,944,585 thousand). Supplementary capital is designated for offsetting the Bank's financial position losses or for other purposes including payment of dividends to the shareholders. The General Shareholders' Meeting decides upon the utilization of supplementary capital, but a portion of its balance amounting to one third of total share capital may be used exclusively for offsetting losses shown in the financial statements.

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

Revaluation reserve

PLN '000	31.12.2011	31.12.2010
Revaluation of financial assets available-for-sale	(82,485)	(44,848)

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

Other reserves

PLN '000	**31.12.2011**	**31.12.2010**
Reserve capital	1,752,055	1,751,402
General risk reserve	497,500	497,500
Capital from valuation of employee equity benefits	-	2,789
	2,249,555	**2,251,691**

Reserve capital

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

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

General risk reserve

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

Dividends

Dividends paid for 2010

In accordance with General Meeting of Shareholders' Resolution No 29/2011 of 1 June 2011, 2010 profit has been distributed, the resolution about dividend pay-out was adopted as well as dividend date and pay-out date was determined. From 2010 net profit PLN 747,372,912.00 was assigned for the pay-out, which means the pay-out for a single share was PLN 5.72. The number of shares subjected to dividend equals 130,659,600.

The date of determining the right to dividend was set on 16 June 2011. The dividend was paid out on 29 July 2011.

Declared dividends

On 13 March 2012, Bank's Management Board adopted a resolution on the proposed distribution of profit for 2011. Bank's Management Board has proposed to allocate the amount of PLN 360,620,496.00 for dividend payment. This means that the dividend per one ordinary share amounts to PLN 2.76. The date of determination the right to the dividend was designated as 5 July 2012 and the date of payment was designated as 31 August 2012. This proposal will be submitted to the Management Board, Supervisory Board for an opinion, then the General Assembly for approval.

37. Repurchase and reverse repurchase agreements

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

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

As at 31 December 2011 no assets were sold under repurchase agreements.

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

PLN '000	Fair value of underlying assets	Carrying amount of corresponding liabilities*	Repurchase dates	Repurchase price
Financial assets held-for-trading				
Debt securities	113,558	113,544	To 1 month	113,675

** including interest*

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

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

In 2011 the total interest expense on repurchase agreements was PLN 18,950 thousand (In 2010: PLN 19,409 thousand).

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

As at 31 December 2011 assets purchased subject to agreements to resell were as follows:

PLN '000	Carrying amount of receivable*	Fair value of assets held as collateral	Resale dates	Resale price
Amounts due from banks	313,635	313,586	To 1 month	313,746
Amounts due from customers:				
from financial sector entities	397,030	396,578	To 1 month	397,182

** including interest*

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

PLN '000	Carrying amount of receivable*	Fair value of assets held as collateral	Resale dates	Resale price
Amounts due from banks	105,594	105,286	To 1 month	105,611
Amounts due from customers:				
from financial sector entities	210,491	210,225	To 1 month	210,660

** including interest*

As at 31 December 2011 and 31 December 2010, the Bank held the option to pledge or sell the assets acquired through reverse repo.

In 2011 the total interest income on reverse repurchase agreements was PLN 25,809 thousand (in 2010: PLN 14,158 thousand).

38. Fair value information

Fair value of financial assets and liabilities

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

The summary below provides statement of financial position (by category) and fair value information for each asset and liabilities.

As at 31 December 2011

PLN '000	Note	Held-for-trading	Loans, advances and other receivables	Available for sale	Other financial assets/ liabilities	Total balance value	Fair value
Assets							
Cash and balances with Central Bank	18	-	-	-	979,616	979,616	979,616
Amounts due from banks	19	-	-	-	-	548,182	548,146
Financial assets held-for-trading	20	5,801,713	-	-	-	5,801,713	5,801,713
Debt securities available-for-sale	21	-	-	17,625,355	-	17,625,355	17,625,355
Capital investment	22	-	-	303,626	-	303,626	395,785
Amounts due from customers	23	-	14,049,241	-	-	14,049,241	14,044,518
		5,801,713	**14,597,423**	**17,928,981**	**979,616**	**39,307,733**	**39,395,133**
Liabilities							
Amounts due to banks	30	-	-	-	5,543,891	5,543,891	5,543,658
Financial liabilities held-for-trading	20	4,840,447	-	-	-	4,840,447	4,840,447
Amounts due to customers	31	-	-	-	24,130,225	24,130,225	24,129,748
Liabilities due to debt securities issuance	32	-	-	-	25,336	25,336	24,826
		4,840,447	**-**	**-**	**29,699,452**	**34,539,899**	**34,538,679**

As at 31 December 2010

PLN '000	Note	Held-for-trading	Loans, advances and other receivables	Available for sale	Other financial assets/ liabilities	Total balance value	Fair value
Assets							
Cash and balances with Central Bank	18	-	-	-	3,206,554	3,206,554	3,206,554
Amounts due from banks	19	-	2,272,899	-	-	2,272,899	2,272,888
Financial assets held-for-trading	20	3,995,217	-	-	-	3,995,217	3,995,217
Debt securities available-for-sale	21	-	-	13,029,254	-	13,029,254	13,029,254
Capital investment	22	-	-	303,165	-	303,165	376,820
Amounts due from customers	23	-	11,665,611	-	-	11,665,611	11,696,391
		3,995,517	**13,938,510**	**13,332,419**	**3,206,554**	**34,472,700**	**34,577,124**
Liabilities							
Amounts due to banks	30	-	-	-	2,951,518	2,951,518	2,954,488
Financial liabilities held-for-trading	20	2,804,437	-	-	-	2,804,437	2,804,437
Amounts due to customers	31	-	-	-	23,980,184	23,980,184	23,979,175
Liabilities due to debt securities issuance	32	-	-	-	11,533	11,533	11,334
		2,804,437	**-**	**-**	**26,943,235**	**29,747,672**	**29,749,434**

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

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

In 2011 the Bank has not made any changes in the classification of financial instruments (presented by the fair value method in the statement of financial position) to categories of fair value assignment (Level I, Level II, Level III).

