REPORT ON ACTIVITIES
OF BANK HANDLOWY W WARSZAWIE S.A.
IN 2011

MARCH 2012

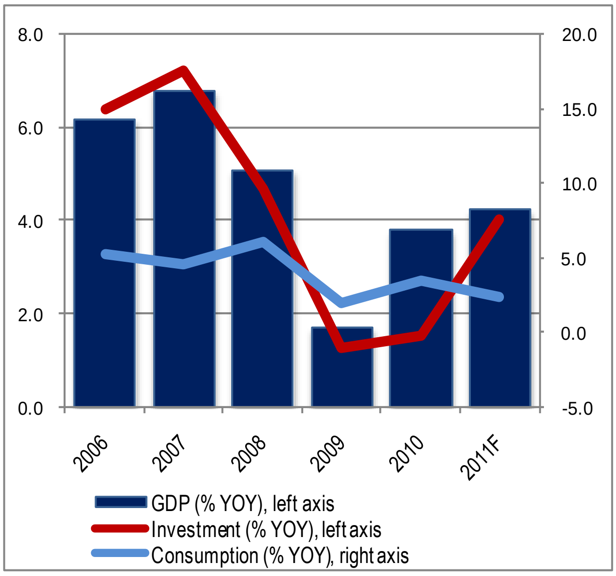
CONTENTS

I. Poland's economy in 2011

1. Main macroeconomic trends

In 2011, the Gross Domestic Product grew by 4.3% YoY, compared to 3.9% YoY in the entire year 2010. Industrial production grew in 2011 by an average of 7.0% YoY, compared to 11.1% YoY in 2010. Good performance of the major trade partners (Germany) fostered a relatively high demand for Polish exports, particularly in the first half of the year. Even though the pace of exports growth gradually declined throughout the year, the pace of growth in industrial production remained relatively high in the last months of the previous year. The pace of exports growth was 10.3% YoY in 2011, compared to around 23.0% YoY in 2010. The pace of imports growth in that period was similar and stood at around 10.7% YoY, compared to around 25% YoY in the previous year.

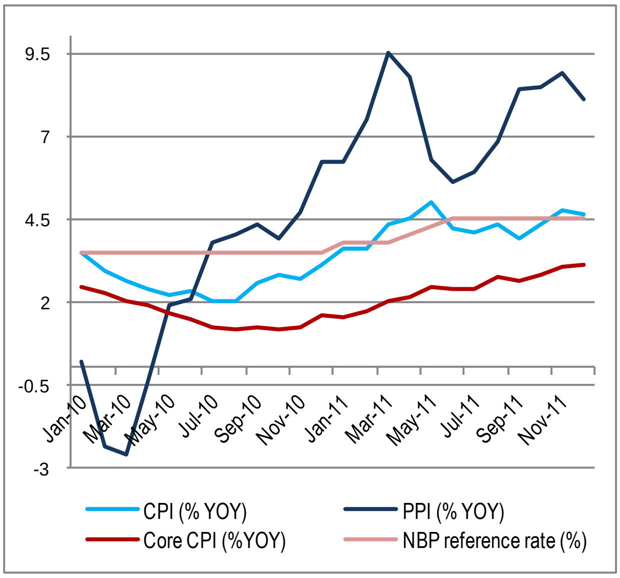
GDP, investment and private consumption growth in 2006-2011



Source: Chief Statistical Office, own calculations

In the first half of the year the situation in the labor market remained good. However, the deteriorated economic perspectives caused by the debt crisis in the eurozone contributed to the gradual deterioration in the labor market in the second half of the year. Weak labor market conditions mainly reflected the slowdown of employment growth in the enterprise sector to 2.3% YoY, compared to the last year's maximum of 4.1% YoY reached in March. Despite the weaker second half of the year, employment growth in 2011 increased to 3.3% YoY from 0.8% YoY in 2010. At the same time, even though the pace of pay rises increased in the previous year to 4.9% YoY from 3.5% YoY in 2010, the pay rise pressure was still limited. In 2011, work efficiency declined and unit labor costs increased. In February 2011, the unemployment rate peaked at 13.2%, similarly as in February 2010, and started its downward trend reaching 11.8% in July-October. At the end of the year, the unemployment rate grew over 12%.

CPI (% YOY)



Source: National Bank of Poland, own calculations

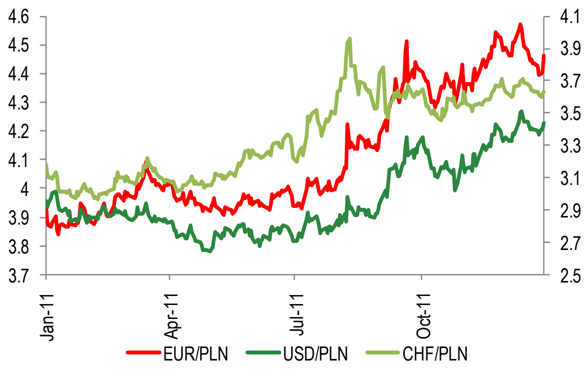
In 2011, the average growth in prices of consumer goods and services accelerated to 4.3% YoY from 2.6% YoY in 2010. An increase in the YoY growth of prices was recorded in all major categories of the inflation basket. Growth in inflation was mainly the result of a significant increase in the YoY growth of prices of food and fuel, which was also facilitated by increased VAT rates, applicable since January 2011. At the end of the year the inflation was affected also by growing prices of drugs. In 2011, average inflation net of food and energy amounted to 2.4% YoY, compared to 1.6% YoY in 2010.

In connection with a growing dynamics of prices and accelerated pace of economic growth, the Monetary Policy Council (RPP) increased interest rates four times in the first half of 2011 and the NBP reference rate grew to 4.50% from 3.50%. In the second half of the year RPP took a neutral approach and watched for any developments in the eurozone, taking note of the effects they may have on the economic situation in Poland.

2. Money and Forex markets

In 2011, zloty weakened significantly in relation to the main currencies as concerns about the situation in the eurozone intensified. In the first half of the year, the EUR/PLN rate was relatively stable, between 3.80 and 4.00, for most of the time. A temporary growth to around 4.10 was the effect of growing aversion to risk due to the situation in the Middle East and North Africa. However, the second half of the year saw a significant depreciation and increased volatility due to increased turbulences in the financial markets in connection with intensified concerns about the fiscal situation of eurozone peripheral countries and the entire monetary union. After the EUR/PLN rate had reached 4.60, the central bank intervened in the currency market for the first time since April 2010. For most of the year the Ministry of Finance was active in the currency market by selling EU funds to reduce depreciation of the zloty and provide the lowest possible foreign debt and debt to GNP ratio at the end of the year. The central bank also implemented an active currency exchange policy by intervening in the currency market, which facilitated stabilization of the zloty at the end of the year. Consequently, at the end of 2011 the EUR/PLN rate was 4.41, compared to 3.96 at the end of 2010. During the same period the USD/PLN rate grew to 3.41 from 2.96 at the end of 2010.

Exchange rates in 2011



Source: National Bank of Poland, own calculations

Interest rates in the money market went up following interest rate increases by the Monetary Policy Council. 3M WIBOR, which affects the interest rate on loans and advances in the Polish economy, increased to 4.98% at the end of 2011 from 3.95% at the end of 2010. Although the spread between money market rates and NBP reference rates tightened significantly in the first half of the year, thus reflecting further normalization of the money market, it increased again in the fourth quarter.

3. Capital market

The year 2011 turned out to be one of the worst in the history of the Polish equity market. Escalation of the debt crisis in the eurozone countries and the US, as well as worse perspectives for the economic growth in the developed European countries, resulted in growing aversion to risk and deepened negative sentiments in the global financial markets. Besides, the demand for Polish shares was effectively limited by reduced premiums to Open Pension Funds, redemptions in domestic investment funds (as estimated by Dom Maklerski Banku Handlowego S.A., in the period of January to December 2011 net outflows amounted to nearly PLN 8.6 billion) as well as a significant supply of shares by the State Treasury and strategic investors (around PLN 12.7 billion, including public offerings of Jastrzębska Spółka Węglowa S.A. and Bank Gospodarki Żywnościowej S.A.). The expected introduction of tax on some minerals was also of some significance for the domestic equity market (in particular for KGHM Polska Miedź S.A.).

Except for the dividend companies index (-9.7% YoY), all main indices recorded a double-digit decline. Major damage was suffered by the sWIG80 companies whose value declined by over 30% compared to the end of 2010. During the same time the index of companies with the biggest capitalization – WIG20 went down by 21.9%. From among sector-specific indices the lowest performance was observed in the case of construction companies (-54.7% YoY) and developers (-51.3% YoY). The defensive nature of telecommunication companies (mainly TPSA) was reflected in more than 10% growth YoY in WIG-Telekomunikacja.

In the first half of 2011 shares of 25 companies debuted on the main stock exchange (four of them transferred from New Connect). During that time the value of public offerings was over PLN 2.5 billion. Deterioration of sentiment in the second half of 2011 forced many companies to postpone or withdraw their public offerings, which caused the number of IPOs to drop down to 13 in that period (including two transfers from New Connect). Although the value of public offerings in the second half of 2011 was significantly higher than during the first six months (almost PLN 6 billion), this was the effect of public offering of JSW, in the amount of PLN 5.7 billion.

At the end of the last year, a total of 425 companies were listed, with the aggregate capitalization of over PLN 636.6 billion (a year before 355 companies were listed with the market value of PLN 796.5 billion).

Warsaw Stock Exchange (WSE) Equity Indices, as at 31 December 2011

Index	2011	Change (%)	2010	Change (%)	2009
WIG	37,595.44	(20.8%)	47,489.91	18.8%	39,985.99
WIG-PL	37,217.06	(20.4%)	46,737.15	18.7%	39,372.61
WIG20	2,144.48	(21.9%)	2,744.17	14.9%	2,388.72
mWIG40	2,173.89	(22.5%)	2,805.26	19.6%	2,346.14
sWIG80	8,496.54	(30.5%)	12,219.94	10.2%	11,090.93
Sector specific sub-indices					
WIG-Banks	5,421.04	(21.7%)	6,921.28	17.9%	5,869.10
WIG-Construction	2,445.10	(54.7%)	5,400.33	7.4%	5,026.32
WIG-Chemicals	6,117.02	18.6%	5,156.38	61.1%	3,201.34
WIG-Developers	1,319.94	(51.3%)	2,709.52	(6.5%)	2,897.23
WIG-Energy	3,850.58	(10.8%)	4,314.39	7.9%	3,998.60
WIG-IT	1,079.26	(11.7%)	1,221.85	(4.6%)	1,281.06
WIG-Media	2,461.89	(35.1%)	3,792.19	25.9%	3,012.68
WIG-Fuel industry	2,567.58	(16.6%)	3,079.41	26.4%	2,435.46
WIG-Food industry	3,481.45	(23.3%)	4,536.52	48.1%	3,063.84

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

Volumes of trade in shares, bonds and derivative instruments on WSE as at 31 December 2011

	2011	Change (%)	2010	Change (%)	2009
Shares (PLN m)	536,276	14.4%	468,883	33.2%	351,885
Bonds (PLN m)	1,672	(41.4%)	2,855	(3.3%)	2,951
Futures contracts (‘000 units)	29,218	4.3%	28,018	4.4%	26,849
Options contracts (‘000 units)	1,796	33.0%	1,350	60.1%	843

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

In 2011, investors’ activity in the equity market further increased, resulting in the growth of volumes of trade by over 14% to PLN 536.3 billion.

Last year the investors were much less active on the debt securities market, due to which the volume of trade in bonds declined by 41.4% YoY to PLN 1.7 billion.

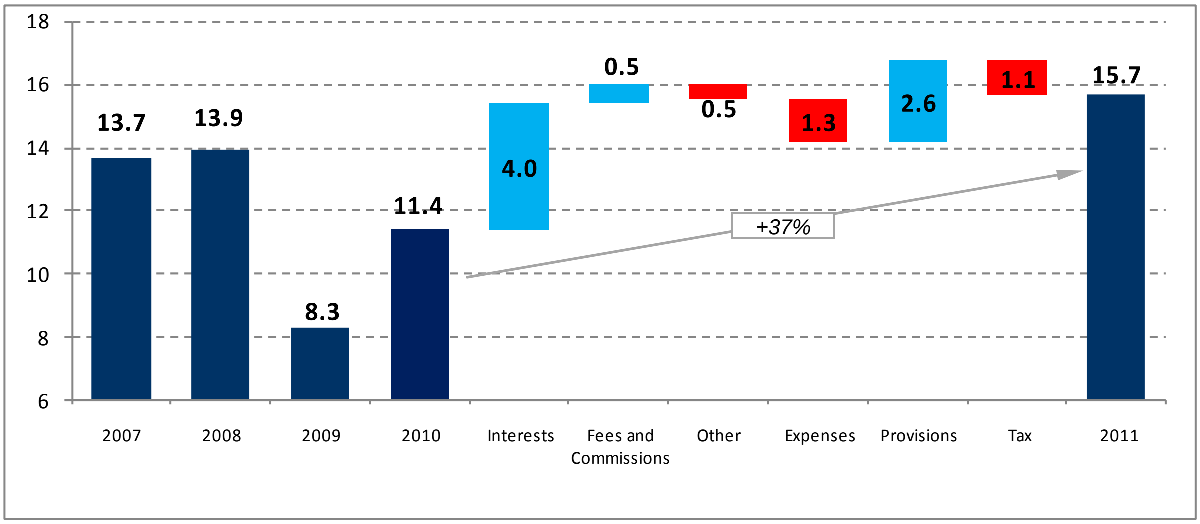
In 2011 the volume of trade in futures increased slightly (by 4.3%) and amounted to over 29.2 million units.

Despite the high base of 2010, the option market recorded a significant increase in investor interest. In 2011 the volume of trade in these derivatives grew by one third, up to nearly 1.8 million units.

4. Banking sector

The results of the banking services market in 2011 were one of the best ever. The net profit of the sector grew compared to the previous year by 37% (PLN 4.3 billion) and amounted to PLN 15.7 billion. Such high performance resulted mainly from 13% (PLN 4.0 billion) higher net interest income generated due to a double-digit increase in the volume of loans and deposits (receivables from non-financial sector increased by 14% YoY and liabilities by 13% YoY), as well as higher interest rates. In 2011 the Monetary Policy Council raised interest rates four times (in January and then in April, May and June), thus increasing the reference rate by a total of 100 p.b. to 4.50% (3M WIBOR interbank rate grew from 3.95% at the end of 2010 to 4.99% a year later). That fact had a positive effect on margins on deposits. Net fees and commissions income increased slightly as well (4% YoY, PLN 0.5 billion), while other income declined by 5% YoY (PLN 0.5 billion). Consequently, the total income of the banking sector climbed to a record level of PLN 57.6 billion (growth by 8% YoY), which, coupled with the 5% rate of growth in expenses (PLN 1.3 billion), improved the operating margin by 11% YoY (growth from PLN 25 billion in 2010 to PLN 28 billion; improved performance of the banking sector measured with the Cost/Income ratio from 52.4% to 51.0%). The distribution network was reduced by 500 outlets, including sub-branches, offices and other customer service points, while the branch network was increased by 142 outlets. At the same time, employment in the banking sector remained practically unchanged (+0.1% YoY, 254 employees).

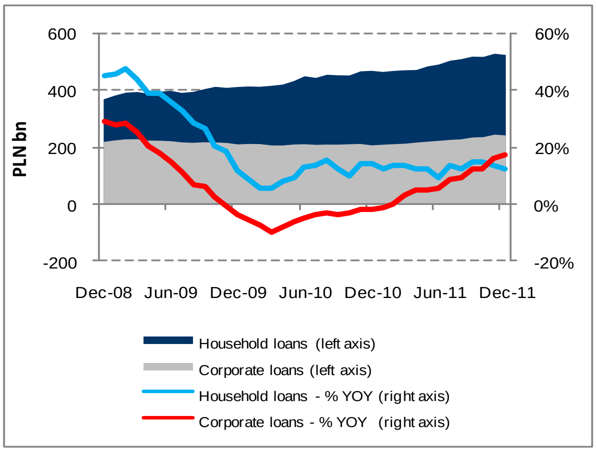
Net profit of the banking sector in the years 2008-2011 (PLN billion)



Source: Polish Financial Supervision Authority, own calculations

Another significant factor for the growth in the net profit of the banking sector was the improved quality of credit portfolio and, in consequence, 23% YoY decline in net losses (PLN 2.6 billion). Their value went down from over PLN 11 billion in 2010 to less than PLN 9 billion a year later. Therefore, costs of risk (net losses to average loans to the non-financial sector) declined from 1.7% to 1.2%. The ratio of impaired receivables to total receivables from the non-financial sector (NPL) went down from 8.8% at the end of December 2010 to 8.3% at the end of 2011; the improvement was the effect of better quality of corporate loans portfolio (NPL change from 12.3% to 10.5%). During that time, the quality of household loans portfolio further deteriorated. In the portfolio of real property loans, impaired loans constituted 2.3% of the total portfolio (1.8% a year earlier) and for consumer loans they amounted to 17.8% (17.2% at the end of 2010), respectively.

Loans to corporate clients and individuals



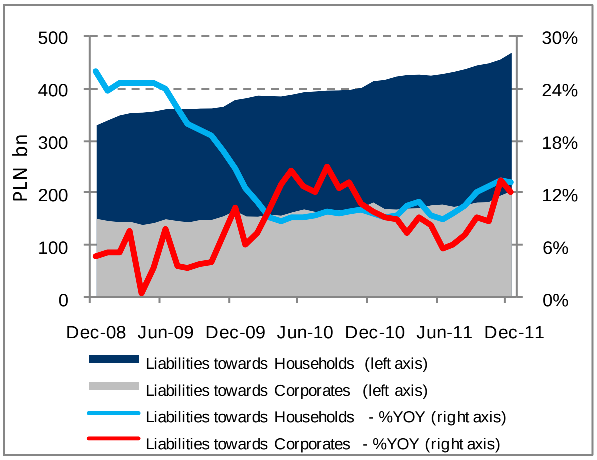
Source: NBP, own calculations

As the economic situation improved in 2011, the growth of corporate loans was recovered in the banking sector, as during the first wave of crisis it had slowed down significantly in consequence of the overall uncertainty about the macroeconomic situation, including stricter lending criteria for corporate loans. At the end of December 2011, the value of corporate loans was PLN 239 billion (17% YoY change in the volume, the biggest since May 2009). The fastest growing were investment loans (28% YoY).

Household loans were also growing dynamically and in 2011 their volume increased by 12% (PLN 56 billion), mainly owing to real property loans amounting to PLN 323 billion (growth by 19% YoY). Depreciation of the zloty against the main currencies was very significant for this portfolio, as it is denominated in foreign currencies in over 60%. In 2011 the Polish currency declined by 12% against euro and 15% against the Swiss franc and US dollar. Adjusted for foreign exchange gains and losses, the portfolio of real property loans for households grew by approximately 9%, while 84% of that growth was generated by loans denominated in PLN. Other household loans grew only by 2% YoY (PLN 4.8 billion), which was significantly affected by the regulatory restrictions introduced with Recommendation T at the end of 2010.

Suppressed growth of unemployment, 4.4% pay rises and an unfavorable situation on the capital market (in 2011 WIG went down by 21%), as well as the aforesaid interest rate increases are the factors that significantly affected the increase of the household deposits. In the past year investment fund customers withdrew over PLN 3 billion worth of funds, net. During that time, the balance of household deposits grew by PLN 55 billion (13% YoY) and at the end of December it reached PLN 467 billion. The growth was generated mostly by term deposits (85% of the total growth deposits), which changed the structure of household deposits. At the end of 2011, 50% of the total portfolio were term deposits (46% a year earlier), which bear higher interest and are more stable from the point of view of security of liquidity of the banking sector).

Deposits from corporate clients and households



Source: NBP, own calculations

A relatively good macroeconomic situation also contributed to the growth in the volume of deposits on corporate accounts. At the end of December they amounted to PLN 205 billion (change by 12% YoY). Likewise, in the case of household deposits, the growth in term deposits was faster (growth by PLN 21 billion, 22% YoY) than in current deposits (PLN +1 billion, 1% YoY).

In 2011 the performance of the banking sector significantly improved (ROE grew to 12.9% from 10.1% in 2010, ROA increased from 1.0% to 1.3% and so did interest margin – from 2.7% to 2.8%); however, it was below the one recorded before the economic crunch. In 2008 ROE of the sector was 15.7%, ROA amounted to 1.5% and interest margin was 3.2%. Such undermined performance was the effect of deteriorated economic environment, in consequence of which it was necessary to increase capital and maintain higher liquidity. Compared to 2008, capital of the sector increased by 34% (from PLN 96 billion to PLN 129 billion), which improved the capital adequacy ratio from 11.2% in 2008 to 13.1% three years later.

II. Selected financial data of Bank Handlowy w Warszawie S.A. ("Bank", "Citi Handlowy")

1. Summary financial data of the Bank

PLN m	**2011**	**2010**
Total assets	41,542.0	36,701.7
Equity	6,355.6	6,422.1
Loans*	14,049.2	11,665.6
Deposits*	23,956.4	23,698.7
Net profit	721.3	748.0
Earnings per ordinary share (in PLN)	5.52	5.72
Dividend per ordinary share (in PLN)	2.76**	5.72
Capital adequacy ratio	15.8%	18.7%

** Due from and to non-bank financial entities and non-financial sector entities, including public entities.*
*** As recommended by the Bank's Management Board on March 13, 2012.*

2. Financial result of the Bank for 2011

2.1 Income statement

The Bank's net profit for 2011 reached PLN 721.3 million and was PLN 26.7 million (3.6%) lower than a year earlier. Its gross profit for 2011 reached PLN 900.1 million, which means a decline by PLN 28.1 million (i.e. 3.0%) compared to the previous year.

The Bank's operating income in 2011 – which includes net interest and commission income, dividend income, net gains/losses on financial instruments held for trading and their revaluation, net gains/losses on investment debt securities, net gains/losses on equities and net other operating gains/losses – was PLN 122.0 million (i.e. 4.9%) lower than a year earlier and reached PLN 2,373.1 million.

The income achieved was accompanied by an increase in the Bank's operating costs, general administrative expenses and depreciation, by PLN 55.4 million (i.e. 4.2%) compared to 2010.

The positive trend of net impairment losses – which amounted to PLN 86.3 million in 2011, compared to PLN 234.6 million in 2010 – was continued (decline in the amount by PLN 148.3 million, i.e. 63.2%).

Selected income statement items

PLN '000	2011	2010	Change PLN '000	Change %
Net interest income	1,402,315	1,467,064	(64,749)	(4.4%)
Net commission income	583,527	599,329	(15,802)	(2.6%)
Dividend income	26,271	12,509	13,762	110.0%
Net gains on financial instruments held for trading and on revaluation	318,702	282,535	36,167	12.8%
Net gains on investment debt securities	30,142	119,921	(89,779)	(74.9%)
Net gains on investment equity securities	-	3,888	(3,888)	(100.0%)
Net other operating income	12,124	9,804	2,320	23.7%
Total income	**2,373,081**	**2,495,050**	**(121,969)**	**(4.9%)**
Overheads and general administrative expenses and depreciation	(1,388,724)	(1,333,320)	(55,404)	(4.2%)
Overheads and general administrative expenses	(1,336,206)	(1,276,558)	(59,648)	(4.7%)
Depreciation/amortization of tangible and intangible fixed assets	(52,518)	(56,762)	4,244	7.5%
Net gains on sale of fixed assets	2,073	1,045	1,028	98.4%
Net change in impairment losses	(86,311)	(234,561)	148,250	63.2%
Profit before taxation	**900,119**	**928,214**	**(28,095)**	**(3.0%)**
Income tax expense	**(178,825)**	**(180,188)**	**1,363**	**0.8%**
Net profit for the year	**721,294**	**748,026**	**(26,732)**	**(3.6%)**

2.1.1 Revenue

Operating income in 2011 reached PLN 2,373.1 million compared to PLN 2,495.1 million in the previous year, representing a decline by 4.9%.

The revenue in 2011, as compared to 2010, was influenced in particular by:

– A decline in net interest income by PLN 64.7 million (i.e. 4.4%), mainly as a result of lower income on debt securities held for trading (effect of decline in the average portfolio balance),

– A decline in net commission income by PLN 15.8 million (i.e. 2.6%), mainly due to commission on investment and insurance products in the Commercial Bank (since clients were more interested in safer, lower-margin products) and commission on payment orders. At the same time, income on custody services went up in 2011,

– An increase in dividend income by PLN 13.8 million (i.e. 110.0%) as a result of higher dividends from Dom Maklerski Banku Handlowego w Warszawie S.A.,

– An increase in net gains on financial instruments held for trading and on revaluation by PLN 36.2 million, i.e. 12.8%, in consequence of both better results on the Bank's customer and own operations,

– A decline in net gains on investment debt securities from the high level of 2010, mainly as the effect of the changing macroeconomic environment (growing interest rates in the 1st half of 2011).

2.1.2 *Expenses*

PLN '000	2011	2010	Change PLN '000	Change %
Personnel costs	**648,847**	**638,152**	**10,695**	**1.7%**
General administrative expenses, including:	**687,359**	**638,406**	**48,953**	**7.7%**
Telecommunication fees and IT hardware	163,247	153,179	10,068	6.6%
Building maintenance and rent	104,849	110,478	(5,629)	(5.1%)
Advisory, audit, consulting and other external services	88,925	88,202	723	0.8%
Total overheads	**1,336,206**	**1,276,558**	**59,648**	**4.7%**
Depreciation	52,518	56,762	(4,244)	(7.5%)
Total expenses	**1,388,724**	**1,333,320**	**55,404**	**4.2%**

Throughout the year 2011, the Bank continued to pursue its cost discipline policy. Compared to 2010, expenses grew slightly, i.e. by 4.2%, mainly as a result of higher general administrative expenses. The increase of 2011 referred to external services of bank products distribution and marketing (the effect of active acquisition of credit cards and personal accounts in the Consumer Bank) as well as telecommunication fees and IT hardware (e.g. in connection with the development of the IT platform for the Consumer Bank).

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

Net impairment losses

PLN '000	2011	2010	Change PLN '000	Change %
Net impairment losses incurred but not reported (IBNR)	20,312	(24,588)	44,900	182.6%
Net impairment losses on loans and off-balance sheet liabilities	(111,545)	(210,848)	99,303	47.1%
accounted for individually	28,958	28,906	52	(0.2%)
accounted for collectively, on a portfolio basis	(140,503)	(239,754)	99,251	41.4%
Impairment of investments	(3,596)	875	(4,471)	(511.0%)
Other	8,518	-	8,518	-
Total change in impairment losses	**(86,311)**	**(234,561)**	**148,250**	**(63.2%)**

Total impairment losses of PLN 86.3 million in 2011, compared to PLN 234.6 million in 2010, resulted from a better quality of credit portfolio, mainly in the Consumer Bank, where changes introduced in the credit policy allowed to significantly reduce the share of balances defaulted for 1-89 days and the number of restructuring procedures (both these factors affect directly the volume of new losses, including IBNR provisions).

2.1.4 *Ratio analysis*

Profitability and cost efficiency ratios

	2011	2010
Return on equity (ROE)*	12.7%	13.1%
Return on assets (ROA)**	1.7%	2.0%
Net interest margin (NIM)***	3.4%	3.9%
Earnings per share in PLN	5.52	5.72
Cost/Income****	58.5%	53.4%

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

The return on equity (ROE) and return on assets (ROA) ratios deteriorated slightly in 2011, by 0.5 and 0.3 p.p., respectively. This was a result of lower net profit and, in the case of ROA – a significant growth in total assets. As for cost efficiency, the Bank's performance slightly deteriorated. The Cost/Income ratio grew by 5 p.p. to the level of 58.5%.

2.2 Balance sheet

As at 31 December 2011, total assets of the Bank reached PLN 41,542.0 million and were by 13.2% higher than at the end of 2010.

Balance sheet

PLN '000	As at		Change	
	31.12.2011	31.12.2010	PLN '000	%
ASSETS				
Cash and balances with central bank	979,616	3,206,554	(2,226,938)	(69.4%)
Receivables from banks	548,182	2,272,899	(1,724,717)	(75.9%)
Financial assets held for trading	5,801,713	3,995,217	1,806,496	45.2%
Debt securities available-for-sale	17,625,355	13,029,254	4,596,101	35.3%
Other equity investments	303,626	303,165	461	0.2%
Receivables from customers	14,049,241	11,665,611	2,383,630	20.4%
Property and equipment	406,632	431,366	(24,734)	(5.7%)
Intangible assets	1,290,296	1,283,134	7,162	0.6%
Deferred income tax assets	318,015	305,253	12,762	4.2%
Other assets	193,676	199,319	(5,643)	(2.8%)
Non-current assets available-for-sale	25,662	9,901	15,761	159.2%
Total assets	**41,542,014**	**36,701,673**	**4,840,341**	**13.2%**
LIABILITIES				
Liabilities towards banks	5,543,891	2,951,518	2,592,373	87.8%
Financial liabilities held for trading	4,840,447	2,804,437	2,036,010	72.6%
Liabilities towards customers	24,130,225	23,980,184	150,041	0.6%
Liabilities from issuance of debt securities	25,336	11,533	13,803	119.7%
Provisions	34,857	32,227	2,630	8.2%
Income tax liabilities	72,919	-	72,919	-
Other liabilities	538,752	499,682	39,070	7.8%
Total liabilities	**35,186,427**	**30,279,581**	**4,906,846**	**16.2%**
Equity				
Issued capital	522,638	522,638	-	-
Share premium	2,944,585	2,944,585	-	-
Revaluation reserve	(82,485)	(44,848)	(37,637)	(83.9%)
Other reserves	2,249,555	2,251,691	(2,136)	(0.1%)
Retained earnings	721,294	748,026	(26,732)	(3.6%)
Total equity	**6,355,587**	**6,422,092**	**(66,505)**	**(1.0%)**
Total liabilities and equity	**41,542,014**	**36,701,673**	**4,840,341**	**13.2%**

2.2.1 Assets

Gross receivables from customers*

PLN '000	As at		Change	
	31.12.2011	31.12.2010	PLN '000	%
Financial sector entities	1,035,839	913,497	122,342	13.4%
Non-financial sector entities	7,708,354	5,793,277	1,915,077	33.1%
Individuals	5,854,430	6,119,157	(264,727)	(4.3%)
Public entities	606,439	96,625	509,814	527.6%
Other non-financial sector entities	16,379	21,492	(5,113)	(23.8%)
Total	**15,221,441**	**12,944,048**	**2,277,393**	**17.6%**

** Receivables with payable interest*

In 2011 gross receivables from customers grew by 17.6% compared to the previous year and amounted to PLN 15,221.4 million. The growth referred mainly to corporate clients (i.e. non-financial sector entities and public entities) – in total the value of loans in this area went up by PLN 2.4 billion, i.e. 41.2% compared to the end of 2010. At the same time, loans to individuals declined slightly (i.e. by PLN 0.3 million), mainly as a result of fewer cash loans whose decline was compensated with a growth in the mortgage loans portfolio.

Net receivables from customers

PLN '000	31.12.2011	31.12.2010	Change	
			PLN '000	%
Receivables from financial sector entities	1,016,752	891,919	124,833	14.0%
Receivables from non-financial sector entities, including	13,032,489	10,773,692	2,258,797	21.0%
Corporate clients*	7,921,650	5,452,086	2,469,564	45.3%
Individuals, including:	5,110,839	5,321,606	(210,767)	(4.0%)
Credit cards	2,250,751	2,376,105	(125,354)	(5.3%)
Cash loans of individuals	2,189,440	2,540,499	(351,059)	(13.8%)
Mortgage loans	583,674	318,766	264,908	83.1%
Total net receivables from clients	**14,049,241**	**11,665,611**	**2,383,630**	**20.4%**

**Corporate clients include enterprises, public sector, state-owned and private companies, co-operatives, individual enterprises, non-commercial institutions acting for the benefit of households*

The debt securities portfolio grew by PLN 4,941.6 million (i.e. by 33.8%) in 2011, mainly as a result of an increase in the NBP bills portfolio (by PLN 2.5 billion) and bank bonds (by PLN 1.8 billion, among others in connection with the acquisition of bonds issued by Bank Gospodarstwa Krajowego).

Debt securities portfolio

PLN '000	As at		Change	
	31.12.2011	31.12.2010	PLN '000	%
Treasury bonds	8,248,116	7,807,306	440,810	5.6%
Treasury bills	148	23,150	(23,002)	(99.4%)
Bank's bonds	2,403,458	572,757	1,830,701	319.6%
Bonds issued by non-financial sector entities	423,185	165,075	258,110	156.4%
Bonds issued by financial sector entities	-	63,111	(63,111)	(100.0%)
NBP bills	8,492,235	5,994,140	2,498,095	41.7%
Total	**19,567,142**	**14,625,539**	**4,941,603**	**33.8%**

2.2.2 Liabilities

Liabilities to customers

PLN '000	As at		Change	
	31.12.2011	31.12.2010	PLN '000	%
Deposits of financial sector entities	**2,313,497**	**3,291,913**	**(978,416)**	**(29.7%)**
Deposits of non-financial sector entities, including	**21,622,542**	**20,388,409**	**1,234,133**	**6.1%**
Corporate clients	12,281,089	12,041,032	240,057	2.0%
Individuals	5,971,072	5,705,040	266,032	4.7%
Public entities	3,370,381	2,642,337	728,044	27.6%
Other liabilities (including accrued interest)	**194,186**	**299,862**	**(105,676)**	**(35.2%)**
Total	**24,130,225**	**23,980,184**	**150,041**	**0.6%**

The main item funding the Bank's assets are liabilities towards non-financial sector clients, which increased in 2011 by PLN 1.2 billion (6.1%). The growth occurred mainly in the area of corporate clients and resulted from a higher balance of term deposits. For individuals, funds in current accounts grew, which proves that the strategy focused on operating accounts is implemented consistently.

On the other hand, deposits from the non-financial sector entities declined in 2011 (by PLN 1.0 billion, i.e. 29.7%).

2.2.3 *Sources and uses of funds*

PLN '000	As at	
	31.12.2011	**31.12.2010**
Source of funds		
Funds of banks	5,543,891	2,951,518
Funds of customers	24,130,225	23,980,184
Own funds with net income	6,355,587	6,422,092
Other funds	5,512,311	3,347,879
Total source of funds	**41,542,014**	**36,701,673**
Use of funds		
Receivables from banks	548,182	2,272,899
Receivables from customers	14,049,241	11,665,611
Securities, shares and other financial assets	23,730,694	17,327,636
Other uses of funds	3,213,897	5,435,527
Total use of funds	**41,542,014**	**36,701,673**

2.3 Equity and capital adequacy ratio

Compared to 2010, in 2011 the equity of the Bank declined slightly by PLN 39.8 million, i.e. 0.7%. The decline referred mainly to the revaluation reserve (by PLN 37.6 million).