The table below presents carrying amounts of instruments presented in the statement of financial position measured at fair value, arranged according to the above categories:

As at 31 December 2011

PLN '000	Note	Level I	Level II	Level III
Assets				
Financial assets held-for-trading	20			
derivatives		4,637	3,848,378	6,911
debt securities		1,941,787	-	-
Debt securities held-for-trading	21	7,427,042	8,492,235	1,706,078
Liabilities				
Financial liabilities held-for-trading	20			
short sale of securities		679,529	-	-
derivatives		13,318	4,147,600	-

As at 31 December 2010

PLN '000	Note	Level I	Level II	Level III
Assets				
Financial assets held-for-trading	20			
derivatives		1,313	2,343,019	54,600
debt securities		1,533,174	63,111	-
Debt securities held-for-trading	21	6,870,039	5,994,140	165,075
Liabilities				
Financial liabilities held-for-trading	20			
short sale of securities		279,344	-	-
derivatives		1,486	2,523,579	28

Changes of financial assets and liabilities valuated at fair value using significant input outside of the market in 2011 are presented below:

PLN '000	Financial assets held-for-trading			Financial assets available-for-sale	Financial assets in total	Financial liabilities held-for-trading
	Derivatives	Debt securities	Capital instruments	Debt securities		Derivatives
As at 1 January 2011	**54,600**	-	-	**165,075**	**219,675**	**28**
Total increases and decreases						
in income statement	5,110	-	-	43,304	48,414	2
in other comprehensive income	-	-	-	69	69	-

PLN '000	Financial assets held-for-trading			Financial assets available-for-sale	Financial assets in total	Financial liabilities held-for-trading
	Derivatives	Debt securities	Capital instruments	Debt securities		Derivatives
Acquisition	-	-	-	3,729,654	3,729,654	-
Clearance	(5,148)	-	-	(2,232,024)	(2,237,172)	-
Other*	(47,651)	-	-	-	(47,651)	(30)
As at 31 December 2011	**6,911**	-	**-**	**1,706,078**	**1,712,989**	**-**
Total increases and decreases in the period in the income statement for assets/liabilities held at the end of the period	(40)	-	-	33,808	33,768	-

Increases and decreases in Income statement for period from 1 January 2011 till 31 December 2011 are included in Net income on financial instruments and revaluation in the following manner:		
Total increases and decreases in the income statement for the period	48,414	2
Total increases and decreases in the period in the income statement for assets/liabilities held at the end of the period	33,768	-

*In 2011 the Bank has transferred a part of the assets and liabilities held-for-trade from category valued using relevant parameters not market-based (level III) to category valued using information from an active market or market-based observations (level II). The value of transferred assets and liabilities held-for-trade as at 31 December 2011 amounted respectively PLN 47,651 thousand and PLN 30 thousand. The change of the category concerns derivatives and results from termination of the significant credit risk valuation influence for two non-bank customers, included on the 31 December 2010 valuation.

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

PLN '000	Financial assets held-for-trading			Financial assets available-for-sale	Financial assets in total	Financial liabilities held-for-trading
	Derivatives	Debt securities	Capital instruments	Debt securities		Derivatives
As at 1 January 2010	**160,069**	-	**-**	**53,246**	**213,315**	**74,096**
Total increases and decreases						
in income statement	(72,739)	-	-	5,991	(66,748)	(68,618)
in other comprehensive income	-	-	-	338	338	-
Acquisition	-	-	-	457,665	457,665	-
Clearance	(20,291)	-	-	(352,165)	(372,456)	(1,494)
Transfer to receivables	(12,439)	-	-	-	(12,439)	(3,956)
As at 31 December 2010	**54,600**	-	-	**165,075**	**219,675**	**28**
Total increases and decreases in the period in the income statement for assets/liabilities possessed at the end of the period	(11,843)	-	-	921	(10,922)	(1,373)

Increases and decreases in Income statement for period from 1 January 2010 till 31 December 2010 are included in Net income on financial instruments and revaluation in the following manner:		
Total increases and decreases in the income statement for the period	(66,748)	(68,618)
Total increases and decreases in the period in the income statement for assets/liabilities possessed at the end of the period	(10,922)	(1,373)

Fair Value Definition

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

Equity investment

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

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

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

In 2010 and 2011, the Bank has not made a sale of equity investments, whose fair value previously could not be reliably measured.

Amounts due from customers and banks

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

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

It is assumed that loans will be paid back on their contractual date. Except for retail cash-loans based on the Bank managed rate for which balance value is considered as a fair value. In the case of loans for which repayment dates are not fixed (e.g. overdrafts), fair value is the repayment that would be required if the amount were due on the balance date. Expected future cash flows connected with homogenous loan categories, particularly credits for individuals, are assessed on the basis of the loan portfolio and discounted using the current interest rate taking into account current margins.

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

Liabilities due to banks and customers

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

Liabilities due to debt securities issuance

The fair value of the liabilities due to debt securities issuance (certificates of deposit) is determined by current deposit valuation (market purchase price).

39. Contingent liabilities

Information on pending proceedings

As at 31 December 2011 there was no single proceeding regarding Bank's receivables or liabilities, the value of which would equal to at least 10% of equity pending in court, public administration authority or an arbitration authority, pending in court, public administration authority or an arbitration authority.

The total value of all legal proceedings regarding receivables or liabilities with the participation of the Bank and its subsidiaries did not exceed 10% of Bank's equity and amounted PLN 574,215 thousand.

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

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

In accordance with applicable regulations, the Group recognizes impairment losses for receivables subject to legal proceedings.

As at 31 December 2011, the Bank was a party to 33 proceedings regarding derivative transactions: in 27 proceedings it acted as a defendant and in 6 - as a plaintiff. The claims and allegations in the individual cases against the Bank are based on various legal bases. The subject of dispute refers mainly to the validity of the derivative transactions and client's liabilities demanded by the Bank with respect to those derivative transactions as well as potential claims regarding invalidation of such demands by court decisions. Clients try to prevent the Bank from seeking claims resulting from derivative transactions; they question the validity of the agreements, dispute their liabilities towards the Bank and, in some cases, demand payments from the Bank.
As at the day of preparing the financial statements, no final settlements regarding the derivative transactions proceedings to which the Bank is a party were made in the court.

The Bank is a party to the proceeding initiated by the President of the Office of Competition and Consumer Protection (UOKiK) against the Visa Europay payment system operators and banks - issuers of Visa cards and Europay/ Eurocard/ Mastercard.
This procedure applies to practices limiting the competition on payment-cards market in Poland, by consisting in the joint determination of 'interchange fees' for transactions made by cards of Visa and Europay / Eurocard / Mastercard as well as limiting the access to market for operators who do not belong to the unions of card issuers and against whom proceedings have been initiated. On 22 April 2010 the Court of Appeal overturned the verdict of the Court of Competition and Consumer Protection (SOKiK), sending the case back to the court of first instance. As at the day of financial statements preparation, there had been no final settlements in this case.

In case of legal proceedings involving the risk of cash outflow as a result of meeting Group's commitments the appropriate provisions are created.

Off-balance-sheet commitments

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

PLN '000	**31.12.20**	**31.12.2010**
Off-balance-sheet commitments granted		
Letters of credit	155,822	147,312
Guarantees granted	2,054,187	1,771,282
Credit lines granted	11,069,687	10,538,673
Guarantees of emissions of valuable papers given to other emitters	551,150	359,650
	13,830,846	**12,816,917**

PLN '000	**31.12.20**	**31.12.2010**
Letters of credit by categories		
Import letters of credit issued	150,437	145,665
Export letters of credit confirmed	5,385	1,647
	155,822	**147,312**

The Bank makes specific provisions for off-balance-sheet commitments. As at 31 December 2011, the specific provisions created for off balance commitments amounted to PLN 11,474 thousand, (31 December 2010: PLN 10,579 thousand).