Equity*

PLN '000	As at		Change	
	31.12.2011	**31.12.2010**	**PLN '000**	**%**
Issued capital	522,638	522,638	-	-
Share premium	2,944,585	2,944,585	-	-
Supplementary capital	1,752,055	1,751,402	653	0.0%
Revaluation reserve	(82,485)	(44,848)	(37,637)	(83.9%)
General risk reserve	497,500	497,500	-	-
Other equity	-	2,789	(2,789)	-
Total equity	**5,634,293**	**5,674,066**	**(39,773)**	**(0.7%)**

** Equity excluding net profit/(loss)*

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

The table below presents financial data necessary to calculate the Bank's capital adequacy ratio.

Capital adequacy ratio*

	PLN '000	**31.12.2011**	**31.12.2010**
I	**Own funds for the calculation of capital adequacy ratio, including:**	**4,074,347**	**4,121,335**
	Less in core and supplementary funds		
	interests in subordinated financial entities	269,518	269,784
	intangible assets, including	1,290,296	1,283,134
	goodwill	1,245,976	1,245,976
II	**Risk-weighted assets and off-balance sheet liabilities (bank portfolio)**	**16,952,100**	**14,473,850**
III	**Total capital requirements, of which:**	**2,058,444**	**1,760,895**
	credit risk capital requirements (II*8%)	1,356,168	1,157,908
	counterparty risk capital requirements	133,148	98,223
	excess concentration and large exposures risks capital requirements	103,556	48,073
	total market risk capital requirements	89,568	74,635
	operational risk capital requirements	352,559	353,837
	other capital requirements	23,445	28,219
	Capital adequacy ratio (I/III*12.5)	**15.83%**	**18.72%**

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

As at 31 December 2011, the Bank's capital adequacy ratio stood at 15.83% and was 3 p.p. lower than at the end of 2010. This resulted mainly from a 17% growth in the total credit risk capital requirements due to higher risk-weighted assets and off-balance sheet liabilities. Own funds remained virtually unchanged.

III. Activities of Bank Handlowy w Warszawie S.A. in 2011

1. Lending and other risk exposures

1.1 Lending

The Bank's lending policy is based on active portfolio management and precisely specified target markets, designed to facilitate exposure and credit risk analysis within a given industry of each client. In addition, individual borrowers are continuously monitored so that any signs of deterioration in creditworthiness can be promptly detected and appropriate corrective measures undertaken as needed.

In 2011 the Bank focused its credit risk management activities on:

– optimization of the lending process and adjustment of the Bank's credit offer to the market situation,
– improvement of the portfolio quality,
– intensification of debt collection activities for the portfolio of retail credit exposures,
– early warning processes,
– effective allocation of capital,
– implementation of a recommendation of the Polish Financial Supervision Authority on the management of risk attached to transactions entered into on the derivatives market and of currency risk, risk of retail credit exposures, real property exposures and mortgage exposures,
– integration of stress testing for lending with other types of risk,
– continuation of development of credit risk management methods.

Lending to customers, gross*

PLN '000	As at		Change	
	31.12.2011	31.12.2010	PLN '000	%
Loans in PLN	12,448,835	11,360,834	1,088,001	9.6%
Loans in foreign currency	2,375,574	1,372,722	1,002,852	73.1%
Total	**14,824,409**	**12,733,556**	**2,090,853**	**16.4%**
Loans to non-financial sector entities	14,185,602	12,030,551	2,155,051	17.9%
Loans to financial sector entities	638,807	703,005	(64,198)	(9.1%)
Total	**14,824,409**	**12,733,556**	**2,090,853**	**16.4%**
Non-financial sector entities	7,708,354	5,793,277	1,915,077	33.1%
Individuals	5,854,430	6,119,157	(264,727)	(4.3%)
Non-bank financial entities	638,807	703,005	(64,198)	(9.1%)
Public entities	606,439	96,625	509,814	527.6%
Other non-financial receivables	16,379	21,492	(5,113)	(23.8%)
Total	**14,824,409**	**12,733,556**	**2,090,853**	**16.4%**

**Net of reverse repo*

As at 31 December 2011, credit exposure to customers amounted to PLN 14,824 million, representing a 16.4% growth compared to 31 December 2010. The largest part of the receivables portfolio was loans to non-financial sector entities, which increased by 33.1% to PLN 7,708 million in 2011. The said increase referred mainly to the commercial loans portfolio. The individual loans portfolio declined by 4.3% and the share of these loans in the structure of gross loan receivables also declined from 48.1% to 39.5%.

As at the end of December 2011, the currency structure of loans outstanding changed slightly as compared to the end of 2010. The share of foreign currency loans, which at the end of 2010 stood at 10.8%, increased to 16% at the end of 2011. Worth underscoring is the fact that the Bank does not grant currency loans to individuals but only to corporate entities which, in the Bank's opinion, are able to predict or absorb the currency risk without any significant threat to their financial position.

The Bank monitors the concentration of its exposures on a regular basis, seeking to avoid a situation where the portfolio is exposed to a limited group of clients. As at the end of December 2011, the Bank's portfolio exposure to non-bank entities did not exceed the exposure concentration limits required by the law.

Concentration of exposures

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
CUSTOMER 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
CUSTOMER 5	500,000	-	500,000	-	-	-
CUSTOMER 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
CUSTOMER 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 10	**2,743,682**	**2,542,188**	**5,285,870**	**1,365,003**	**1,885,831**	**3,250,834**

**Net of equity and other securities exposures*

1.2 Loan portfolio quality

All of the Bank's receivables are attributed to two portfolios: a portfolio with recognized impairment and a portfolio without recognized impairment (IBNR). Individually significant exposures under the portfolio with recognized impairment are accounted for individually, while exposures that are not individually significant are accounted for collectively.

Loans to customers per portfolio with not recognized credit losses vs. portfolio with recognized credit losses (reverse repo transactions included)

PLN '000	31.12.2011	31.12.2010	Change	
			PLN '000	%
With not recognized credit losses, including:	13,760,187	11,154,321	2,605,866	23.4%
non-financial sector entities	12,743,346	10,264,745	2,478,601	24.2%
corporate clients	7,727,875	5,027,629	2,700,246	53.7%
individual clients	5,015,471	5,237,116	(221,645)	(4.2%)
With recognized credit losses, including:	1,344,707	1,667,536	(322,829)	(19.4%)
non-financial sector entities	1,325,710	1,643,615	(317,905)	(19.3%)
corporate clients	479,434	760,451	(281,017)	(37.0%)
individual clients	846,276	883,164	(36,888)	(4.2%)
Dues related to matured derivative transactions	116,547	122,191	(5,644)	(4.6%)
Total loans to customers, gross, including:	**15,221,441**	**12,944,048**	**2,277,393**	**17.6%**
non-financial sector entities	14,069,056	11,908,360	2,160,696	18.1%
corporate clients	8,207,309	5,788,080	2,419,229	41.8%
individual clients	5,861,747	6,120,280	(258,533)	(4.2%)
Impairment, including:	1,172,200	1,278,437	(106,237)	(8.3%)
dues related to matured derivative transactions	96,063	96,487	(424)	(0.4%)
Total loans to customers, net	**14,049,241**	**11,665,611**	**2,383,630**	**20.4%**
Provision coverage ratio*	**80.0%**	**70.9%**		

**Including IBNR provision*

Division into performing loans and non-performing loans is presented below. Compared to 2010, the value of non-performing loans declined by PLN 122.8 million (i.e. 8.0%), mainly as a result of improved quality of the corporate portfolio. At the same time, the amount of total loans went up in 2011, which resulted in an improvement of the non-performing loans ratio (NPL) to 8.5%.

Loans to customers, gross per performing vs. non-performing (reverse repo transactions included)

PLN '000	31.12.2011	31.12.2010	Change	
			PLN '000	%
Performing loans, including:	13,828,866	11,496,511	2,332,355	20.3%
non-financial sector entities	12,812,025	10,606,935	2,205,090	20.8%
corporate clients	7,727,875	5,274,054	2,453,821	46.5%
individual clients	5,084,150	5,332,881	(248,731)	(4.7%)
Non-performing loans, including:	1,276,028	1,325,346	(49,318)	(3.7%)
non-financial sector entities	1,257,031	1,301,425	(44,394)	(3.4%)
corporate clients	479,434	514,026	(34,592)	(6.7%)
individual clients	777,597	787,399	(9,802)	(1.2%)
Dues related to matured derivative transactions	116,547	122,191	(5,644)	(4.6%)
Total loans to customers, gross	**15,221,441**	**12,944,048**	**2,277,393**	**17.6%**
Non-performing loans ratio (NPL)	**8.5%**	**10.3%**		

The Management Board believes that provisions for receivables as at the balance sheet date represent the best estimate of the actual impairment of the portfolio. Individual accounting for receivables is based on the discounted forecast of future cash flows associated with repayment of the receivables. Group accounting is based on loss indicators calculated based on reliable, historical database of clients who have problems with paying their liabilities to the Bank. For exposures with no indication of impairment, the Bank calculates – depending on the risk profile and on the basis of the Limit Risk Rating, taking account of expected recovery rates based on collateral – the probability of customer's default and historical loss at default.

As at 31 December 2011, the impairment of the portfolio was PLN 1,172.2 million, which represented a decline from PLN 1,278.4 million at the end of December 2010. A significant decrease in impairment was recorded on portfolio accounted for individually (PLN 80.6 million decrease compared to the end of 2010) and amounted to 18.9% compared to the end of December 2010. The group of loans accounted for collectively also recorded a slight decline in impairment of PLN 4.7 million. The provision coverage index fell from 10.0% in December 2010 to 7.9% in December 2011, as a result of a significant growth in total loan receivables by over PLN 2 billion and a simultaneous decline in value over the same period.

Impairment of the customer loan portfolio

PLN '000	As at		Change	
	31.12.2011	31.12.2010	PLN '000	%
Impairment due to incurred but not reported (IBNR) losses	142,607	163,514	(20,907)	(12.8%)
Impairment of receivables	1,029,593	1,114,923	(85,330)	(7.7%)
accounted for individually	345,318	425,900	(80,582)	(18.9%)
accounted for collectively, on a portfolio basis	684,275	689,023	(4,748)	(0.7%)
Total impairment	**1,172,200**	**1,278,437**	**(106,237)**	**(8.3%)**

1.3 Off-balance sheet exposures

As at 31 December 2011, off-balance sheet exposures of the Bank amounted to PLN 13,830.8 million, a 7.9% increase as compared to 31 December 2010. The largest change related to committed loans, which increased by PLN 531 million (i.e. 5%). These loans form the largest part (i.e. 80%) of the Bank's off-balance sheet exposures. Committed loans consist of committed but currently unutilized credit lines and unutilized current account overdraft facilities.

Contingent off-balance sheet liabilities granted

PLN '000	As at		Change	
	31.12.2011	**31.12.2010**	**PLN '000**	**%**
Guarantees	2,054,187	1,771,282	282,905	16.0%
Letters of credit issued	150,437	145,665	4,772	3.3%
Third-party confirmed letters of credit	5,385	1,647	3,738	227.0%
Committed loans	11,069,687	10,538,673	531,014	5.0%
Underwriting	551,150	359,650	191,500	53.2%
Total	**13,830,846**	**12,816,917**	**1,013,929**	**7.9%**
Provisions for off-balance sheet liabilities	11,474	10,579	895	8.5%
Provision coverage index	0.08%	0.08%		

As at 31 December 2011, the total amount of collateral established on the accounts or assets of the Bank's borrowers amounted to PLN 1,736 million, whereas as at 31 December 2010 this stood at PLN 1,825 million.

In 2011 the Bank issued 16,283 enforcement titles amounting to the total of PLN 225.5 million, while in 2010 the enforcement titles numbered 25,362 and stood at PLN 237.5 million.

2. External funding

As at the end of 2011, the overall external funds held by the Bank (from customers and banks) reached PLN 29,674.1 million and was PLN 2,742.4 million (i.e. 10.2%) higher than at the end of the year 2010. The biggest share in changes to external funding referred to term deposits of banks that grew by PLN 2.0 billion (i.e. 97.8%) and deposits of non-financial sector (growth by PLN 1.2 billion, i.e. 6.1%), mainly in the area of corporate clients.

Funding from banks

PLN '000	As at		Change	
	31.12.2011	**31.12.2010**	**PLN '000**	**%**
Current account	1,303,709	755,099	548,610	72.7%
Term deposits	4,132,304	2,089,107	2,043,197	97.8%
Loans and advances received	90,144	95,714	(5,570)	(5.8%)
Liabilities from securities sold under agreement to repurchase	-	4,543	(4,543)	(100.0%)
Other liabilities	10,518	4,572	5,946	130.1%
Accrued interest	7,216	2,483	4,733	190.6%
Total	**5,543,891**	**2,951,518**	**2,592,373**	**87.8%**

Funding from customers

PLN '000	As at		Change	
	31.12.2011	**31.12.2010**	**PLN '000**	**%**
Deposits of the financial sector				
Current accounts	234,041	706,717	(472,676)	(66.9%)
Term deposits	2,079,456	2,585,196	(505,740)	(19.6%)
Accrued interest	1,114	1,413	(299)	(21.2%)
	2,314,611	**3,293,326**	**(978,715)**	**(29.7%)**
Deposits of non-financial sector				
Current accounts, including:	12,918,332	11,899,958	1,018,374	8.6%
Corporate clients	5,583,942	5,616,892	(32,950)	(0.6%)
Individuals	4,726,892	4,309,255	417,637	9.7%
Public entities	2,607,498	1,973,811	633,687	32.1%
Term deposits, including:	8,704,210	8,488,451	215,759	2.5%
Corporate clients	6,697,147	6,424,140	273,007	4.2%

PLN '000	As at		Change	
	31.12.2011	31.12.2010	PLN '000	%
Individuals	1,244,180	1,395,785	(151,605)	(10.9%)
Public entities	762,883	668,526	94,357	14.1%
Accrued interest	19,230	16,978	2,252	13.3%
	21,641,772	**20,405,387**	**1,236,385**	**6.1%**
Total deposits	**23,956,383**	**23,698,713**	**257,670**	**1.1%**
Other liabilities				
Liabilities from securities sold under agreement to repurchase	-	108,991	(108,991)	(100.0%)
Other liabilities, including:	173,089	171,483	1,606	0.9%
Cash collateral	73,729	96,716	(22,987)	(23.8%)
Accrued interest	753	997	(244)	(24.5%)
	173,842	**281,471**	**(107,629)**	**(38.2%)**
Total funding from customers	**24,130,225**	**23,980,184**	**150,041**	**0.6%**

Liabilities towards customers

PLN '000	As at		Change	
	31.12.2011	31.12.2010	PLN '000	%
Individuals	5,982,172	5,723,827	258,345	4.5%
Non-financial sector entities	11,922,830	11,718,678	204,152	1.7%
Non-commercial institutions	419,993	399,470	20,523	5.1%
Non-bank financial institutions	2,313,908	3,292,254	(978,346)	(29.7%)
Public sector	3,370,864	2,642,811	728,053	27.5%
Other liabilities	99,361	74,766	24,595	32.9%
Total	**24,109,128**	**23,851,806**	**257,322**	**1.1%**
PLN	19,143,416	19,735,795	(592,379)	(3.0%)
Foreign currency	4,965,712	4,116,011	849,701	20.6%
Total	**24,109,128**	**23,851,806**	**257,322**	**1.1%**

3. Interest rates

The table below presents weighted average effective interest rates for receivables and liabilities per segments of Bank's activities:

As at 31 December 2011

in %	Corporate Bank			Consumer Bank		
	PLN	EUR	USD	PLN	EUR	USD
ASSETS						
Due from financial and non-financial sector entities						
Term	6.55	2.79	1.44	15.46	2.60	7.40
Debt securities	4.99	3.64	4.47	-	-	-
LIABILITIES						
Due to financial and non-financial sector entities						
Term	4.18	0.59	0.37	3.66	0.42	0.24

As at 31 December 2010

in %	Corporate Bank			Consumer Bank		
	PLN	EUR	USD	PLN	EUR	USD
ASSETS						
Due from financial and non-financial sector entities						
Term	5.58	2.93	2.11	16.35	3.57	7.40
Debt securities	4.23	3.00	3.67	-	-	-
LIABILITIES						
Due to financial and non-financial sector entities						
Term	3.13	0.47	0.30	3.64	0.42	0.33

4. Corporate and Investment Bank

4.1 Corporate and Commercial Bank

Corporate banking activities of the Bank include comprehensive financial services provided to the largest Polish companies and strategic enterprises with a strong growth potential as well as to the largest financial institutions and public sector companies.

At the end of 2011, the number of corporate clients (including Commercial Bank clients, global clients and corporate clients) was 8,100, i.e. it declined slightly (by 1%) compared to 2010, when the number was 8,200. Under Commercial Bank (small and medium enterprises, large companies and public sector) the Bank served 6,100 clients at the end of 2011 (a bit less than the total of 6,300 clients served at the end of 2010).

What Corporate Banking clients have in common is their demand for advanced financial products and consultancy on financial services. In that area, the Bank provides coordination of the offered investment banking, treasury and cash management products, and prepares loan offers involving diverse forms of financing. The innovation and competitiveness of the novel financing structures on offer stem from a combination of local expertise and experience of the Bank and its cooperation within the global Citigroup structure.

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

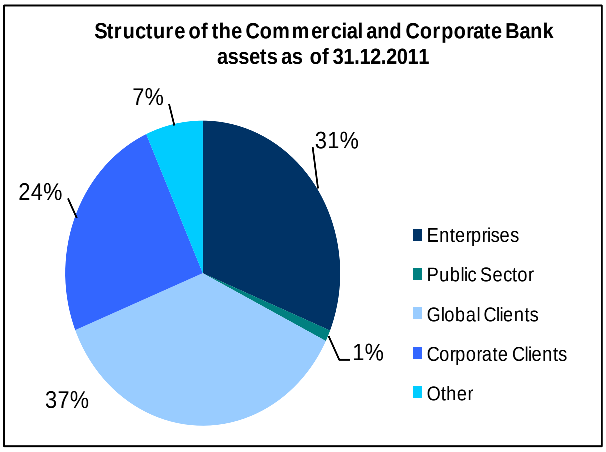
Assets

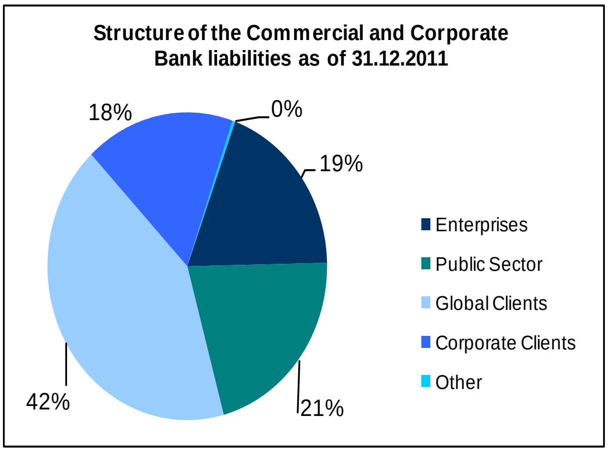
PLN m	31.12.2011	31.12.2010	Change	
			PLN '000	%
Enterprises, including:	2 824	1 956	867	44%
SMEs*	1 494	1 007	488	48%
Large enterprises*	1 329	950	379	40%
Public sector	109	112	(3)	(3%)
Global clients	3 317	2 818	499	18%
Corporate clients	2 207	847	1 360	161%
Other**	612	846	(234)	(28%)
Total Commercial Bank	**9 069**	**6 580**	**2 489**	**38%**

Liabilities

PLN m	31.12.2011	31.12.2010	Change	
			PLN '000	%
Enterprises, including:	3 289	3 111	178	6%
SMEs*	2 344	2 175	168	8%
Large enterprises*	945	935	10	1%
Public sector	3 642	2 958	684	23%
Global clients	7 258	7 857	(599)	(8%)
Corporate clients	2 981	2 931	50	2%
Other**	52	72	(20)	(28%)
Total Commercial Bank	**17 222**	**16 929**	**293**	**2%**

** Enterprises include clients with annual turnover from PLN 3.2 million to PLN 150 million (SME) and over PLN 150 (large enterprises).*
*** "Other" include, among others, clients subject to restructuring and clients of Handlowy Leasing Sp. z o.o., who are not clients of the Bank.*





Key transactions in Corporate and Commercial Bank in 2011:

- Cyfrowy Polsat S.A. – in March 2011, together with a syndicate of banks, the Bank signed a loan agreement with Cyfrowy Polsat S.A. as one of the leading banks. The agreement provides for a term loan up to the maximum amount of PLN 1.4 billion and a revolving loan up to PLN 200 million. The loan incurred by Cyfrowy Polsat S.A. was one of the largest loans ever granted for the purchase of shares in a Polish company (the loan partially financed the acquisition of shares in Telewizja Polsat S.A.) and one of the largest syndicated loans organized at the turn of 2010/2011;

- Revolving loan for PKN ORLEN S.A. for a total amount of EUR 2.6 billion – in May 2011 a syndicate composed of 14 banks signed an agreement for financing arranged in the “Club Deal” formula. Citi Handlowy was one of the co-organizers;

- Revolving loan for Polkomtel S.A. for the total amount of PLN 1.2 billion – the Bank as one of the leading banks signed a revolving loan agreement for the total amount of PLN 1.2 billion. The Bank also acted as the Loan Agent and Loan Documentation Agent;

- Syndicated loan – in the 4th quarter of 2011 the Bank as one of the lending banks took part in effecting a long-term syndicated loan for the total amount of PLN 8.7 billion. The loaned funds were used to acquire a telecommunication company in Poland;

- Debt securities program – the Bank as the sole Organizer established a debt securities program for the value up to PLN 5 billion for Bank Gospodarstwa Krajowego S.A. (“BGK”), under which in February 2011 it distributed PLN 2 billion worth of bonds. This was so far the biggest issue of non-treasury debt papers aimed at market investors in the Polish market. In May 2011, the Bank concluded an agreement with BGK for purchase of bonds issued by BGK for PLN 1 billion with a redemption date of 3 years after the date of issue;

- Bond issue program for Tauron Polska Energia S.A. (“Tauron”) – following the agreement signed in October 2011 together with a syndicate consisting of six banks, the value of the bond issue program was raised by PLN 3.0 billion up to the total of PLN 4.3 billion. In December 2011, Tauron issued bonds for the total amount of PLN 3.3 billion. Funds raised from the issue were to be allocated to the acquisition of Górnośląski Zakład Elektroenergetyczny S.A. The Bank acted as a Co-organizer, Underwriter, Issue Agent, Paying Agent and Depositary;

- Bond issue program for Polskie Górnictwo Naftowe i Gazownictwo S.A. – following the agreement signed in November 2011 together with a syndicate of eight banks, the value of the program was raised by PLN 2.0 billion up to the total of PLN 7.0 billion;

- Issue of bonds of WSE – the Bank and Dom Maklerski Banku Handlowego w Warszawie S.A. acted as Co-managers of the bond offering and as Offering Brokers for A series bonds in public offering for the total nominal value of PLN 170 million, carried out in December 2011. The offering was made only to qualified investors;

- In the 4th quarter of 2011, in cooperation with Citigroup, the Bank acted as advisor to the Management Board on acquisition by KGHM Polska Miedź S.A. of a Canadian company – Quadra FNX. In accordance with a conditional agreement for acquisition of 100% shares of Quadra FNX from the current shareholders, concluded by KGHM in December 2011, the acquisition price of shares amounted to CAD 2.9 billion (equivalent to PLN 9.4 billion);

- In December 2011 the Bank realized a transaction of financing the purchase of railway rolling stock for one of regional carriers. It was a pioneer transaction in the Polish market, realized in the Reverse Factoring formula;

- In 2011 the Bank won several key tenders for processing operations of companies from the automotive industry (including organization of the Commercial Papers program), FMCG industry (including consultancy on mergers and acquisitions transaction) and retail stores in Poland;

- "Emerging Market Champions" – a program for corporate clients introduced in the 4th quarter of 2011. The program provides financial support and services necessary to realize the expansion into the global markets;

- Public sector: in 2011 the group of towns served by the Bank was joined by Wałbrzych, Kołobrzeg and Inowrocław. Under the agreements signed with these towns, the Bank will provide current operational services and overdraft in current account, and will serve cash transactions, including deposits made by the inhabitants.

<u>Investment Banking</u>

Investment Banking, launched in 2010, retained its strong position in 2011 in terms of advising on key transactions on capital market.

In 2011 the Investment Banking team, together with Dom Maklerski Banku Handlowego S.A. and Corporate Clients segment, completed two key transactions for the State Treasury: the Initial Public Offering (IPO) of Jastrzębska Spółka Węglowa S.A. and the Initial Public Offering of Bank Gospodarki Żywnościowej S.A. The introduction of Jastrzębska Spółka Węglowa on the stock exchange was the largest transaction of this type in Poland and one of the three largest in Europe.

Moreover, Investment Banking with DMBH were chosen as the Global Coordinator and a Joint Bookrunner at the sale of shares of Bank PKO BP by the State Tresury. Due to the situation on global capital markets the transaction was suspended and its performance will depend on improved situation in the capital markets.

As regards the M&A area, the Investment Banking Team is present as a buy-side advisory for clients who are interested in purchasing public and private companies during the largest sales processes that are currently performed in Poland. In 2011 the Investment Banking Team provided, among others, advisory services to an energy company in the purchase of shares of another company from this sector. This transaction was valued at PLN 1.4 billion.

4.2 Treasury

- In 2011 the performance of the Bank in FX transactions with corporate clients was very good. The value of trade grew by 23% compared to 2010. This was possible due to the high quality of services and a rich product offer. Funds depositing and currency position management solutions offered by the Bank meet the expectations of most demanding customers. This was confirmed in a ranking published in May 2011 by the prestigious Euromoney magazine, where Citi Handlowy was ranked as the first in the corporate FX trading category for the third time in a row.

- Still very popular is CitiFX Pulse, an on-line FX platform. Over 70% of all FX transactions were made via the platform. CitiFX Pulse is an innovative tool that not only allows clients to make on-line transactions without assistance and for attractive prices, but also offers a broad package of useful functionalities, such as real-time access to quotations, possibility to place currency buy and sell orders at a specified rate, the broadest range of currency pairs in the market, unlimited access to economic analyses from Poland and the world. Citi with its CitiFX Pulse platform was recognized by

"The Banker" magazine as the most innovative bank in the area of FX transactions in the 2011 edition of "The Banker Investment Banking Awards".

- The turnover volume of transactions on Treasury bonds concluded with financial institutions increased by over 74% in 2011 compared to 2010. Such result was achieved owing to a competitive Treasury bonds purchase and sales offer targeted at institutional investors.

- In the market of complex derivatives, the Bank provides corporate clients with solutions allowing to hedge commodity transactions and interest rate risk. In 2011 the performance of the Bank in commodity futures transactions was very good. The volume of this type of transactions grew by over 250% compared to 2010.

- The Bank has an extensive experience in organizing bond issues as well as a broad knowledge of the local base of investors interested in such transactions. At the beginning of 2011, the Bank as the sole Organizer established the debt securities program for the value of up to PLN 5 billion for Bank Gospodarstwa Krajowego S.A. ("BGK"), under which it distributed PLN 2 billion worth of bonds in February 2011. It was so far the biggest issue of non-treasury debt papers aimed at market investors in the Polish market.

- The Bank was ranked as the 5th in a ranking of banks acting as Money Market Dealers. The ranking was developed by the National Bank of Poland, which performed an analysis in particular segments of the financial market in the period from 1 November 2010 to 31 October 2011. It is worth noting that the Bank was ranked as the second in the PLN FX swap transactions category.

- In 2011 the Bank uninterruptedly maintained its leading position as an arranger of the issue of bonds and deposit certificates for banks. According to the Rating&Market report by FitchRatings, the Bank held a 41% share in that market as at the end of December 2011.

4.3 Transaction Services

The Bank is a leader in the transaction services market in Poland. Due to its rich history of serving key Polish and international clients, as well as a broad and constantly expanding offer, the Bank is the leader in many market segments. The Bank processes the largest number of direct debit transactions in Poland, it is the leader in the prepaid cards market in Poland. MicroPayment – a product dedicated for mass deposits – is the leading solution in the market and the liquidity management products offered by the Bank are most advanced. Custody services offered by the Bank are most frequently selected by foreign and domestic financial institutions on the Polish market. The Bank carries on the development of the trade finance offer – in 2011 this product group reached the turnovers of over PLN 5.5 billion, i.e. they were by 85% higher than in 2010.

Strengthening of the Bank's pioneer position in the transaction services market is an objective of the Research and Development Centre in Łódź, which was officially opened in June 2011. It is the first banking research centre in Poland. The Centre will cooperate with universities – letters of intent have been signed with the Technical University of Łódź and the University of Łódź. The Centre has already recorded its first successes, e.g. participation in creating the Cash2Mobile product. The service using prepaid cards and internet banking mechanism was employed to serve clients who have so far operated using the cash sale. Cash2Mobile will significantly reduce troublesome cash operations, while providing immediate settlement of transactions. The Bank was one of the first institutions in the world to develop such a service.

Other services are constantly being added to the Bank's offer – in 2011 the prepaid cards offer was expanded by two new functionalities: partial authorization and presentation of the card balance after each transaction. These are global pioneer solutions in this segment.

The market leading offer of liquidity management products was expanded by the "net balance" service facilitating the service of payments in cash pooling structures.

A collective transfer implemented in 2011 is an ideal solution for clients who want to make large-volume salary payments in a fast and secure manner.

In the last quarter of 2011 a very popular trade finance offer was expanded by more solutions – a trade credit. The product provides complex financing of working capital which is necessary to maintain current financial liquidity.

A significant improvement for the Bank's clients using CitiDirect was the launch of the CitiDirect.pl portal – a rich source of training materials, documents and practical guidance.

The Bank's transaction services are renowned in the market. A considerable achievement of 2011 was receiving eight Europroduct awards. In the 16th edition of the Europroduct competition the Bank was awarded for Reverse Factoring, Net Balance, Integrated Service of Receivables, Prepaid Cards, Guaranteed Cards with Direct Debit and Cash Services. Two services were also awarded – CitiDirect and Corporate Customer Service Department. The competition is run under the patronage of the Minister of Economy, Polish Enterprise Development Agency (PARP) and the Chancellery of the Prime Minister.

Deposits and current accounts

A current account is the basis for full use of the services the Bank offers. One of the key elements of pursuing the Bank's strategy is focusing on acquiring and servicing operating accounts – i.e. bank accounts hosting the crucial part of operational cash flow of their holders. Within its strategy the Bank introduced improvements that minimize the client's involvement in formalities connected with opening an account with the Bank. A dedicated unit was established to support clients in preparing full account opening documentation and to assist in preparing documents for transferring a bank service from another institution. On request of the client the Bank informs specified counterparties, the revenue office and Social Insurance Institution about the new account number.

The funds accumulated by the Bank's customers in current accounts, which are not needed to finance current activities, may be deposited in term deposits.

Besides term deposits, the Bank's offer incorporates the following types of deposits:

- negotiated deposit – the Bank enables clients holding significant cash surpluses to agree on an individual interest rate through telephone orders consisting in direct negotiations with the Bank's representative,
- automatic deposit – after placing an order to create automatic deposits and agreeing on the interest rate, the Bank opens an overnight deposit on every working day,
- blocked deposit – enables to secure funds for a beneficiary, which increases business and financial credibility of a client. The product is used to secure less complicated transactions. An escrow account is used for more advanced constructions.

In 2011 the offer of the Bank was expanded to include an alternative to depositing free funds in deposits. Now clients of the Corporate Bank may buy, through the Bank, units in money market funds managed by a leading Polish investment fund society.

Liquidity management products

Liquidity management structures are advanced instruments that optimize flows within one capital group. The liquidity and cash management offer of the Bank provides the possibility of optimal management of financial surplus in over-liquid companies and enterprises with increased demand for capital. The Bank's liquidity management product range includes:

- actual cash pooling;
- virtual cash pooling;
- net balance;
- actual cash pooling without reverse bookings.

By using these liquidity management structures, clients benefit as they reduce their overall debt and costs of serving the debt with no financial liquidity risk.

The offer of the Bank was expanded by a new product – "net balance" – allowing for making a large number of outgoing transfers with no need for manual supplies within the structure. The new product was appreciated on the market, which was confirmed by an award in the 16th edition of the Europroduct competition run under the patronage of the Minister of Economy and Polish Enterprise Development Agency (PARP).

Micropayments

In 2011 the Bank continued to strengthen its leading position in the market segment in which it offers the MicroPayments product.

MicroPayments are used by institutions and entities which accept cash deposits from various payers and are obliged to return them together with accrued interest. This product also supports calculation of historical interest value, that is allocation of interest amounts to respective past deposits of the payer.

In 2011 a new version of the product was launched, which offers many previously unavailable functionalities: various kinds of interest capitalization (daily, weekly, monthly, half-yearly, yearly), improvements in report generation, micro-accounts in foreign currencies and various ways of payment into accounts.

This product is presently used by clients such as courts and prosecution administrations. MicroPayment services are also offered to clients from beyond the public sector – the solution of the Bank is an excellent tool to serve bidding procedures.

Electronic banking

The primary electronic banking system the Bank offers to its corporate clients is CitiDirect. In 2011 the Bank carried on improving the CitiDirect platform and implemented the project to improve the effectiveness of its use. In addition, it launched the CitiDirect.pl information website, which responds to the clients' expectations for a one-stop access to all information about the system.

In 2011, 875 new clients were activated in CitiDirect.

The number of clients using the system actively at the end of 2011, as compared to 2010, was on the same high level of nearly 5,000.

The total number of transactions initiated and processed by CitiDirect in 2011 was slightly over 25.8 million, which means a 3% growth compared to 2010.

The share of bank statements delivered to customers solely through electronic means stayed at a high and stable level of 90%, as in 2010.

High quality and customer satisfaction are the priorities of the Bank. Constant improvement of the electronic banking platform and related services is invariably part of developing that service. In 2011 the Bank introduced the following improvements for clients:

- "collective transfers" dedicated for payroll services;
- www.citidirect.pl platform to provide a one-stop access to all information about the system;
- new transfer import formats.