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

PLN '000	**31.12.2011**	**31.12.2010**
Contingent liabilities received		
Finance	6,000	318,701
Guarantees	3,807,088	2,769,825
	3,813,088	**3,088,526**

40. Assets pledged as collateral

Assets covered by the following liabilities:

PLN '000	**31.12.2011**	**31.12.2010**
Collateral liabilities		
Liabilities due from banks		
liabilities due from securities sale and repurchase agreements	-	4,543
Liabilities due from customers		
liabilities due from securities sale and repurchase agreements	-	109,001
	-	**113,544**

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

PLN '000	**31.12.2011**	**31.12.2010**
Assets pledged		
Debt securities available-for-trading	--	113,558
Debt securities available-for-sale	143,870	111,385
Amounts due from banks		
Settlements related to operations on derivative instruments	38,317	58,962
	182,187	**283,905**

As at 31 December 2011 and 31 December 2010, the debt securities available for sale presented in the table constituted a reserve against the funds guaranteed to the Bank Guarantee Fund. Debt securities held-for-trading constitutes the security for Bank obligations due to securities sold with repurchase agreement. More details on assets covering Bank obligations due to repo are placed in note 37. Other assets disclosed above secure settlement of their respective transactions, including derivatives transactions. The terms and rules of the transactions executed to date are standard and typical for such dealings.

41. Trust activities

The Bank is offers both custody services connected with securities accounts for foreign institutional investors and depositary services for Polish financial institutions, including pension, investment and equity insurance funds. As at 31 December 2011 the Bank maintained 14,356 securities accounts (31 December 2010: 13,602 accounts).

42. Operating leases

Leases where the Bank is the lessee

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

PLN '000	**31.12.2011**	**31.12.2010**
Less than 1 year	53,595	48,529
Between 1 and 5 years	69,658	109,915
More than 5 years	1,172	8,330
	124,425	**166,774**
Total operating leasing rentals for unspecified period of time	**1,162**	**1,583**

The Bank uses cars and office space under operating lease contracts.

Generally the office space lease contracts are signed for 5 years and there is an ability to extend them over the next three years, however some contracts have been signed for period up to 1 year and some for more than 10 years. Lease payments are under one year indexation. The total amount of lease payments in 2011 amounted to PLN 42,400 thousand (in 2010: PLN 41,316 thousand).

The Bank uses cars under operating lease contracts, which were signed with its subsidiary. The contracts have been signed for 4 years. Lease payments are determined at a fixed interest rate for the entire lease period. In 2011 the Bank incurred payments amounting to PLN 10,942 thousand (in 2010: PLN 6,929 thousand).

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

Leases where the Bank is the lessor

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

PLN '000	**31.12.2011**	**31.12.2010**
Less than 1 year	1,454	1,387
Between 1 and 5 years	5,225	6,062
More than 5 years	53	83
	6,732	**7,532**
Total operating leasing rentals for unprescribed time	**3,938**	**1,788**

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

Most of the office space lease agreements are signed for an unspecified period of time. Other agreements are signed for a period of between 2 and 10 year. Lease payments are under one year indexation. The income related to these contracts amounted in 2011 to PLN 4,401 thousands (in 2010: PLN 3,256 thousands).

In 2011 the Bank leased cars under contracts with subordinate entities. In 2010 the total amount of lease payments in 2011 amounted to PLN 19 thousand. In 2011 these agreements had been terminated.

43. Cash flow statement

Additional information:

PLN '000	**31.12.2011**	**31.12.2010**
Cash related items		
Cash available	503,980	475,227
Nostro current account in Central Bank	472,080	2,731,327
Current accounts in other banks (nostro, overdrafts on loro accounts)	68,047	94,995
	1,044,107	**3,301,549**

44. Related parties

Transactions with related parties

Within its normal course of business activities, the Group enters into transactions with related entities, in particular with entities of Citigroup Inc., subordinated entities (see note 22) as well as with members of the Bank's supervisory board, management and employees.

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

Transactions with Citigroup Inc. entities

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

PLN '000	**31.12.2011**	**31.12.2010**
Receivables, including:	61,753	1,818,554
Placements	-	1,721,961
Liabilities, including:	4,009,659	1,666,411
Deposits	3,270,560	1,379,962
Balance valuation of derivative transactions:		
Assets held-for-trading	2,908,807	1,858,531
Liabilities held-for-trading	3,040,030	2,121,780
Conditional liabilities granted	406,112	312,795
Conditional liabilities received	221,968	24,524
Off-balance-sheet transactions in respect of derivative instruments (liabilities granted/received), including:	157,370,941	121,339,749
Interest rate instruments	131,594,106	108,855,418
FRA	25,400,000	40,929,500
Interest rate swaps (IRS)	86,269,742	56,358,641
Currency – interest rate swaps (CIRS)	11,532,526	7,426,746
Interest rate options	813,798	816,005
Future contracts	7,578,040	3,324,526
Currency instruments	24,389,907	11,387,763
FX forward	1,712,473	1,586,634
FX swap	19,036,769	6,948,605
Foreign exchange options	3,640,665	2,852,524
Securities transactions	54,275	163,639
Share options	15,686	28,791
Securities purchased pending delivery	13,915	10,426
Securities sold pending delivery	24,674	124,422
Commodity transactions	1,332,653	932,929

PLN '000	**31.12.2011**	**31.12.2010**
Swaps	33,288	298,961
Options	1,299,365	633,968

PLN '000	**2011**	**2010**
Interest and commission income	26,454	21,307
Interest and commission expense	11,580	6,167

The Bank incurs costs and receives income on derivative transactions with Citigroup Inc's entities to hedge Bank's position in market risk. These derivative transactions are opposite (back to back) to derivative transactions with other Bank's clients to close current FX position of the Bank.
Net carrying amount of financial derivative transactions as at 31 December 2011 amounted to PLN -131,223 thousand (as at 31 December 2010: PLN -263,249 thousand).

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

The costs arising and accrued (including VAT) in 2011 mainly related to operating expenses of the maintenance of the Bank's information systems and advisory support for the Bank and are included in the Bank operating expenses, general administrative expenses and other operating expenses; incomes were mainly related to operating incomes from data processing and other services provided by the Bank and are presented in other operating incomes.

PLN '000	**2011**	**2010**
Bank operating expenses and other administrative expenses	152 834	120 770
Other operating expenses	187	382
Other operating incomes	21 364	54 085

Transactions with subordinated entities

PLN '000	**31.12.2011**	**31.12.2010**
Receivables		
Current accounts credits	**116 299**	**252 157**
Receivables		
Opening balance	252 157	267 100
Closing balance	116 299	252 157
Deposits		
Current accounts	4 254	18 746
Term deposits	173 685	206 089
	177 939	**224 835**
Deposits		
Opening balance	224,835	212,185
Closing balance	177,939	224,835
Off-balance-sheet commitments granted		
Letter of credit	17,604	-
Credit lines granted	395,009	204,699
	412,613	**204,699**

PLM '000	**2011**	**2010**
Interest and commission income	10,578	10,198
Interest and commission expenses	9,602	7,231

As at 31 December 2011 and 31 December 2010 any receivables or contingent liabilities of subsidiaries have not been subject to impairment write-offs.

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

PLN '000	31.12.2011			31.12.2010		
	Employees	Members of the Management Board	Members of the Supervisory Board	Employees	Members of the Management Board	Members of the Supervisory Board
Receivables						
Loans granted	62,710	-	-	58,236	59	-
Staff benefits	24,559	-	-	25,452	-	-
Prepayments	33	-	-	27	-	-
	87,302	**-**	**-**	**83,715**	**59**	**-**
Deposits						
Current accounts	97,980	5,700	3,053	101,322	2,686	4,185
Term deposits	25,376	3,635	187	28,357	500	146
	123,356	**9,335**	**3,240**	**129,679**	**3,186**	**4,331**

As at 30 December 2011 and 31 December 2010 transactions with employees, members of the Management Board and Supervisory Board did not include guarantees granted.

45. Employee benefits

Employee benefits are divided into the following categories:

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

- benefits after termination of employment – including severance pay (see Note 2) and pension plans presented below offered by the Bank to its staff.
  A provision is created for future pension severance pay that is shown in the statement of financial position in 'Other liabilities'. An independent actuary in accordance with IFRS rules cyclically verifies the provision.
  The Bank's pension plan is a pre-determined-premium program in accordance with IAS 19. The Bank pays contributions for its staff to a separate organization and, after they are paid, has no other payment liabilities. Premiums are shown as employee benefit expenses in the period they concern.

Description of Employee Pension Plan

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

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

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

The basic premium for Plan participants is paid out of the Bank's own funds. Each employee who participates in the Plan can also make additional premium contributions to the Plan. The total of premiums paid to Plan is invested in units of LM Senior SFIO;

- other long-term employee benefits – jubilee and other long service awards. Information about jubilee awards is described in Note 2. These are paid under a pre-determined benefit scheme and their valuation is carried out by an independent actuary in accordance with IAS 19;
- employee equity benefits – in the form of stock options granted on Citigroup common stock and also under stock award programs based on shares of Citigroup common stock in the form of deferred stock. Valuation and presentation principles of these programs are described in Note 2. Detailed information concerning the employee equity benefits are presented in the further part of this note.

Provisions for the above employee benefits are as follows:

PLN '000	**31.12.2011**	**31.12.2010**
Provision for remuneration	55,062	60,179
Provision for employees' retirement and jubilee payments	35,344	37,691
Provision for employees' equity compensation	8,026	9,920
	98,432	**107,790**

In 2011 the Bank's expenses in respect of premiums for the employee pension plan amounted to PLN 22,604 thousand (in 2010: PLN 16,699 thousand).

Employment at the Bank:

By vacant	**2011**	**2010**
Mid employment during a year	5,700	5,565
At the end of the year	5,543	5,733

Description and principles of employee stock benefits

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

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

Within the framework of the CAP, eligible employees receive so-called 'deferred shares' of Citigroup. 'Deferred shares' within the framework of the CAP are granted at the NYSE average closing price as at the 5 days prior to the grant date. 'Deferred shares' give the right to equivalents of dividends, but without voting rights, and must not be sold prior to their conversion into stocks. 'Deferred shares' are converted into stocks after the end of a period that is determined in the Program Rules, which commences on the CAP award allocation date, provided, however, that an eligible employee is still with Citigroup. Deferred shares granted during 2007 and 2010 will be transferred partially in 25% every year for the next four years, starting from the first anniversary of the option to acquire.

Assumptions of valuation of the employee equity benefit programs

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

SOP Program	Grant date	Exercise price/ stock price at grant date (USD)	Number of eligible employees	Number of options / shares
1	13.02.2002	421.1 or 418.97	192	7,108
2	20.09.2005	453.6	1	150
3	17.01.2006	489.2	1	153
4	16.01.2007	543.8	1	44
5	22.01.2008	244.5	8	2,104
6	29.10.2009	40.8	198	100,577

CAP Program	Grant date	Exercise price/ stock price at grant date (USD)	Number of eligible employees	Number of options / shares
1	22.01.2008	197.48 or 263.3	162	5,437
2	20.01.2009	46.72	21	12,987
3	19.01.2010	35.16	17	37,154
4	18.01.2011	50.20	26	59,296

	Program SOP	Program CAP
Period to acquire the title (in years)	(1) 20% after each of the following years (6) 33.33% after each of the following years (2)-(5) 25% after each of the following years	25% after each of the following years
Expected variances	54.29 %	54.29 %
Life cycle of the instrument	1 year from the moment of rights acquisition	In the moment of rights acquisition
Risk free interest rate (for USD)	0.43 %	0.43 %
Expected dividends (in USD per one share)	0.04	0.04
Probability of premature termination of employment (annual staff turnover for awarded employees)	7 %	7 %
Fair value of one instrument* (in USD)	0.00 – 3.96	26.31

** Varies depending on the date of exercise*

Options – volumes and weighted-average strike prices:

	31.12.2011		31.12.2010	
	Number	Weighted average strike price	Number	Weighted average strike price
At the beginning of the period	117,569*	70.8	1,275,230	8.47
Allocated in the period	-	-	-	-
Transfers	358	-	-	-
Redeemed in the period	7,790	40.8	8,354	4.08
Expired in the period	-	-	91,188	-
At the end of the period	110,137	70.62	1,175,688	7.08
Exercisable at the end of the period	65,637	89.21	440,334	11.60

* Since 9 May 2011 reverse stock split for Citigroup securities is enabled with 10:1 proportion.

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

31.12.2011			31.12.2010		
Striking price range (in USD)	Number (in thousands of pieces)	Weighted average period to the end of life cycle (in years)	Striking price range (in USD)	Number (in thousands of pieces)	Weighted average period to the end of life cycle (in years)
418.97	0.08	-	41.90	0.81	-
421.1	7.03	-	42.11	75.33	-
475.0	-	-	47.50	1.21	-
453.6	0.15	-	45.36	1.50	-
489.2	0.15	-	48.92	1.54	0.05
543.8	0.04	0.05	54.38	0.44	0.55
244.5	2.1	0.55	24.45	21.18	1.05
40.8	100.58	1.33	4.08	1 073.68	1.83

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

	31.12.2011		31.12.2010	
	Number	Weighted average price of share	Number	Weighted average price of share
At the beginning of the period	85,437*	14.82	552,866	14.82
Allocated in the period	59,296	3.52	510,575	3.52
Redeemed in the period	29,859	-	209,070	-
At the end of the period	114,874	7.16	854,371	7.16

* Since 9 May 2011 reverse Citigroup stock split is enabled with 10:1 proportion.