Card products

With a market share of 44%, the Bank is an unquestionable leader on the pre-paid card market in Poland. The Bank's prepaid cards are most frequently used under loyalty, promotional and incentive programs. Prepaid cards are also an excellent tool for social benefits distribution.

In 2011 the Bank carried on active promotion of its prepaid cards among corporate clients, by taking part in the CEE Cards 2011 Conference in Budapest and the Customer Loyalty Summit in Cracow. During these conferences potential clients were able to learn about the advantages of the product.

To make Prepaid Payment cards more attractive, the Bank implemented new innovative functionalities such as partial authorization and card balance presentation after each transaction. The Bank was the first in Europe to provide these functionalities to its clients.

The Bank continues to strengthen its position in the business cards segment by ongoing offer development. In 2011 the market share of business cards (Visa Business charge and guarantee) was 16%. Such good performance resulted from the share in non-cash transactions (20%) and non-cash transactions made abroad (23%). Visa Business debit cards issued to accounts maintained in EUR and USD are very popular among clients.

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

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

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

Domestic and foreign bank transfers

Domestic transfer services are among the main and most important transaction service products of the Bank. The key change introduced in 2011 were longer cut off times. Now the Bank offers some of the longest cut off times in the Polish market.

Moreover, in 2011 the Bank introduced to its offer a bonus program – the only such solution in the Polish market – consisting in offering a bonus to clients for outgoing transactions.

Another innovative solution was expansion of the functionality of the standing order product by invoice payment capacity. In the present architecture of the process the client sends an instruction to the Bank on the basis of which the Bank makes a payment of invoices received from the client's account.

The Bank also continues working on automation of foreign bank transfers. In 2011 it implemented a solution that automatically matches the exchange rate negotiated by the client with the transfer. This allowed ensuring the top quality of realized transfers and attaining an automated transfer rate of 71%, i.e. a rate 7% higher than in 2010.

Another key initiative of 2011 was adaptation of technological platforms and internal processes of the Bank to implement the Payment Services Directive. The first element of these activities is the readiness to use one-day value date for foreign transfers subject to the Directive.

The experience of the Bank as well as the newly implemented improvements have been well received by the clients, which is reflected in the constantly growing number of transactions. In 2011 the Bank maintained its high rate of growth in the volume of foreign transfers and processed 10% more orders than in 2010.

LORO

Loro transactions are a significant segment of the banking market. In order to maintain the rate of growth of volumes served, the Bank continues working to automate transaction service processes. In the 2nd half of 2011 the Bank changed the cut off times for transaction orders.

As regards the number of loro transfers realized by the Bank, in 2011 it maintained a high rate of growth and processed 13% more transactions than in 2010.

Unikasa

Unikasa is a mass payments market brand of high recognition. It is a product that facilitates servicing of the Bank clients' receivables while allowing payers to settle their bills for products and services in the most frequently visited locations, such as hyper- and supermarket chains throughout the country. Unikasa is now present in over 398 points throughout Poland. The service is also available in over 1,000 partner points.

Direct debit

The Bank provides its clients with comprehensive debt management service. One of the segments of that service market, in which the Bank holds a dominant position, is the direct debit market. Besides a traditional solution, the Bank offers Comfort Direct Debit – a unique solution in Poland, consisting in informing debtors about the approaching payment term via SMS.

In 2011 the Bank maintained its leading position by settling the highest number of transactions as a creditor's bank.

SpeedCollect

SpeedCollect is a service that allows automatic booking of receivables. It is an excellent solution for companies with large bases of customers making frequent payments and it makes it possible to manage their counterparties' settlements effectively. The Bank has over fifteen years of experience in servicing SpeedCollect. It was the first entity in the Polish market to include a product of this type in its offer. In 2011 the Bank maintained its leading position in the market as regards the processed volume of transactions.

In the second half of 2011 the Bank completed large implementation projects of SpeedCollect Plus. Owing to an additional functionality of incoming payments identification, the service can assign payments to individual invoices even in case of collective or partial payments, or when payments do not contain a correct payment title. This service has satisfied high requirements of key clients of the Bank, including global ones. The Bank was the first in Poland to launch SpeedCollect Plus.

Cash products

The Bank provides its clients with comprehensive cash management services. The highest volume of cash transactions serviced by the Bank is covered by over-the-counter deposits. The year 2011 was another period of dynamic growth in the volume of cash deposited with the Bank by corporate clients. A vast majority of over-the-counter deposits are closed, i.e. they are delivered to the Bank in sealed packages and counted without the client being present. The share of closed deposits in total over-the-counter deposits is growing systematically and is nearly 99%.

The Bank offers over-the-counter deposits in different variants, suited to the clients' expectations. A new form available within the transaction services is the option of Low Cost Cash, i.e. a deposit in ordered bank bills, with specific quality conditions fulfilled. Since 2011 Low Cost Cash has been available in two options: bill deposits and bill-and-coin deposits. Over-the-counter deposits may be expanded to include a range of complementary solutions, such as cash transport, purchase of safe envelopes for depositing cash, electronic document transfer, SpeedCash (SpeedCollect for over-the-counter payments) or bank vault services.

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

The Bank also provides services designed for a more restricted group of clients, such as replacement cash services and replacement branch services, directed at the public sector. Growing more and more popular are currency purchase and sale services offered to other banks (i.e. providing).

In 2011 the Bank closed the bidding procedure for cash processing service providers, which allowed to expand the product offer by new solutions, e.g. within deposits in ordered bank bills and providing, as well as made it possible to unify the conditions of serving the Bank's clients by particular suppliers.

EU advisory

In 2011 the activities of the EU Office were mainly focused on reaching new clients with the EU advisory offer and further activation of existing clients of the Bank. The information campaign aroused interest of many clients. Employees of the EU Office reached 289 clients with the offer, and signed 26 advisory agreements.

An important element of the work of the EU Office in 2011 was promotion of a technological loan. As a result of these activities many clients got acquainted with the mechanism of that instrument in the context of the latest changes resulting from the amended act on supporting innovation. The effect of the promotion was 27 applications filed with Bank Gospodarstwa Krajowego S.A. for subsidizing projects for the total amount of PLN 150 million.

In November 2011, the Bank organized a conference on energy effectiveness. It was attended by representatives of the National Fund for Environmental Protection and Water Management, the Polish National Energy Conservation Agency, consulting firms conducting energy audits and businesses. It was the first such discussion forum to so comprehensively address the issue of energy use in enterprises and of the changes that should take place by 2020.

Trade finance products

Trade finance products play a significant role in the Bank's transaction services. The key element of that offer is financing trade receivables with full or partial recourse, or without recourse – the most popular solution of this type is factoring.

The offer of the Bank is becoming more and more popular among clients, thus allowing to gradually increase the Bank's market share. As per the data available at the end of 2011, the share of the Bank in the trade finance products market in terms of turnover amounted to 6.7% and was by 2.1 p.p. higher than in 2010. The year 2011 was another year of dynamic growth in turnover in the area of trade finance. The

Bank had a record turnover in that area in 2011 – it exceeded PLN 5.5 billion and was 85% higher than in 2010. It is worth underlining that the growth in the Bank's turnover was several times higher than the rate of growth of the entire factoring market – in 2011 the market's turnovers grew at the rate of 25%. At the same time, the Bank's assets in the area of trade finance products at the end of 2011 were 47% higher compared to 2010 and 153% higher compared to the first half of 2010.

It is worth noting that reverse factoring, introduced to the offer of the Bank in 2010, is very popular among clients. Since its implementation, the solution was used by more than 50 clients.

In the last quarter of 2011 the Bank introduced a new solution to its offer – a trade credit providing complex financing of working capital necessary to maintain current financial liquidity. Within several months of its operation, the product was used by several clients.

An important element of the transaction banking market is trade service products, where a significant role is played by letters of credit. The number of letters of credit opened in 2011 was 18% higher than in the previous year. The Bank was able to reach such impressive growth by way of, among others, revitalized and more dynamic cooperation with one of the leading representatives of the clothing industry in Poland.

The Bank boasts a long-term experience and high quality of structured trade finance services. Significant events in 2011 in that area included:

- two structured financing agreements for syndicates constructing a motorway;
- carrying on a structured factoring transaction for one of the biggest fuel manufacturers in Poland, joined by two new counterparties – global clients of the Bank,
- structured non-recourse financing agreement for a Polish manufacturer of alcoholic beverages,
- financing for suppliers of a global vegetable fats manufacturer under a loyalty program agreement,
- purchase of receivables and financing for distributors of a plant protection products manufacturer based on the first loss guarantee mechanism,
- effecting of the first transaction in the Reversed Factoring formula for purchase of railway rolling stock for one of regional carriers.

4.3.1 Custody and depositary services

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

The Bank maintained its position of a market leader among depositary banks in Poland. It offers custody services to foreign institutional investors as well as depositary services to domestic financial entities, in particular pension funds, investment funds and unit-linked insurance funds.

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

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

As at 31 December 2011, the Bank maintained 14,400 securities accounts.

At the same time, the Bank was a depositary bank for five Open Pension Funds (OFE): AMPLICO OFE, AVIVA OFE AVIVA BZ WBK, ING OFE, Pekao OFE, Nordea OFE and two employee pension funds: PZU Employee Pension Fund “Słoneczna Jesień” and Telekomunikacja Polska S.A. Employee Pension Fund.

The Bank was a depositary bank for investment funds and sub-funds managed by the following Investment Fund Corporations (TFI): BZ WBK TFI S.A., PKO TFI S.A., PIONEER PEKAO TFI S.A., LEGG MASON TFI S.A. and AVIVA INVESTORS POLAND TFI SA.

In 2011 the Bank continued its activities aimed at honing the legislation regulating the securities market. On 7 February 2011 a Bank's representative was reelected to the position of the Chairman of the Council of Depositary Banks at the Polish Bank Association for the third consecutive term of office. During the reporting period, the Council conducted negotiations with the Polish Financial Supervision Authority, to clarify doubts arising in connection with the performance of some duties of an investment fund depositary. Moreover, information was exchanged on draft legal acts drawn up on the EU level. Through the Council, representatives of the Bank took active part in developing new solutions on the capital market, including a project introducing a new hold-release mechanism, a project separating the office of a central counterparty (the so-called CCP) from the structures of Krajowy Depozyt Papierów Wartościowych S.A. (National Depository for Securities or NDS), and a project amending Article 121 of the act on trading in financial instruments. The Council caused new regulations on the use of certificates for tax residency of foreign investors to be drafted in cooperation with the Chamber of Brokerage Houses, National Depository for Securities, WSE and the Polish Association of Listed Companies; the draft was submitted to the Ministry of Finance, in order to make the Polish capital market more attractive in the eyes of foreign investors. The Council was also actively involved in the evaluation of draft legal acts that affect operations of domestic custody banks. Moreover, a representative of the Bank was the Chairman of NDS Advisory Committee, whose activity consists in evaluation of draft NDS regulations on behalf of its participants, including evaluation of assumptions to the development strategy of NDS. Applying the Bank's resources, experience and expertise, the Bank's employees, in cooperation with the Polish Financial Supervision Authority, NDS and WSE, participated in consultations on the implementation of new solutions in the Polish capital market through the working teams established at the Polish Bank Association.

5. Consumer Bank

5.1 Selected business data

	2011	2010	Change
Number of individual customers	971,064	1,012,187	(41,123)
Number of current accounts, including:	655,250	581,385	73,865
number of operating accounts	167,549	129,016	38,533
Number of newly acquired operating accounts during the reported period	26,191	28,688	(2,497)
Number of savings accounts	221,977	208,929	13,048
Number of credit cards, including:	849,212	904,023	(54,811)
co-branded cards	482,962	513,025	(30,063)
Number of active credit cards	761,962	806,519	(44,557)
Number of debit cards	472,411	437,917	34,494
PayPass cards	328,046	175,536	152,510

5.2 Business achievements

Credit cards

As at the end of 2011 the number of credit cards was 849,200, of which 762,000 active. The share of the Bank in the credit card market in terms of the number of cards issued grew to 12.2% in 2011 from 10.2% at the end of 2010. Moreover, the Bank maintained its position as a leader in the credit card market in terms of value of transactions – in 2011 the share of the Bank was 22.5%.

In 2011 the Bank focused on further development and enhancement of its credit card offer, also taking account of the growth in transactions and profitability of the product.

In 2011 the following actions were performed in the area of credit cards:

- on 18 February 2011, a multi-partner credit card Citibank MasterCard World was launched. The card offers the benefits of a rebate card and of loyalty programs under cooperation with seven partners whose brands are the most popular among the target group of the Bank;
- on 1 June 2011, the Bank launched the issue of MasterCard PayPass and Visa payWave cards. At the end of 2011 the portfolio of the Bank contained around 250,000 contactless credit cards;

- on 15 June 2011, Citibank MasterCard World Signia Ultime was launched in collaboration with LOT Polish Airlines and together with Miles & More loyalty program. It is the most prestigious card in the Bank's offer, aimed at clients with the highest income. The Ultime card offers a range of additional services: concierge service, assistance, insurance package, Miles&More program, Priority Pass card, a discount program and A La Carte program;
- on 1 August 2011, the Bank launched a new credit card in cooperation with Wizz Air Hungary Airlines Ltd. – Citibank Wizz Air World Mastercard. The new card allows collecting points in the Wizz Air Partner Program, which may be exchanged for free air tickets. Moreover, holders of these cards are exempted from booking fee when buying air tickets at wizzair.com;
- on 15 November 2011, the Bank introduced the Citibank Student credit card targeted at future graduates of top Polish universities.

Co-branded cards constituted a majority of cards acquired in 2011 and 89% of total sales. Their share in the total portfolio was 57%.

In 2011 the most popular was Citibank MasterCard World card, launched in February, whose portfolio at the end of the year included over 40,000 cards.

During the year the Bank actively promoted the use of credit cards by numerous competitions and promotions in which clients were able to win holidays with TUI and ClubMed, concert tickets and in-kind prizes such as Samsung Galaxy phones and tablets.

In reaction to the increase in interest rates infroduced by the Polish Monetary Policy Council in 2011, the Bank increased nominal interest rates on credit cards three times, by a total of 4 p.p., up to 24%.

Bank accounts

Current accounts

In 2011 the number of current accounts held by individual clients grew by 12% compared to 2010 and at the end of 2011 exceeded 655,200 (581,000 in 2010), including over 459,600 accounts denominated in PLN (406,800 in 2010) and over 195,600 accounts denominated in foreign currencies (174,000 in 2010). The total balance in current accounts grew by 17% and exceeded PLN 2.2 billion, while in 2010 it was PLN 1.8 billion.

Savings accounts

At the end of 2011 the number of savings accounts was 221,900 with the total balance of PLN 2.5 billion compared to 208,900 with the total balance of PLN 2.5 billion in 2010.

Changes in the offer:

- From the 2nd quarter of 2011 the Bank carried out numerous actions promoting non-cash payment, such as cyclic promotions "Pay With Your Account Card and Win" (*"Płać kartą do konta i wygrywaj"*) available to all clients holding personal accounts;
- In 2011 the Bank expanded its offer with three City Payment Cards in cooperation with Wrocław (2nd quarter), Gdańsk-Sopot-Gdynia Tricity (3rd quarter) and Łódź (4th quarter). Apart from the convenience of using one card only – an account card integrated with the City Card – clients can take advantage of a special discount for tickets;
- In the 3rd quarter of 2011 the Bank launched a new internet account – CitiKonto Direct, targeted at clients who prefer to contact the Bank via the Internet. The account is free of charge and offers free cash withdrawals in all ATMs in Poland and Citishare ATMs abroad. Clients of CitiKonto Direct also do not pay for a MasterCard PayPass debit card if they make non-cash transactions for the minimum amount of PLN 100 a month. In September the Bank launched an innovative process of opening a CitiKonto Direct account. The Bank is the first in the market to deliver to the client the Framework Agreement together with a personalized card to the account;
- With a new Table of Fees and Charges, introduced in the 3rd quarter of 2011, the Bank expanded its deposit offer by introducing a new savings account – Regular Savings Account (*Konto Regularnie Oszczędzające*). The maximum interest rate on the new savings account may amount to 4.5%. The base interest rate on the new product is 2 percent and it may grow by another 2 percent with regular payments. In addition, if a client opens a Regular Savings Account for 6 months, the promotional interest rate is 0.2 percent, and if for 12 months, the promotional interest rate is 0.5 percent;

- In October 2011 the Bank launched an Internet campaign that promoted the use of PayPass contactless stickers, which translated to a 16% growth in this product portfolio and the number of issued stickers grew sevenfold month over month;
- In November 2011 the Bank advertised the offer of purchase of low-cost Swiss francs, which is attractive for borrowers repaying mortgage loans denominated in this currency. All personal account holders may buy Swiss francs with the most attractive margin of 0.8%, translating to a spread of 1.5%, and may repay their loan installments in Swiss francs in a fast and convenient manner via electronic banking.

Credit products

Cash loan

In the first half of 2011 the Bank focused on increasing the share of new clients in the cash loan portfolio. In mid-February 2011 it launched a marketing campaign – promotional interest rate of 9.99% p.a. for each client who took advantage of a new cash loan offered by the Bank. The action was continued until mid-May and allowed to increase by 40% the share of new clients in the sale of that product, as compared to the 4th quarter of 2010, when the price promotion was not available. When the special offer expired, the Bank introduced a new attractive pricing for the cash loan, which made the offer dependent on the client's profile, his or her affiliation with a specified occupational group, amount of granted loan and which rewarded for holding and actively using other products of the Bank.