46. Subsequent events

After 31 December 2011 there were no major events, not included in the financial statement that could have a significant influence on the net result of the Group.

47. Risk management

RISK MANAGEMENT ORGANISATION STRUCTURE AND PROCESS

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

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

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

Management Board of the Bank by way of a resolution:

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

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

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

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

- managing the problem loans portfolio (including collections and debt restructurings).

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

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

The independent risk managers are responsible for establishing and implementing risk management policies and practices in the respective businesses, for overseeing the risk in their business, and for responding to the needs and issues of these businesses.
Risk management in the Bank is supported by the IT systems in the following areas:

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

Significant Risks

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

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

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

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

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

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, or technical systems, or from external events. It includes franchise risks associated with business practices or market conduct. It also includes the risk of failing to comply with applicable laws and internal Bank

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

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

CREDIT RISK

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

Principles of the Credit Risk Management Policy

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

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

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

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

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

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

Each portfolio has annual stress testing performed.

Credit assessment and Risk Rating

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

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

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

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

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

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

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

Credit Risk Monitoring

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

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

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

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

Risk mitigation

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

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

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

- Customers verification in Credit Bureau (BIK),
- Exposure limits on product and customer level,
- Assessment of a customer reliability with assistance of the information gathered from Credit Information Bureau,
- Verification of income and employment,
- Hedging,
- Controls mitigating frauds,
- Monthly monitoring of the portfolio quality.

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

Management of the impaired exposures

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

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

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

- Known solvency of significant financial difficulties experienced by the borrower (on the basis of negative assessment of the financial situation),
- Overdue contractual payments,

- Breach of loan covenants,
- The probability that the borrower will enter bankuptcy proceedings or other financial reorganization.

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

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

Classifiably managed Accounts managed on case-by-case analysis

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

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

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

Customers managed on the days past due basis

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

The tables below present direct exposure of the Bank to credit risk, whereas the accounts payable to customers, with established value loss, have been grouped for presentation purposes into risk categories using classification and without impairment has been presented using the internal risk ratings, and the accounts payable. There are also presented the details of provisions made for impaired receivables. The receivables are coordinate with risk categories from I to IV, where I and IA means receivables without impairment, III and IV means receivables with impairment, while receivables with risk category II may be characterized as impaired, however part of them may be treated as receivables without impairment. Exposures without impairment are classified based on risk ratings with value from 1 to 7, where risk category 1 is the best category.

In order to define the maximum exposure of the Bank to the credit risk, it is necessary to account also for the off-balance-sheet exposure (discussed in Note 39), the debt securities available for sale (discussed in Note 21), the financial assets provided for trading (discussed in Note 20) and other assets (discussed in Note 28).

The table below presents the maximum Bank exposition for credit risk.

PLN '000	Note	**31.12.2011**	**31.12.2010**
Gross credit receivables (banks and customers)	19, 23	15,769,686	15,217,440
Financial assets held-for-trading	20	5,801,713	3,995,217
Debt securities available-for-sale	21	17,625,355	13,029,254
Other assets	28	193,676	199,319
Conditional liabilities granted	39	13,830,846	12,816,917

	53,221,276	**45,258,147**

PLN '000	31.12.2011		31.12.2010	
	Receivables from customers	Receivables from banks	Receivables from customers	Receivables from banks
Receivables with established value loss				
Individually Assessed receivables				
Risk category II	26,237	-	50,800	-
Risk category III	153,194	-	384,170	-
Risk category IV	369,268	-	401,749	-
Gross value	**548,699**	**-**	**836,719**	**-**
Impairment	345,318	-	425,900	-
Net value	**203,381**	**-**	**410,819**	**-**
Collectively Assessed receivables				
Risk category II	839	-	1,918	-
Risk category III	1,384	-	807	-
Risk category IV, including:	900,899	-	940,479	-
receivables from individuals	842,662		879,030	
Gross value	**903,122**	**-**	**943,204**	**-**
Impairment	684,275	-	689,023	-
Net value	**218,847**	**-**	**254,181**	**-**
Not impaired receivables				
from corporate clients and banks (exlc. individuals), by risk rating				
Risk rating 1-4	5,911,632	539,288	4,425,661	2,179,915
Risk rating 5-6	2,536,253	8,952	1,285,158	93,477
Risk rating 7	306,266	5	216,201	-
Receivables from individuals by delinquency				
0-30 days	4,900,469	-	5,107,052	**-**
31-90 days	115,000	-	130,053	**-**
Gross value	**13,769,620**	**548,245**	**11,164,125**	**2,273,392**
Impairment	142,607	63	163,514	493
Net value	**13,627,013**	**548,182**	**11,000,611**	**2,272,899**
Total net value	**14,049,241**	**548,182**	**11,665,611**	**2,272,899**

PLN '000	31.12.2011		31.12.2010	
	Receivables from customers	Receivables from banks	Receivables from customers	Receivables from banks
Impairment value for receivables with established value loss				
Impairment value for receivables assessed individually				
Risk category II	6,023		17,916	-
Risk category III	26,004	-	64,192	-
Risk category IV	313,291	-	343,792	-
	345,318	-	**425,900**	**-**
Impairment value for receivables assessed collectively				
Risk category II	207	-	483	-
Risk category III	484	-	282	-
Risk category IV, including:	683,584	-	688,258	-
receivables from individuals	637,060		649,669	
	684,275	**-**	**689,023**	**-**
IBNR provisions				
from corporate clients and banks (exlc. individuals), by risk rating				
Risk rating 1-4	2,029	29	1,377	183
Risk rating 5-6	16,090	34	6,171	310
Risk rating 7	11,630	-	8,422	-
receivables from individuals by delinquency				

PLN '000	31.12.2011		31.12.2010	
	Receivables from customers	**Receivables from banks**	**Receivables from customers**	**Receivables from banks**
0-30 days	56,740	-	73,939	-
31-90 days	56,118	-	73,605	-
	142,607	**63**	**163,514**	**493**
Total net value	**1,172,200**	**63**	**1,278,437**	**493**

PLN '000	31.12.2011	31.12.2010
Receivables with incurred but not recognized (IBNR) losses		
Regular receivables		
0-30 days	14,183,354	13,279,467
Overdue receivables		
31-90 days	115,922	137,183
91-180 days	70	2,169
181-365 days	1,295	1,228
Over 366	17,224	17,470
Gross value	**14,317,865**	**13,437,517**