In the 3rd quarter of 2011 the Bank changed its cash loan offer to make itself more competitive on the consumer loans market. Changes included a new pricelist, two new consolidation offers for clients with no credit relation with the Bank and a guaranteed offer (i.e. interest rate and maximum amount available to the client before filing a credit application) for present clients.

At the end of the year the balance of the cash loan portfolio was PLN 2.2 billion.

In the 4th quarter of 2011 the Bank changed the interest rate on the cash loan portfolio by 100 b.p. The aforesaid increase was a consequence of the interest rate increase in 2011.

Mortgage products

Strategy and sales

In 2011 the Bank focused on implementing the mortgage strategy by developing, in accordance with the assumptions made, four main areas: products, marketing, sales and credit policy.

Actions taken in 2011 were targeted mainly at improving the brand awareness of the Citi Handlowy mortgage product in the market and generating positive effect on sales development.

The balance of mortgage portfolio at the end of 2011 amounted to PLN 583.7 million, i.e. grew by 83%, as compared to the balance at the end of 2010.

At the end of 2011 the Bank employed 70 Advisors in specialized Mortgage Centers, who provided assistance to all clients interested in mortgage products and cooperated with around 1,700 external Partners who offer the Bank's products.

Products and marketing

At the turn of March and April, the Bank carried out a TV campaign promoting mortgage products, broadly supported by press articles and Internet actions (such as the "Move In And Win" (*"Zamieszkaj i wygraj"*) campaign).

Throughout the year the Bank actively presented its mortgage offer in real property fairs organized in the biggest cities all over Poland.

In June the Bank offered to its clients special conditions for a loan for refinancing debts from other banks. Special pricing was also offered to employees of companies awarded with the Top Employers Poland 2011 certificate as the best employers in Poland, as well as to employees of the financial sector.

In the second half of 2011 the Bank introduced product and pricing solutions for mortgage loans and then mortgage advances, covering the expansion of the product list with auxiliary investment and insurance-linked products that support financial security of the Bank's clients. Owing to the new products the Bank was able to offer very attractive prices for new loans and the new offer was approved by the market and ranked as the third in the annual ranking for the best mortgage loan with a cross-sell package prepared by Money.pl.

Cooperation with Partners

A major element of the strategy implemented in 2011 was the development of cooperation with external partners (brokers, real property agents, developers and local intermediaries), whose sales as at the end of 2011 exceeded 40% of total mortgage loans sales in the Bank. In order to acquire and mobilize partners offering Citi Handlowy products, the Bank developed many special offers targeted mainly at developers and real property agents, and carried out marketing actions supporting the common professional image of the Bank and partners in the real property market.

In April and December 2011, respectively, the Bank entered into cooperation agreements with Open Finance and DK Notus, who are among top financial advisory firms in Poland.

The Bank also implemented a unique "Partner Profit Program" dedicated to cooperating partners. The program consists in collecting points for granted mortgage loans and exchanging them for attractive awards from the area of tourism, stationery, radio and TV equipment as well as sports and adventure. In addition, participants of the program take advantage of special prices for other products of the Bank.

In order to enhance recognition of its mortgage products in the market, at the turn of May/June and September/November 2011, the Bank carried out numerous marketing actions with external partners. The most important ones were Mortgage Days (presentation of developers' and real property agencies' offers to the Bank's clients) organized in Bank Branches in Łódź, Bydgoszcz, Lublin and Warsaw, as well as common marketing materials promoting mortgage loans in connection with investments of developers cooperating with the Bank.

Investment and insurance products

Investment products

The Bank continued its efforts to further enhance its product offer with new investment opportunities. In 2011 the Bank added to its offer 20 investment funds offered by Polish investment fund societies and 5 offered by foreign investment firms. The total number of funds offered to clients at the end of 2011 was 154 (including 75 domestic and 79 foreign ones).

In the area of structured products the Bank developed its structured bonds, unit-linked life insurance and certificates of deposit, while keeping its competitive market position. In 2011 the Bank organized 38 subscriptions for structured bonds addressed to CitiGold and CitiGold Select customers. Structured bonds were denominated in Polish zloty (29 subscriptions), in U.S. dollar (6 subscriptions), and in euro (3 subscriptions).

Offers were addressed both to customers seeking products with a fixed coupon and those seeking an indirect exposition to the equity markets – both Polish and foreign as well as to raw material and currency markets, provided that they retained full or conditional capital protection by the Issuer on maturity. The Bank expanded its offer with unit-linked structured bonds that provide full capital protection and at the same time give an opportunity to take advantage of a growing value of selected fund units.

In addition, the Bank continued its offer of a structured product – Bank Securities in the form of Certificates of Deposit where customers may get a premium dependent on the underlying instrument's behavior. In 2011 the Bank organized nine issues of Bank Securities, including four issues connected with a pair of currencies: EUR/PLN and CHF/PLN, three issues connected with prices of raw materials and two issues connected with WIG20.

The Bank promoted among its clients brokerage services provided by the Bank and DMBH, by offering them promotional commissions on orders placed through the Bank. In September 2011, the Bank launched an option of remote conclusion of a brokerage agreement (by mail).

The Bank and DMBH took active part in the "Public Shareholding" (*"Akcjonariat Obywatelski"*) project implemented by the Ministry of State Treasury, by promoting knowledge about the stock exchange and capital market among their clients in September and October 2011.

The Bank's clients who were actively using brokerage services could take part in two large public offerings of privatized companies – BGŻ S.A. and JSW S.A. The Bank also provided its clients with a possibility to subscribe to investment certificates of Allianz Platinium FIZ, Legg Mason Akcji Skoncentrowany FIZ, Quercus Absolutnego Zwrotu FIZ and Investor Gold FIZ, which were publically offered.

At the end of 2011 the total assets under management in investment-linked products (including certificates of deposit, dual currency investments, unit-linked deposits and insurance products) bought by retail clients through the Bank was lower by 15.8% compared to the corresponding period of 2010, which resulted from the redemption of structured products at their maturity, from disbursements under life insurance with unit-linked insurance funds with a single premium after the end of the liquidation fee period and – to some extent – from a decrease in the value of assets from August 2011 due to declines in the stock exchange.

Insurance products

In 2011 the Bank continued its initiatives to increase the sales of insurance under insurance products launched previously and, additionally, it implemented solutions to make the insurance offer more attractive.

The Bank carried out active sales of additional insurance for credit card holders under a phone campaign, which covered the following products:

- "Income Protection Scheme" ("*Plan Ochrony Dochodu*") providing insurance coverage against a loss of job, serious illness and temporary incapacitation;
- "Safe Road" ("*Bezpieczna Droga*") – accident life insurance with an increased sum insured for road accidents.

A total of over 27,000 clients took advantage of both types of insurance.

The Bank focused on the offer of regular savings and investment-related products, in particular under the pension schemes for the Bank's clients, by using a broad range of products, including insurance products in the form of life and endowment, and equity-linked life insurance. In 2011, income from these amounted to PLN 7.4 million and was 33% (over PLN 1.8 million) higher than in 2010.

In June 2011, in collaboration with AEGON TU na Życie S.A., the Bank introduced a 6-month promotion for equity-linked life insurance with a regular premium "Optimum Investment Plan" ("*Plan Inwestycyjny Optimum*". Thanks to promotional conditions clients received higher allocation of premium payable in the first year of the insurance agreement. All premiums payable for the first year of insurance agreement, allocated to funds selected by the client were raised to 110%, thus providing a 10% growth in the amount on insurance account after the first premium. The promotion was very popular among clients and allowed to increase the results on sale of this type of products.

In August 2011 the Bank introduced a new promotional offer combining unit-linked insurance with a single premium (life insurance with insurance equity funds, life and endowment insurance with embedded derivatives) and term deposits.

Clients who concluded any insurance agreement with a single premium covered by the promotion were offered an opportunity to open a deposit on promotional conditions.

Under cooperation with PZU Życie S.A., in 2011 the Bank conducted four subscriptions for individual investment life insurance. In December it launched the 5th subscription allowing for withdrawal of investment funds and the investment bonus as soon as after 12 months of the insurance period in the case of attainment of investment assumptions.

6. Achievements of respective distribution channels

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

6.1 Branch network

As at the end of 2011 the branch network of the Bank comprised 147 outlets and included L type outlets (formerly the Corporate Bank, CitiGold Wealth Management and Investment Centre), M type outlets (former multifunctional outlets) and S type outlets (former CitiFinancial branches).

During this period the Bank continued to optimize its branch network. The process contributed to increased operational efficiency, improved sales, optimized use of human resources and infrastructure, and rationalization of the Bank's property management costs.

Number of branches at the end of the year

	31.12.2011	31.12.2010	Chang
Number of outlets:	147	154	(7)
- L type	44	43	(1)
- M type	85	90	(5)
- S type	18	21	(3)
Other sales / customer service outlets:			
Polkomtel sales points	-	154	(154)
Plus sales showrooms	-	15	(15)
Outlets of financial intermediaries (Open Finance, Expander and other)	248	-	248
Airports	5	5	-
BP gas stations	-	23	(23)
Shopping Centers	18	18	-
Sales points of public transport services	-	24	(24)
Own ATMs	135	149	(14)
Euronet ATMs with the Citi Handlowy logo	1 001	909	92

6.2 Internet and telephone banking

6.2.1 Internet and mobile banking

Internet banking

In 2011 the Bank continued to optimize and develop the Citibank Online platform.

In response to the customer needs, the Bank improved navigation in the electronic banking service, introduced many textual changes to simplify the operation of the service and added a functionality of debit and credit card blockage, to mention just a few.

As a result of activities performed within Citibank Online, the Bank recorded a 19% growth in the number of electronic banking users. In 2011 the Bank also recorded a 12% growth in the number of clients using electronic statements, as compared to 2010.

The year 2011 was a time when the Bank was active in social media, becoming the most active in the banking category on Facebook, winning over 40,000 fans with a profile promoting the Citibank Credit card Rebate Program – *Rabatowcy*.

The Bank continued its social activeness with the profile promoting CitiMobile and had a group of 20,000 fans at the end of 2011. Thus, it was ranked as the third in the general ranking of banking profiles on Facebook.

Mobile banking

At the end of 2011 Citi Mobile (browser and application) was used by over 65,000 clients, including over 38,000 who logged to Citi Mobile for the first time in 2011. The Citi Mobile application was downloaded over 27,000 times as at the end of this period.

In the first half of 2011 the Bank expanded its current mobile banking offer by introducing a mobile telephone banking application with the Android and iOS (iPhone) operating systems for all its retail clients. Together with a mobile banking service in the form of application, the Bank made available a breakthrough solution of fast telephone transfers. B2T (Bump to transfer), based on the technology developed by BumpTechnologies, allows to send money from an account of one Citi Handlowy client to another by telephone “bumping”.

The Citi Mobile application contains all functions so far available in its browser version and allows clients e.g. to check the balance and history of their account, savings account, deposit or credit card, make defined internal and domestic transfers, repay the credit card debt and top up a mobile telephone card.

In September 2011 the mobile banking functionality was expanded with a rebate offer browser operating based on the geo-location mechanism. It allows users to find the nearest outlet with a valid discount offer for the Bank’s payment card holders.

Citi Mobile was ranked as the third among “The Best Mobile Banking” in the “Friendly Bank 2011” ranking by Newsweek and it was one of finalists of the prestigious award of BAI-Finacle Global Banking Innovation Awards 2011 for B2T.

In October 2011 the Bank launched a new service – FotoKasa, which allows scanning photo codes with a phone camera and making fast payments via Citi Mobile.

FotoKasa is a pioneer solution in the Polish banking market. The first to test it were Citi Mobile users using UPC Polska services. The Bank is planning to make this solution available to other significant invoice issuers in the market in 2012.

In December 2011, during the Central European Electronic Card Warsaw conference, the Citi Mobile application with FotoKasa was awarded as the “2011 Top IT System/Application/Device to Serve Card Systems in Poland”.

6.3 Direct and indirect customer acquisition

As at the end of 2011, the network of direct sales units comprised 23 sales outlets, including stands located in shopping centers (18) and stands located in major Polish airports (5).

In June 2011 the cooperation with the network of agents and sub-agents of Polkomtel ended. The withdrawal from this channel of distribution did not result in any additional costs.

At the same time, owing to network optimization, the Bank reduced the number of stands in shopping centers and ended cooperation with BP fuel stations, Plus showrooms and units selling City Cards.

7. Innovations

Innovations, as one of the main directions of the development strategy, were reflected in the operations of the Bank in 2011.

To implement the strategy and attain the expected financial results in the area of innovations, the Bank concentrated on delivering concrete solutions to clients, improving the quality and customer satisfaction and optimizing internal processes.

New solutions supported the maintenance of market positions in all major areas or their further expansion within the key product lines of the Bank. Such solutions included, for example:

- new solutions for micropayments and new trade finance products in transaction banking,
- functional development of the CitiFX Pulse platform in Treasury,
- new credit card solutions, such as the first MasterCard World card and further City Cards in Gdańsk-Sopot-Gdynia Tricity and in Łódź,
- new innovative global products in the area of CitiMobile, such as FotoKasa or Bump To Transfer.

A significant step towards the implementation of the innovation-based strategy was the opening of the Citi Handlowy Bank Product Research and Development Centre in Łódź on 21 June 2011. It is the first such centre in Poland, aimed at developing and improving bank products to better suit the changing requirements of clients and to support their development.

The focus on innovation was also reflected in the results of competitions and rankings of 2011, both in Poland and abroad, where Citi Handlowy was awarded, among others, with:

BAI-FINACLE GLOBAL BANKING INNOVATION AWARDS℠ 2011

BAI-Finacle Global Banking Innovation Award – Finalists of the global competition for innovative products for financial institutions: distinction for CitiMobile City Card and Bump To Transfer.

Citi, with its CitiFX Pulse platform, was recognized by “The Banker” magazine as the most innovative bank in the area of FX transactions in the 2011 edition of “The Banker Investment Banking Awards”.

“Innovation of the Year” title for the following products:

- prepaid card with partial authorization,
- MasterCard World credit card,
- Multifunctional City Card,
- CitiMobile with Bump To Transfer.

Award in the category “2011 Top IT System/Application/Device to Serve Card Systems in Poland” under the Central European Electronic Card for FotoKasa in CitiMobile.

8. Changes in information technology

In 2011 the Bank carried out projects supporting a stable technological platform and implementation of the current strategy. The Bank promoted initiatives to cut costs in the area of technology while improving the quality of the products offered. The organizational structure of the Technology Division was adapted to best practices by separating the main areas of Production Support, Project Management, Software Development, Infrastructure Management and Technological Processes Support, providing top quality technological services to all areas of the Bank. The first Bank Product Research and Developments Centre was opened with the aim to develop innovative business and technological solutions.

IT processes of the Bank are of top global quality, which was confirmed in April 2011 by the positive result of the ISO 20000 re-certification audit.

In 2011 the following solutions were implemented:

- completion of the process of replacing ATMs with ones allowing for posting deposits in real time, in accordance with the directive of the European Central Bank (ECB6) (1st quarter of 2011);
- implementation in the Bank’s entire ATM network of the AUDIO functionality to allow for the ATMs to be used by the blind or visually impaired people; the solution was awarded with the “Hit of the Year 2011” prize in the “Solutions” category of the competition run by Gazeta Bankowa;
- implementation of a project improving the process of sale, verification and effecting of mortgage loans and advances – the manual service of mortgages was moved to the ECUS application, which shortened the time of application processing and improved quality in this group of products;
- implementation of the functionality of contactless payments for credit cards.
- implementation of a new product – Cash2Mobile in the area of mobile payments. It was the first such solution in the area of mobile payments in Poland, and strengthened the Bank’s position as a leading innovator;
- expansion of the “Mobile Banking” retail platform with bank applications that can be installed on Android and iPhone OS phones and with a unique and innovative FotoKasa service allowing to pay invoices with a mobile;
- implementation of an Integrated City Card, i.e. a combination of a debit card and a City Card, in new cities: Wrocław, Gdańsk-Sopot-Gdynia Tricity and Łódź;
- implementation of a number of improvements to speed up and improve the Citibank Online retail platform, such as an option to spend loyalty points for Mastercard World and Wizzair credit cards;
- improvement of the network infrastructure (replacement of network equipment) in the Bank’s branches throughout the country.

Pending modifications which will have an impact on the Bank's operations in the nearest future:

- carrying out a pilot project of a new version of the electronic banking system for corporate clients (CitiDirect),
- modernizing the application for investment clients to improve the sales processes in accordance with the MiFID Directive;
- initiation of works on the system for cooperation with a new WSE transactional platform;
- implementation of a new integrated system platform for Consumer Bank – launched in the 2nd quarter of 2011, planned implementation in the 1st quarter of 2013; following that project the current banking platform will be replaced with a new, more modern systemic platform;
- implementation of a project that will allow to integrate financial and accounting systems of a client directly with the Bank and to acquire new clients in Corporate Bank;
- modernization of a platform to serve SpeedCollect – making a product to serve receivables products on the global market available to other group companies;
- implementation of the system to serve "Omnibus" accounts in the area of custody of securities;
- expansion of the product offer of credit cards and mobile banking.