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

PLN '000	31.12.2011	31.12.2010
Gross value		
Receivables with recognized impairment, including	1,451,821	1,779,923
Receivables assessed individually	548,699	836,719
Receivables assessed collectively	903,122	943,204
Receivables without recognized impairment	14,317,865	13,437,517
Gross value in total	**15,769,686**	**15,217,440**
Impairment		
Receivables with recognized impairment, including	1,029,593	1,114,923
Receivables assessed individually	345,318	425,900
Receivables assessed collectively	684,275	689,023
Receivables without recognized impairment	142,670	164,007
Impairment in total	**1,172,263**	**1,278,930**
Net value		
Receivables with recognized impairment, including	422,228	665,000
Receivables assessed individually	203,381	410,819
Receivables assessed collectively	218,847	254,181
Receivables without recognized impairment	14,175,195	13,273,510
Net value in total	**14,597,423**	**13,938,510**
Reserve cover ratio for receivables with recognized impairment	**70.9**	**62.6**

The policies for collateral and other risk mitigation acceptance

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

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

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

- For individual clients the most common type of collateral is residential real estate,

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

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

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

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

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

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

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

As at 31 December 2011 in the Bank the effect of affecting recovered receivables as collateral with recognized impairment basing on individual measurement from customers amounted PLN 119,251 thousand (31 December 2010: PLN 121,934 thousand). This is the amount of which the required level of write downs due to values assigned to the portfolio impairment would be higher, if the estimation of the write-downs had not considered cash flows from these collaterals.

Concentration of exposure

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

- against one obligor or capital group of customers,
- against particular industries (based on the US GAAP industry classification),
- in specific foreign currency,
- resulting from transactions generating counterparty credit risk (pre-settlement),
- against capital group of Bank’s majority shareholders.
- Concerning engagements connected with real estate, including concentration limits of real estate financing engagement.

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

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

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

Obligor concentration risk

The Bank sets out to limit its exposure to a single customers or capital group of customers. As at 31 December 2011, the Bank's exposure in banking portfolio transactions with the group of customers, which all-in exceeded 10 % of the Bank's equity (defined in next part of the statement), amounted to PLN 4,161,782 thousand i.e. 102.2% of these funds (31 December 2010: PLN 1,848,745 thousand i.e. 44.6%).

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

PLN '000	31.12.2011			31.12.2010		
	Balance sheet Outstanding*	Off-Balance-sheet Outstanding	Total Outstanding	Balance sheet Outstanding*	Off-Balance-sheet Outstanding	Total Outstanding
Client 1	691,400	75,150	766,550	141,400	75,150	216,550
Group 2	328,489	419,451	747,940	232,922	336,395	569,317
Group 3	365,220	337,648	702,868	572,962	228,113	801,075
Group 4	6	533,350	533,356	6	327,527	327,533
Client 5	500,000	-	500,000	-	-	-
Client 6	115,695	362,080	477,775	251,502	154,190	405,692
Group 7	272,859	160,435	433,294	41,182	54,056	95,238
Group 8	242,188	153,769	395,957	5	223,088	223,093
Client 9	199,556	165,924	365,480	109,611	139,034	248,645
Group 10	28,269	334,382	362,651	15,413	348,278	363,691
Total	**2,743,682**	**2,542,188**	**5,285,870**	**1,365,003**	**1,885,831**	**3,250,834**

**Excluding outstanding on commercial papers and subsidiaries.*

The Banking Act of 29 August 1997 and its executive regulations issued by the Commission for Banking Supervision define maximum exposure limits for a Bank. Maintaining the conditions laid down by Resolution No. 76/2010 Financial Supervision Commission dated 10 March 2010 on the scope and detailed procedures for determining capital requirements for individual risks and pursuant to provisions of the Resolution No. 208/2011 of the Polish Financial Supervision Authority dated 22 August 2011 regarding specific rules for calculating capital requirements for banking risk categories in exposure concentration limits and large exposures limit the Bank is allowed to maintain exposure exceeding concentration limits, as defined in article 71 of the Banking Act, on condition that the excess exposure relates only to transactions classified to trading portfolio. Equity for the purpose of setting concentration limits specified in the Banking Act has been established in accordance with resolution No. 325/2011 of the Polish Financial Supervision Authority dated 20 December 2011 regarding specific rules for other reductions for calculating Bank's primary funds (…).

As at 31 December 2011, the Bank had an exposure to a two parties exceeding the statutory engagement concentration limits. The excess exposure arose by virtue of derivative transactions. As a consequence, an additional capital requirement for excess exposure was factored into the calculation of the Bank's capital adequacy ratio as at 31 December 2011.

Concentration of exposure in individual industries

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

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

Sector of the economy according to Polish Classification of Economic Activity (PKD)	31.12.2011	31.12.2010
	in %	in %
Wholesale and sale on commission basis, except for trade with vehicles and motorcycles	20.2	21.6
Financial intermediation, except for insurance and retirement fund business	10.8	11.0
Manufacture and supply of electricity, gas, steam, hot water and air conditioning	8.3	5.2
Retail trade, except for trade with vehicles	6.7	6.0
Production of food and beverages	5.5	6.9
Public administration; Compulsory social insurances and general health insurances protection	4.5	2.2
Fabricating of coke, petroleum products and nuclear fuels	4.1	3.7
Wholesale and retail trade of motor vehicles, repair of motor vehicles	3.8	4.4
Production, sale and service of vehicles and motorcycles; retail sale of fuel for car vehicles	3.2	4.3
Production of the basic pharmacy substances, medicines and other pharmacy products.	2.8	1.0
Top 10 business sectors	**69.9**	**66.3**
Manufacture of electric goods	2.6	1.9
Construction of buildings	2.2	2.4
Production of metallic goods, except for machines and equipment	2.1	2.0
Manufacture of chemicals and chemical products	2.0	2.3
Manufacture of rubber and plastic products	1.5	1.7
Telecommunication	1.4	3.6
Production of goods out of other non-metallic resources	1.3	1.8
Production of beverages	1.3	0.9
Manufacture of furniture	1.3	1.0
Manufacture of basic metal	1.1	1.0
Top 20 business sectors	**86.7**	**84.9**
Other sectors	**13.3**	**15.1**
Total	**100.0**	**100.0**

Although concentration in some industries has changed in comparison with the end of 2010, the overall portfolio concentration remains on similar level.

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

PLN '000		31.12.2011	31.12.2010
Gross receivables from economic entity and banks			
Financial		1,998,189	3,099,331
Production		2,878,911	2,271,398
Services		315,286	353,334
Other		4,715,553	3,373,098
		9,907,939	**9,097,161**
Gross receivables from individuals		**5,861,747**	**6,120,280**
	(see note 19, 23)	**15,769,686**	**15,217,441**

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

MARKET RISK

The processes and organization of market risk management

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

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

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

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

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

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

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

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

Liquidity risk management

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

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

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

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

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

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

Funding and Liquidity Plan

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

Liquidity risk management tools

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

Internal liquidity risk management tools

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

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

Stress scenarios

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

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

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

Contingency Funding Plan

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

Contingency Funding Plan defines:

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

- Procedures for reassuming the customers confidence,

The levels of the modified gap in financial flows and the level of liquid assets as at 31 December 2011 and 31 December 2010 are shown in the tables below.

The liquidity gap as at 31 December 2011 in real terms:

PLN '000	Up to 1 month	More than 1 to 3 months	More than 3 months to 1 year	More than 1 year to 2 years	More than 2 years
Assets	9,308,489	-	-	-	32,233,525
Liabilities	10,033,990	954,300	29,505	30,305	30,493,914
Balance sheet gap in the period	(725,501)	(954,300)	(29,505)	(30,305)	1,739,611
Off-balance-sheet transactions – inflows	17,755,312	5,764,197	10,506,750	4,035,349	11,147,650
Off-balance-sheet transactions – outflows	17,725,185	5,744,585	10,370,845	4,168,451	11,086,524
Off-balance-sheet gap in the period	30,127	19,612	135,905	(133,102)	61,126
Cumulative gap	(695,374)	(1,630,062)	(1,523,662)	(1,687,069)	113,668

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

PLN '000	Up to 1 month	More than 1 to 3 months	More than 3 months to 1 year	More than 1 year to 2 years	More than 2 years
Assets	10,693,414	-	-	-	26,008,259
Liabilities	7,644,199	206,013	22,768	25,522	28,803,171
Balance sheet gap in the period	3,049,215	(206,013)	(22,768)	(25,522)	(2,794,912)
Off-balance-sheet transactions – inflows	5,919,886	3,382,717	7,337,523	1,619,644	7,909,748
Off-balance-sheet transactions – outflows	5,675,804	3,339,931	7,423,920	1,641,152	8,254,489
Off-balance-sheet gap in the period	244,082	42,786	(86,397)	(21,508)	(344,741)
Cumulative gap	3,293,297	3,130,070	3,020,905	2,973,875	(165,778)

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

PLN '000	31.12.2011	31.12.2010	Change
Liquid assets, including:	19,877,179	17,519,892	2,357,287
obligatory reserve in NBP and stable part of cash	310,037	2,894,352	(2,584,315)
debt securities held-for-trade	1,941,787	1,596,286	345,501
debt securities available-for-sale	17,625,355	13,029,254	4,596,101
Cumulative liquidity gap up to 1 year	(1,687,069)	3,020,905	(4,707,974)
Coverage of the gap with liquid assets	1178%	Positive gap	

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

As at 31 December 2011

PLN '000	Note	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Interests
Amounts due to banks	30	5,543,915	4,542,385	873,480	30,957	49,280	40,573	7,240
Financial liabilities held-for-trading								
Short positions in financial assets	20	679,529	679,529	-	-	-	-	-
Amounts due to customers								

Deposits from financial sector entities	31	2,314,613	2,238,523	69,651	4,643	17	663	1,116
Deposits from non-financial sector entities	31	21,641,827	20,605,674	525,214	439,414	52,227	11	19,287
Other liabilities	31	173,846	121,438	27,770	23,179	703	-	756
		24,130,286	**22,965,635**	**622,635**	**467,236**	**52,947**	**674**	**21,159**
Liabilities due to debt securities issuance	32	25,336	673	-	24,652	-	-	11
Financial liabilities held-for-trading								
Derivative financial instruments	20	3,381,573	106,334	194,817	598,626	1,982,155	499,641	-
Unused credit lines liabilities	39	11,069,687	10,355,136	51,395	95,927	502,423	64,806	-
Guarantee lines	39	2,054,187	39,087	181,198	927,449	830,038	76,415	-
		46,884,513	**38,688,779**	**1,923,525**	**2,144,847**	**3,416,843**	**682,109**	**28,410**
Gross derivatives								
Inflows		47,931,696	18,299,699	5,319,162	10,463,682	10,649,324	3,199,829	
Outflows		47,834,756	18,313,618	5,321,701	10,333,228	10,561,080	3,305,129	
		96,940	**(13,919)**	**(2,539)**	**130,454**	**88,244**	**(105,300)**	

As at 31 December 2010

PLN '000	Note	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Interests
Amounts due to banks	30	2,951,530	2,623,174	190,000	40,147	63,849	31,865	2,495
Financial liabilities held-for-trading								
Short positions in financial assets	20	279,344	279,344	-	-	-	-	-
Liabilities due to customers								
Deposits from financial sector entities	31	3,293,327	3,280,771	8,152	700	1,695	594	1,415
Deposits from non-financial sector entities	31	20,405,392	19,235,833	680,665	423,775	48,127	11	16,981
Other liabilities	31	281,471	218,119	27,810	32,438	2,106	-	998
		23,980,190	**22,734,723**	**716,627**	**456,913**	**51,928**	**605**	**19,394**
Liabilities due to debt securities issuance	32	11,533	-	-	10,856	673	-	4
Financial liabilities held-for-trading								
Derivative financial instruments	20	2,074,117	46,879	84,789	380,630	1,119,744	442,075	-
Unused credit lines liabilities	39	10,538,673	9,849,609	8,670	209,739	294,243	176,412	-
Guarantee lines	39	1,771,282	91,782	119,576	1,124,411	398,321	37,192	-
		41,606,669	**35,625,511**	**1,119,662**	**2,222,696**	**1,928,758**	**688,149**	**21,893**
Gross derivatives								
Inflows		25,230,851	5,640,606	3,426,075	7,303,075	6,987,082	1,874,013	
Outflows		25,208,109	5,634,407	3,400,832	7,309,500	6,995,023	1,868,347	
		22,742	**6,199**	**25,243**	**(6,425)**	**(7,941)**	**5,666**	

Pricing risk management

Scope of risk

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

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

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

Measurement of the pricing risk of the bank portfolios

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

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

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

It is assumed that:

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

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

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

Follow the IRE measures for the Bank valid on 31 December 2011 and 31 December 2010. The list has been broken down into the main currencies, i.e. PLN, USD and EUR, which jointly account for over 90% of the Bank's balance.