9. Equity investments

All capital investments of the Bank are classified as part of either strategic or divestment exposures portfolios. In 2011 the Bank continued its previous capital investment policy. In managing the strategic portfolio it sought to: maximize profits in the long term; increase the market share; stimulate development of co-operation with the Bank; and expand the Bank's offer. In managing its divestment portfolio the Bank aimed to optimize transaction gains and minimize the risk inherent in such transactions.

9.1 Strategic portfolio

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

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

9.2 Divestment portfolio

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

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

10. Awards and honors

In 2011 the Bank, DMBH and the Leopold Kronenberg Foundation received a number of prestigious awards and honorary titles:

- **Europroduct** – eight products and services of the Bank were awarded in the 16th edition of the Europroduct competition. Among the awarded products were Reverse Factoring, Net Balance, Integrated Service of Receivables, Prepaid Cards, Guaranteed Cards with Direct Debit and Cash Services. The awarded services were CitiDirect and Corporate Customer Service Department. The competition is organized by Polskie Towarzystwo Handlowe under the patronage of the Minister of Economy and Polish Enterprise Development Agency (PARP). The purpose is to promote solutions that are considered best in the market and are aimed at catering for customer needs in a comprehensive and professional way;
- It is the third time that Citi Handlowy came first in a survey of a prestigious British magazine – **Euromoney**. In the **"Currency Trade with Corporate Clients"** category the market share of Citi Handlowy in Poland was over 23%. The survey is performed annually and includes the best institutions offering wealth management services;
- Citi, with its **CitiFX Pulse** platform, was recognized by "The Banker" magazine as the most innovative bank in the area of FX transactions in the 2011 edition of "**The Banker Investment Banking Awards**". The awards are aimed at rewarding innovative solutions in the area of products, structure, strategies and processes. Awarded were the innovations that have real effect on market transparency, provide cost cuts and new solutions in the customer risk management process;
- Citi Handlowy was among the first three banks in the ranking by **Newsweek** in "**The Best Mobile Banking**" category. It was the first time the mobile banking category was introduced to the "Newsweek's Friendly Bank" ranking. Research for the purposes of the 9th edition of the ranking was conducted with the Mystery Shopper method. The Newsweek ranking is carried out by MillwardBrown SMG / KRC;
- Citi Handlowy was a finalist in the **Innovative Product** category for Bump to Transfer and the City Card. **BAI-FINACLE Global Banking Innovation Awards** are granted in four categories: Innovative Product, Innovative Service, Radical Innovation, Most Innovative Bank of the Year;
- Certificate **"Top Employers Poland 2011"** – the Bank belongs to the prestigious group of 20 top employers in Poland. The certificate confirms our strong position in the market of HR management, talent development and employee offer. We had the best possible results in three of five categories: "Fringe Benefits and Employment Conditions", "Training and Development" and "Professional Career". The organizational culture of the company was also appreciated. The Top Employers certificate is awarded only to organizations satisfying top HRM standards. It is awarded under an independent, fact-based research of the Corporate Research Foundation Institute – one of the leading institutions researching the global HR policy;
- **ISO20000 certificate** – the Bank passed a regulatory audit and maintained the ISO 20000 certificate in IT service management. The certification proves that the IT environment, and thus products and services offered by the Bank, are very well managed;
- Citi Handlowy was the winner of the **"2011 Top IT System/Application/Device to Serve Card Systems in Poland"** for Citi Mobile with an innovative service of invoice payment with 2D code scanning – FotoKasa. The CEEC conference is the most important annual meeting of the card sector in Poland and Central Europe. It is attended by representatives of the most significant institutions and firms driving the development of the card business in Poland and Europe;
- Citi Handlowy Employee Volunteer Program was the winner of the Polish edition of the **European Employee Volunteering Awards** (in the "Large Company" category). The competition is organized by the Business in the Community and the European Commission, and conducted in 23 countries all over Europe. The main objective of the competition is to reward the best employee volunteering initiatives aimed at helping groups that are facing difficulties and may suffer exclusion in the labor market;
- The Bank was the winner in the competition of **Responsible Business Leaders** (in the "Financial Institutions" category). The competition is organized by the CR Coalition led by the largest and oldest association of employers – Employers of Poland. The competition was aimed at rewarding

enterprises that conduct business activity responsibly and in compliance with the Responsible Business Code, and meet challenges encountered in their sectors in the area of CSR activities;

- Keeping the quotation in the **RESPECT Index**, a WSE index of most socially responsible companies. In 2011 Citi Handlowy was rated A in both editions of the survey (January and July) and once again was included in a group of 16 most socially responsible companies;
- The Bank was the winner in the **BI-NGO** ranking researching websites of 500 top companies in Poland in terms of communication on social responsibility. In 2011 the corporate website of Citi Handlowy, part of which is a website of the Bank's Leopold Kronenberg Foundation, was once again awarded the maximum number of points and won the ranking for the third time;
- Citi Handlowy was the finalist in two categories: **The Best Green Technological Initiative in a Financial Institution** and **The Best Use of Mobile Technology**. In the "Best Green Initiative" category the action "More Trees Thanks to You" was rewarded. This year, in collaboration with the Leopold Kronenberg Foundation, 100,000 trees were planted and since the beginning of the action in 2008, Citi Handlowy has planted a total of 420,000 trees.

11. Engagement in cultural patronage and social responsibility projects

11.1 Cultural patronage and sponsoring

In 2011 Bank Handlowy w Warszawie S.A. became a sponsor of an exhibition entitled **"Stanisław August, the Last King of Poland. Politician, Patron, Reformer 1764 – 1795"**, organized in The Royal Castle in Warsaw.
The Bank sponsored several domestic and international conferences. It was a partner of the **III European Economic Congress in Katowice** (16-18 May), **XXI Economic Forum in Krynica Zdrój** (7-9 September), **III European Women Congress** (17-18 September) and the **European Forum for New Ideas** in Sopot (28-30 September). The Bank was also a partner of the **Lewiatan Awards Ceremony**, held on 18 May in the Warsaw National Philharmonic.

11.2 Social responsibility

The social responsibility mission is coordinated by the Leopold Kronenberg Foundation, which acts on behalf of the Bank working for the common good. In 2011 the activities of the Foundation were focused on financial education and promotion of entrepreneurship and innovation, coordination of voluntary activities performed by the Bank employees for those in need and protection of the national cultural heritage.
Implementation of particular programs:

- **From Penny to Pound** (*Od grosika do złotówki*) – the first such program in Poland focused on financial education and targeted at primary school pupils, implemented under integrated teaching. The program is carried out by teachers and volunteer workers from the Bank, and supported by the parents. It is carried out in collaboration with the Junior Achievement Foundation Poland (*Fundacja Młodzieżowej Przedsiębiorczości*). During the school year 2010/2011, 483 teachers and around 24,000 parents introduced nearly 11,000 pupils to the world of finance.
- **My Finances** (*Moje finanse*) – the largest financial education program for the young in Poland. It meets social demand for financial education and gives an opportunity for a more educated society, which consciously manages its finances by saving, borrowing and investing. The program is sponsored by the Leopold Kronenberg Foundation and the National Bank of Poland, and conducted by the Junior Achievement Foundation Poland. Its direct recipients are teachers and students of high schools throughout the country. During the school year 2010/2011, 153,000 students participated in the program implemented by 1,600 teachers.
- **Banks in Action** (*Banki w Akcji*) – a financial education program aimed at high school students interested in working in the financial sector. The program aims to promote among students the knowledge of the principles of financial markets operation, and particularly that of commercial banks. The program is implemented by Higher Schools of Banking, the Leopold Kronenberg Foundation, the National Bank of Poland and the Junior Achievement Foundation Poland.

  In 2011 the following elements of the program were implemented:
  - Competition of Financial Knowledge – Banks in Action
  - Banks in Action – Enterprise Day
  - Promoting the use of the Banks in Action simulation model in regular educational work.

- **Building Financial Independence of Women** – a pilot project for socially excluded women. Its main objective is to improve the financial standing of abused women, improving their chances for leaving a violent relationship and improving the chances of girls from socially excluded families for a better and independent life. The program is implemented in collaboration with the Women's Rights Centre. The pilot project is attended by 300 women and girls.
- **Business Startup Program** is a pilot project of a national program targeted at the academic community. Its objective is to stimulate entrepreneurship of students and graduates, and to help them open a business. The program is implemented in collaboration with Academic Incubators of Entrepreneurship. The pilot project is attended by 1,500 young people.
- **Week for Saving** (*Tydzień dla Oszczędzania*) is a national education action in the media. It promotes rational management of personal finances and the household budget, and helps develop practical financial skills. This media campaign is conducted through multiple information channels – a dedicated website, radio spots and interviews, special supplements to Newsweek weekly. During the Week, numerous classes, competitions and happenings are held in schools, dedicated to saving and household finances management. In 2011 the program was attended by over 63,000 pupils and teachers. Through the media, over 4 million people million people came in contact with the idea of saving.
- **Micro Company of the Year 2011** is a competition for micro company owners. The purpose of the competition is to promote micro companies that are one of the fundamental forms of business activity in Poland. The idea is to reward successful, above-average companies that are rooted in local societies and combine tradition with modernity. In the 7th edition of the competition, there was a record number of 252 entries. The prestigious Micro Company of the Year 2011 title went to Jerzy Sznerski, founder and owner of Sznerski Guss. The competition included a survey "Micro Company Finances After The Crisis", which analyzed the present financial standing of the companies and their manners of coping with the crisis. This year's edition was implemented in collaboration with the Microfinance Centre and the coalition for micro companies including the largest institutions supporting the operations of the smallest entities in the market.
- **Award of Bank Handlowy w Warszawie S.A.** for an outstanding contribution to the development of economics and finance – this competition aims to promote the most valuable publications devoted to the theory of economy and finance. It is considered one of the most prestigious Polish recognitions in that field. The 17th edition of the competition had 29 submissions. The winner was Ph.D. Stanisław Kubielas and his book "Innovations and Technological Gap in the Knowledge-based Global Economy. Structural and Macroeconomic Conditions". The award ceremony was followed by a conference on the effective manner of filling the technological gap between the developing and developed countries.
- **Professor Aleksander Gieysztor Award** is the most prestigious award given annually to institutions or individuals in recognition of their efforts for the protection of the national cultural heritage. The winner of the 13th edition was Professor Jacek Purchla, awarded for his many years' work on the issues of cities and urban development and for initiation of interdisciplinary research in the theory of heritage and management of historical towns, as well as creation and management of The International Cultural Centre in Krakow.
- **Roots** (*Korzenie*) is a program under which the Foundation revives the history of the Bank, the personage and achievements of its founders – the Kronenbergs. In 2011 the Foundation implemented a project of searching and digitalizing documents on the history of the Bank and issued the first full biography of its founder – Leopold Kronenberg.
- **Employee Volunteer Program** in Citi Handlowy aims to assist the Bank employees in developing their social responsibility and involvement. Its main pillars include Citi's Global Community Day, engagement of the Bank employees in financial education, and an innovative voluntary work project executed during company integration trips. The employees provide their services on an individual or group basis. In 2011, 1,500 volunteers implemented 156 projects during 10,700 worked hours. The key initiative was the 6th edition of the Citi's Global Community Day during which 1,000 volunteers of Citi Handlowy with 500 friends and family members implemented 128 projects targeted at 16,500 persons from the entire country. The second edition of the "Student Social Project – Become a Creator of Change!" ("*Studencki Projekt Społeczny – Zostań Kreatorem Zmian!*") was opened, aimed at students with ideas for a volunteer project. A draft project of a senior volunteer program was also prepared.

- **Grant Program** is a competition through which the Foundation supports the most valuable projects carried out by non-profit organizations in the area of education and local development. In 2011, 25 grants were given for the total of PLN 810,500, including PLN 273,500 for 11 grants for local projects recommended by branch directors. Grants were given in the following program areas: innovations in education (5 grants for PLN 187,400), cultural heritage and traditions (13 grants for PLN 467,200), economic education (2 grants for PLN 55,000), artistic activities of children and teenagers (4 grants for PLN 51,000) and social policy (1 grant for PLN 50,000).
- **More Trees Thanks to You** (*Więcej drzew dzięki Tobie*) is a program carried out to promote “green” habits and encourage customers of the Bank to quit paper account or credit card statements. As part of the program, Citi Handlowy planted one tree on behalf of each customer who had decided to switch to electronic statements. The program is implemented by the Bank in collaboration with the Leopold Kronenberg Foundation and Nature Protection League. In 2011, 100,000 trees were planted. What is more, open educational meetings were held in five locations throughout the country (Warszawa, Kielce, Kraków, Toruń, and Gdańsk). All these actions engaged over 1,500 people.
- **Responsible Business League** (*Liga Odpowiedzialnego Biznesu*) is a program that responds to a growing interest in responsible business among students in Poland. It targets the academic community to promote CSR ideas as standards of functioning in business and life, to provide education on responsible business practices and to build a favorable social attitude towards responsible business. The program is organized by the Responsible Business Forum in collaboration with the Leopold Kronenberg Foundation and public universities (University of Warsaw, Jagiellonian University, Warsaw School of Economics and other). In the 7th edition (academic year 2010/2011) the program reached over 4,000 recipients. The honorable patron of the Responsible Business League was Minister of Economy, Mr. Waldemar Pawlak.

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

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

1.1 Economy

The economic growth in 2011 was higher compared to 2010 and the last months of 2011 brought a pleasant surprise despite deteriorating perspective for eurozone economies, but perspectives for GDP growth in 2012 are still very uncertain.

Possible deepening of the debt crisis in the eurozone is the major threat to the perspectives of the Polish economy, as it might further increase risk aversion and volatility on international financial markets, as well as deepen the economic slowdown of the main partners of Poland. This would have an adverse effect on both the economic growth and stability of the domestic financial market, and would add to increased risk premium for Polish assets, weaker zloty and higher profitability of Polish bonds.

One of significant risk factors for the global economic growth is also the slowdown of the Chinese economy. Although Polish exports to China are only a small proportion of the total export, the economic activity in Poland could suffer from weaker economic activity of her major trade partners whose export exposure to the economic growth in Asia is much higher.

Deep economic slowdown in Poland would probably lead to stagnation in the domestic labor market and deteriorated income situation of the Bank’s customers. Lower exports and slower economic growth in Poland could also lead to deteriorated financial performance of Polish companies.

1.2 Regulatory risk

Any changes in the economic policies or in the legal system could have a considerable effect on the Group’s financial condition. In terms of banking sector regulations, a particularly important role is played by acts and the related secondary legislation, including regulations of the Minister of Finance, resolutions of the Management Board of the National Bank of Poland (NBP) and the orders of the Chairman of NBP and resolutions of the Polish Financial Supervision Authority (KNF). Since 1 January 2008, the Polish Financial Supervision Authority has taken over the rights and responsibilities of the former Commission for Banking Supervision (KNB).

The most relevant of these regulations include:

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

On 18 December 2011, the Act on Consumer Credit of 1 April 2011 became effective, implementing into the Polish law Directive 2008/48/EC of 23 April 2008 on credit agreement for consumers. The deadline for implementation of this Directive expired on 11 June 2010. The Bank adjusted to the requirements of the new regulation on the effective date of the new regulations.

Due to a failure to implement Directive 2007/64/EC of 13 November 2007 on payment services in the internal market (Payment Services Directive, PSD) within the required timeline, i.e. until 1 November 2009, the process of adapting operating activities of the entities covered by PSD was not completed in accordance with the European Union requirements. In the second half of 2011, further legislative work was conducted in order to transpose the EU regulations into the national law. Consequently, the Parliament resolved an act on payment services on 19 August 2011, which became effective on 24 October 2011 and provided for a 12-month adapting period. The Bank is adjusting to the requirements of the new regulation.

1.3 Competition within the banking sector

The Polish banking sector is a very competitive market. Entities compete in all market segments and product lines. Effective functioning of the market requires financial institutions to constantly improve their services and to provide new solutions meeting customers' requirements, which are very quickly implemented by competitors as well.

In the present difficult market conditions, most competition pertains to customer deposits. Due to limited liquidity of the interbank market it is expected that the competition for funds of individual and corporate clients will become fiercer. For institutions particularly exposed to the lack of liquidity, this may again lead to negative margins on deposits, which will have an adverse effect on performance.

Maintaining high liquidity and capital adequacy, the Bank is prepared to operate in that competitive environment and plans to actively acquire customers from both consumer and corporate segments.

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

2.1 Liquidity risk

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

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

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

The Bank's deposit base is stable and diversified. In addition, the Bank has a large portfolio of liquid securities, good access to interbank funding and high capital base. The level of liquidity risk in 2011 was low.

2.2 Foreign exchange risk

The Bank performs foreign exchange operations both on behalf of its customers and on its own account, and holds open foreign exchange positions within established limits. As a result, the Bank is exposed to exchange rate risk and there is no certainty that future movements in exchange rates will not have an adverse effect on the Bank's financial standing. The control of foreign exchange risk is the responsibility of the Market Risk Department, which cooperates with the Treasury Department, the unit managing the Bank's liquidity and its foreign exchange position. In 2011, the market risk of Bank's own positions ranged between moderate and high.