PLN '000	**31.12.2011**		**31.12.2010**	
	IRE 12M	IRE 5L	IRE 12M	IRE 5L
PLN	35,063	157,265	1,427	70,053
USD	1,822	(12,875)	2,206	5,602
EUR	(6,059)	(32,340)	4,289	11,073

Stress tests measure potential impact of material changes in the level or directionality of interest rate curves on the open interest positions in the bank portfolio.
Bank runs stress tests of predefined interest rate movement scenarios, which represent combinations of market factor movements defined as large moves and stress moves occurring both in Poland and abroad. Values of the assumed market factor movements are revised at least once a year and duly adjusted to the changes in the market conditions of the Bank's operation.

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

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

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

PLN '000	**31.12.2011**	**31.12.2010**	**Overall between 01.01.2011 and 31.12.2011**		
			Average	**Maximum**	**Minimum**
PLN	(1,613)	(1,197)	(1,284)	(1,046)	(1,644)
USD	(739)	(72)	(381)	-	(763)
EUR	(937)	(277)	(550)	(243)	(940)

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

Pricing risk of the trading portfolios

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

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

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

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

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

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

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

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

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

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

The values of significant exposures of the bank portfolios to the interest rates risk in terms of DV01 in the year 2011 have been listed in the table below:

PLN '000	**31.12.2011**	**31.12.2010**	**Overall between 01.01.2011 and 31.12.2011**		
			Average	**Maximum**	**Minimum**
PLN	144	316	116	353	(125)
EUR	199	34	(14)	199	(212)
USD	41	(84)	109	241	(75)

The average exposure to the interest rates risk in domestic currency and USD in 2011 compared with the year 2010 has increased (i.e. DV01 in PLN on average was higher by 20% and amounted PLN 116 thousand), while the exposure in EUR was lower than the average from previous year and amounted respectively -14 thousand PLN (in previous year the amount was PLN 42 thousand). What's regarding the greatest position taken by Treasury were lower than in previous year. Maximum position in PLN was PLN 353 thousand comparing to 552 thousand PLN in 2010 and exposition in EUR amounted PLN 199 thousand comparing to 290 thousand PLN in previous year.

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

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

PLN '000	31.12.2011	31.12.2010	Overall between 1.01.2011 and 31.12.2011		
			Average	Maximum	Minimum
FX risk	260	1,101	5,106	15,059	253
Interest rate risk	8,201	3,341	5,443	8,678	1,565
Overall risk	8,202	3,669	8,445	16,645	3,090

In the year 2011, the overall, average level of the pricing risk of the trading portfolios was nearly 70% lower than medium level in year 2010 of about PLN 3.4 million, mainly as a result of exposures levels increasing of FX exposure levels, interest risk position in LCY and higher variability of main market factor. Maximum price risk level gain amount of PLN 16.6 million, compared to amount of PLN 12.4 million in the same period of the year 2010.

Capital instruments risk

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

Currency structure

The table below presents currency structure according to base currencies:

31 December 2011

PLN '000	Balance transaction		Off balance transaction		Net item
	Assets	Liabilities	Assets	Liabilities	
EUR	5,555,072	5,510,718	14,295,578	14,271,000	68,932
USD	3,689,746	6,941,684	15,393,092	12,159,887	(18,733)
GBP	665,292	787,704	126,654	34	4,208
CHF	314,283	225,706	78,209	159,865	6,921
Other currencies	371,205	406,167	950,148	930,863	(15,677)
	10,595,598	**13,871,979**	**30,843,681**	**27,521,649**	**45,651**

31 December 2010

PLN '000	Balance transaction		Off balance transaction		Net item
	Assets	Liabilities	Assets	Liabilities	
EUR	4,700,034	4,422,723	8,564,644	8,703,418	138,537
USD	1,907,368	3,815,166	7,132,875	5,246,971	(21,894)
GBP	625,237	653,454	31,217	3,058	(58)
CHF	313,613	231,692	264,884	355,770	(8,965)
Other currencies	471,789	387,702	826,979	879,375	31,691
	8,018,041	**9,510,737**	**16,820,599**	**15,188,592**	**139,311**

OPERATIONAL RISK

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

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

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

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

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

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

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

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

- Supervisory Board:
  - the Supervisory Board approves the Bank's strategy and the rules of prudential and stable risk management in the Group, prepared by the Management Board and covering operational risk arising in the course of the Bank's activity, and particularly the general rules of the operational risk management;
  - on the basis of synthetic reports submitted by the Management Board, which define the scale and the types of operational risk the Bank is exposed to, the probability of its occurrence, its consequences and methods of its management, as well as the operational risk profile, the Supervisory Board performs periodic assessments of implementation of the assumptions of the strategy by the Management Board;
  - the Supervisory Board exercises oversight over the control of the operational risk management system and assesses its adequacy and effectiveness. Supervisory Board is supported by Committees for Supervisory Board - Audit Committee and Risk and Capital Committee.
- Management Board:

- the Management Board is responsible for development and implementation of the risk management strategy, including organization and effective functioning of operational risk management process. Management Board sets the policy, rules and procedures of operational risk management, including the entire scope of the Bank's operations. With support of the relevant appointed Committees, the Bank Management Board adopts decisions relating to capital planning and monitoring of capital adequacy and to the adjustments necessary for the purpose of upgrading the systems and processes, in the case of material changes in the level of risk in the Bank's activity, in external economic factors or at identification of substantial irregularities;
- the Management Board is responsible for the establishment of and changes to the Bank's organizational structures with the aim of adjusting them to the strategy, the risk profile, the market and the regulatory environment;
- the Management Board is responsible for preparation and presentation to the Supervisory Board of synthetic reports on operational risk;
- the Management Board ensures disclosure of information enabling assessment of the Bank's approach to operational risk management to the market environment.

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

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

Risk measurement and control mechanisms

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

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

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

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

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

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

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

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

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

Monitoring and Reporting

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

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

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

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

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

Stress tests

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

FINANCIAL RESULT RISK

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

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

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

EQUITY MANAGEMENT

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

The Bank's equity amounted to PLN 6.4 bn as at 31 December 2011 (as at 31 December 2010 – PLN 6.4 bn). Regulatory capital, which included increases and decreases set by the Polish Financial Supervision Authority (KNF), amounted to PLN 4.1 bn (as at 31 December 2010 – PLN 4.1 bn) Such capital level is regarded as sufficient for conducting business activity and therefore the Bank plans to preserve current capital structure. The capital level is regularly monitored using capital adequacy ratio.

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

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

Signatures of Management Board Members

Date	Name	Position / function	Signature
13.03.2012	Sławomir S. Sikora	President of the Management Board	....
13.03.2012	Robert Daniel Massey JR	Vice-President of the Management Board	....
13.03.2012	Misbah Ur-Rahman-Shah	Vice-President of the Management Board	....
13.03.2012	Sonia Wędrychowicz-Horbatowska	Vice-President of the Management Board	....
13.03.2012	Witold Zieliński	Vice- President of the Management Board Chief Financial Officer	....
13.03.2012	Iwona Dudzińska	Member of the Management Board	....