2.3 Interest rate risk

Along with other Polish banks, the Bank is exposed to a risk arising from mismatch in timing of changes in interest rates on its assets and the underlying liabilities (revaluation mismatch gap risk), and the sensitivity of the value of debt securities and of interest rate based derivative instruments to changes in the market rates (pricing risk). In respect of the revaluation mismatch gap risk, interest rate risk can arise when a fall in income caused by lower rates of interest on loans proves impossible to offset through a corresponding reduction in the rates of interest paid to depositors. This risk also applies to situations where a rise in deposit rates cannot be offset by a corresponding rise in lending rates. In respect of the pricing risk, interest rate risk can arise when changes in market rates have an adverse effect: valuation of the trading portfolio and thus directly on the bank's financial result; or on valuation of the portfolio of securities available for sale and thus directly on the value of its equity capital funds. The management of interest rate risk is one of the functions of the Banks Asset and Liability Committee, which, among others, determines the Bank's pricing policy in the context of interest rate risk. In the year 2011 the level of interest rate risk ranged between low and moderate in the case of the trading portfolios and was moderate to high in the case of the bank portfolios.

2.4 Credit risk

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

2.5 Equity investment risk

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

2.6 Operating risk

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

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

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

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

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

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

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

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

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

2.7 Contributions to the Bank Guarantee Fund

Pursuant to the Act on the Bank Guarantee Fund (Act on BGF; legal status as at 31 December 2011), the Bank is included in a mandatory deposit insurance scheme for bank accounts and receivables confirmed with Bank documents. The banks included in the scheme are required to make specific contributions to the BGF, in accordance with Article 13 of the Act on BGF, and to invest and deposit assets to the guaranteed deposits insurance fund created by the Bank in accordance with Article 26 of the Act on BGF.

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

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

1. The Bank's general development objectives

The invariable priority of the Bank in 2012 will be the improvement of efficiency, developing relations with the client by offering tailor made financial services and utilizing innovative solutions.

Additionally, the Bank will continue to deliver top quality services with the aim of achieving the highest on the market level of customer satisfaction. Establishing long-term relations with existing clients along with constructing competitive offer for new customers will be the strategic goal for the Bank.

The Bank's overriding long term objective is to systematically increase shareholder value by ensuring appropriate return on equity and exploiting the competitive advantage stemming from high liquidity and strong capital adequacy as a guarantee of security of our customers and retention of their trust.

1.1 Corporate and commercial banking

The Bank is the leading service provider to the international corporations and largest local companies. To maintain its market position the Bank plans to acquire clients within the 500 largest Polish companies and among multinational companies that are new entrants to the market. Acquisition will be further supported by the concentration on deepening customer relations in targeted industries and assisting clients in regional and cross-border expansion. Substantial experience in this area, further strengthened by being a part of a strong multinational company, provides the basis to become a long term business partner for the Polish companies, with specific focus on those that strive to enter international markets.

Among the SME sector, the Bank plans to acquire 500 new customers, implement improved electronic banking platform and expand the offer of treasury products.

The Bank will support its clients through offering appropriate financing solutions in the form of corporate loans, trade finance and shares or bonds issuance. The Bank's key strength in this area is its high liquidity and stable financial and capital position, which together with many years of experience makes it a solid business partner for turbulent times.

The increase of volumes on operating accounts of corporate clients is one of the key factors that will influence the accomplishment of the Bank's goals. The Bank will aim to achieve a double digit growth in this area, which will lead to a gradual change in the deposit portfolio structure (greater share of demand deposits). Innovative solutions for transactional banking are perceived as the driver of the growth.

As a complementary solution to corporate banking products, the Bank offers investment banking services. The Bank will expand its operations in this field by being involved in major merger and acquisition transactions on the capital markets. To fulfill this objective, the Bank will take advantage of its strength among the largest Polish companies, the leading position of its brokerage unit (DMBH) and the global character and expertise of Citi.

Innovative top quality products will be the basis for the Bank's competitive advantage, in particular for cooperation with the most demanding domestic and international clients.

1.2 Consumer Bank

In credit products, the Bank will continue developing its credit card offer. The main goal in this area is to maintain the leading position in the market in terms of credit card use, also by constant development of partner and rebate programs as well as other measurable benefits for credit card holders. Attractive product offer will be addressed both to new and present credit card clients.

In cash loans, the Bank will strive to stabilize credit balance mainly through active sales processes. Relations with present and new Consumer Bank clients will invariably be strengthened through mortgage products whose attractiveness for the client will be connected with his/her overall involvement in cooperation with the consumer area of the Bank.

In deposit products, the Bank will continue its strategy based on acquiring active personal accounts, while it will concentrate on high-net-worth customer segments. The acquisition and portfolio activities in this area of Consumer Bank will be supported by a broad offer of products and services in the form of special privileges.

SME segment will continue to be a strategic element of development. The product offer will be developed and sales and customer service processes will be further improved to maintain a dynamic growth of the portfolio of active clients within that segment. At the same time, fast development in this area is to support acquisition of new active personal relations.

Activation and acquisition will be supported by development of innovative services, in particular by expanded functionality of mobile banking and contactless payments.

The quality of products and services offered to clients as well as their cost effectiveness will inevitably be subject to control by the Consumer Bank.

1.3 Distribution network

The Bank's development plans for the year 2012 provide for continued activity aimed at delivering top customer service quality. We will also undertake actions in response to current market developments.

Throughout the year 2012 we will continue with implementation of the Citi Grow program – aimed at standardizing the sales and customer service quality – in all the branches located on our G9 markets (major cities throughout the country, of strategic importance from the standpoint of development of the retail banking business) and TIER1 markets (another group of markets, important from the standpoint of profitability). The Bank's branch network will receive active support from the remote customer service channels (CitiPhone, the Internet platform, TeleSales) providing 24-hour transaction handling capability and bank product sales capability driven by customer needs.

VI. Investor information

1. The Bank's shareholding structure and performance of its shares on the Warsaw Stock Exchange

1.1 Shareholders

The only shareholder of the Bank that holds a minimum 5% participation in its share capital and votes at its General Shareholders Meeting (GSM) is Citibank Overseas Investment Corporation (COIC), a Citigroup company that holds the group's overseas investments. COIC is at the same time the strategic majority shareholder of the Bank. Throughout the year 2011 neither the number of shares held by COIC nor its participation in the share capital and votes at the GSM of the Bank changed, and stood at 97,994,700 shares representing a 75% participation in the share capital and votes at the GSM.

The following diagram depicts the positioning of Bank Handlowy w Warszawie S.A. in the organizational structure of Citigroup:

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

Among shareholders participating in share capital of the Bank there are Open Pension Funds which, in accordance with public information about the structure of assets as at 30 December 2011, held a total of 14.8% of shares of the Bank, which was an increase of 1.9 p.p. against 31 December 2010.

Shareholding of Open Pension Funds in the Bank was as follows:

Shareholder	30.12.2011		31.12.2010	
	Number of shares and votes in GSM	Participation in total number of shares and votes in GSM	Number of shares and votes in GSM	Participation in total number of shares and votes in GSM
ING OFE	6,443,995	4.93%	6,250,302	4.78%
Aviva OFE	3,565,984	2.73%	5,128,417	3.93%
OFE PZU „Złota Jesień"	2,539,385	1.94%	1,757,779	1.35%
Amplico OFE	1,708,056	1.31%	1,213,944	0.93%
AXA OFE	982,310	0.75%	373,219	0.29%
Generali OFE	669,930	0.51%	260,965	0.20%
PKO BP Bankowy OFE	666,895	0.51%	n.a.	n.a.
Nordea OFE	633,839	0.49%	359,922	0.28%
Aegon OFE	601,776	0.46%	423,000	0.32%
Allianz Polska OFE	554,483	0.42%	393,414	0.30%
Pekao OFE	416,171	0.32%	212,100	0.16%
OFE Pocztylion	300,104	0.23%	229,118	0.18%
OFE Warta	210,644	0.16%	165,644	0.13%
Total	**19,293,572**	**14.77%**	**16,767,824**	**12.83%**

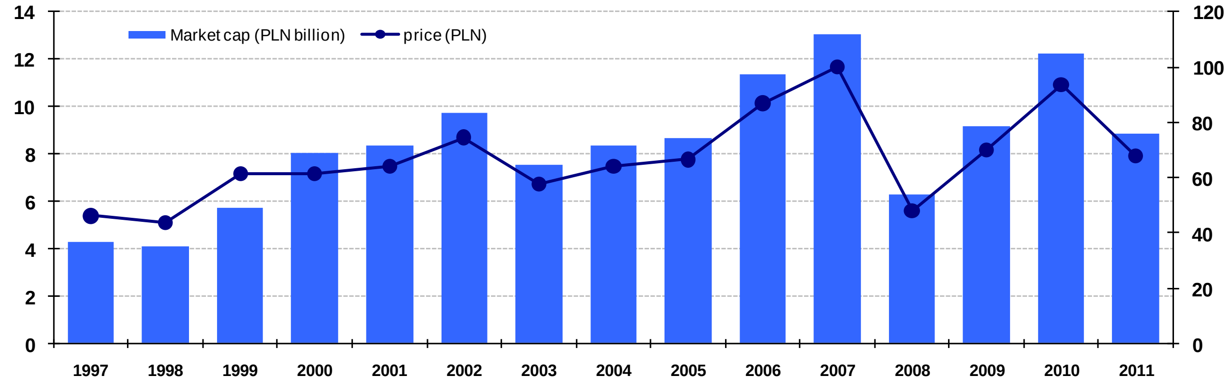
Source: Annual information about the structure of assets of Open Pension Funds; share closing price at the end of the period.

1.2 Performance of shares of the Bank on the Warsaw Stock Exchange

In 2011 fourteen years elapsed since Bank Handlowy w Warszawie S.A. had been floated on the WSE. In 2011 the Bank was included in the following indices: WIG, WIG20 (since 6 April 2011), WIG Banks and WIGdiv. In addition, the Bank was yet again included in the RESPECT Index, covering socially responsible companies listed in the WSE Main Market.

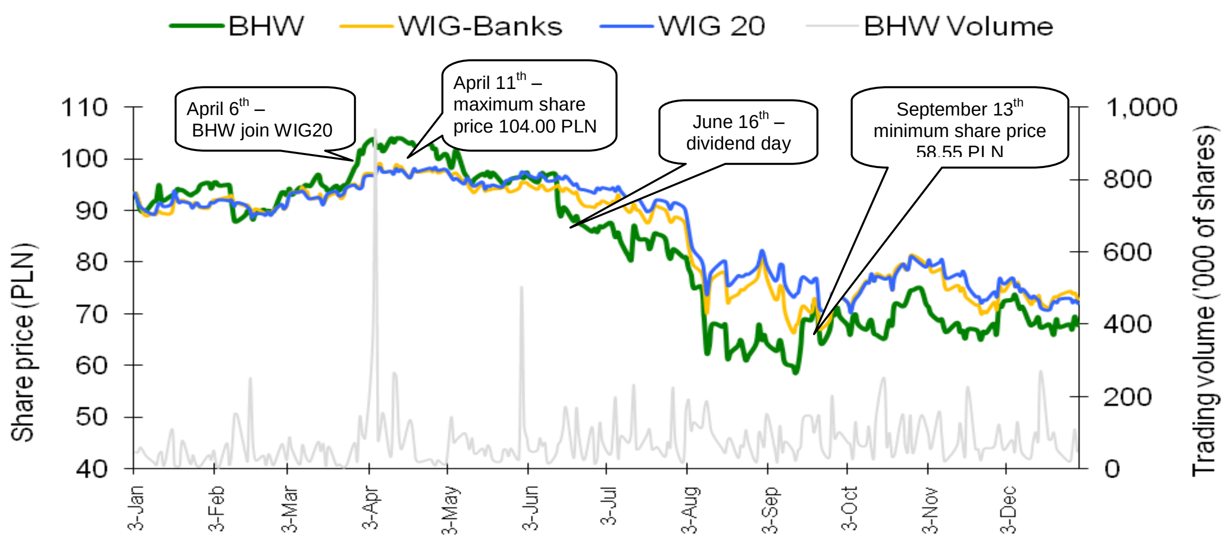
In 2011, the equity market was highly volatile in connection with the debt crisis in the eurozone and the economic slowdown. The 2011 situation on the WSE significantly affected the Bank's share prices. Similarly to the major WSE indices, shares of the Bank showed a two-digit decrease. The Bank's share price in the last session of 2011 (i.e. 30 December 2011) was PLN 67.9, which was a decline by 27% compared to the price as at 3 January 2011 of PLN 93.4. At the same time, WIG went down by 22%, and WIG-20 and WIG-Banks by 23% and 22%, respectively.

BHW market capitalisation and share price over the 14 years of trading on WSE



The capitalization of the Bank at the end of 2011 stood at PLN 8.9 billion (compared to PLN 12.2 billion at the end 2010). Its market price ratios were as follows: price to earnings (P/E) at 12.5 (18.5 in 2019); price to book value (P/BV) at 1.4 (1.9 in 2010).

Bank ("BHW") share price and trading volume vs. WIG-Banks and WIG20 market indices rebased (03/01/2011 = 93.4)



In the first half of 2011 the share price was relatively stable, slightly increasing. In April it reached its peak for 2011, i.e. PLN 104.0, which was the top price of the Bank's share since 4 June 2008, i.e. from the beginning of the global economic crunch.

The second half of 2011 begun with a rapid decline in the share price, which was caused by the deteriorating sentiments in the financial markets, mainly connected with investors' concerns about the economic situation of the eurozone countries. The declining trend came to a standstill in August and until mid-September the Bank's share price was very volatile. On 13 September 2011 it declined to its bottom for 2011, i.e. PLN 58.55 and began to climb in the next months to finally reach PLN 67.9 on 30 December 2011.

The average price of a Bank's share in 2011 was PLN 82.84 and average daily trade was nearly 80,000 shares.

2. Dividend

In 2011 the General Shareholders Meeting of Bank Handlowy w Warszawie S.A. resolved to allocate 99.91% of net profit for 2010 for dividends, translating to a dividend per share of PLN 5.72. Consequently, the Bank's dividend rate was the highest among the banks listed on the WSE and stood at to 7.1%.

The table below shows a history of dividends since 1997, i.e. since the floatation of the Bank on the WSE.

Year	Dividend (PLN)	Net profit per share (PLN)	Dividend per share (PLN)	Dividend pay-out ratio
1997	130,000,000	6.21	1.40	22.5%
1998	93,000,000	3.24	1.00	30.8%
1999	186,000,000	5.08	2.00	39.4%
2000	130,659,600	1.57	1.00	63.8%
2001	163,324,500	1.25	1.25	99.8%
2002	241,720,260	1.86	1.85	99.6%
2003	241,720,260	1.86	1.85	99.7%
2004	1,563,995,412	3.17	11.97	*)
2005	470,374,560	4.51	3.60	79.8%
2006	535,704,360	4.75	4.10	86.4%
2007	620,633,100	6.19	4.75	76.8%
2008**	-	4.94	-	-
2009	492,586,692	4.02	3.77	94.0%
2010	747,372,912	5.72	5.72	99.9%
2011***	360,620,496	5.52	2.76	50.0%

** Dividend-pay-our ratio for 2004 – 100% plus prior year profits*
*** On 18 June 2009 the Ordinary General Meeting of Shareholders of Bank Handlowy w Warszawie S.A. resolved no dividend for 2008*
**** As recommended by the Bank's Management Board on March 13, 2012.*

3. Rating

The Bank has a full rating of the international rating agencies Moody's Investors Service (Moody's) and Fitch Ratings (Fitch). Moreover, Standard & Poor's rating agency gives a rating which is not commissioned by the Bank, on the basis of publicly available information.

Fitch gave a full rating to the Bank on 22 September 2011. The rating was as follows: Long–term IDR: A, Short-term IDR: F1, viability rating (VR): bbb+, support rating: 1, which in the opinion of Fitch reflects high liquidity, stable structure of funding, strong capital position of the Bank as well as moderate credit risk appetite. At the same time the rating outlook is negative.

On 21 December 2011 Fitch downgraded its long-term rating from A to A- and short-term rating from F1 to F2. At the same time the aforesaid ratings and the support rating were removed from the Rating Watch Negative. Other ratings of the Bank remained unchanged, i.e. viability rating: bbb+ (not subject to revision), support rating affirmed at 1. The said revision was an effect of revision of ratings of Citigroup, the strategic shareholder of the Bank (the long-term rating was downgraded from A+ to A and short-term rating from F1+ to F1), in connection with downgrading of support rating floor from A+ to A, which Citigroup could obtain from the US government when needed. The aforesaid revision of Citigroup ratings was made on 15 December 2011.

At the end of 2011 the Bank had the following ratings awarded by Fitch:

Long–term IDR	A-
Short-term IDR	F2
Viability rating (VR)*	bbb+
Support rating	1

* *Viability rating* represents the Fitch's view as to the intrinsic creditworthiness of an issuer, excluding any impact of external factors.

The outlook for long-term IDR is stable.

In 2011 ratings given by Moody's did not change.

On February 21, 2012, Moody's placed the long-term and short-term local and foreign currency deposit ratings under review for downgrade from negative outlook. The Standalone Bank Financial Strength Rating (BFSR) has remained unchanged.

As at March, 19, 2012 the Bank had the following ratings awarded by Moody's:

	31.12.2011	19.03.2012
Rating for long term deposits in the domestic currency	Baa1	Baa1
Rating for long term deposits in foreign currencies	Baa1	Baa1
Rating for short term deposits in the domestic currency	Prime-2	Prime-2
Rating for short term deposits in foreign currencies	Prime-2	Prime-2
Financial condition	D+	D+
Financial strength rating outlook	*Negative*	*Negative*
Long term and short term deposits in the domestic and foreign currency rating	*Negative*	*Rating Under Review for Downgrade*

In 2011 the rating of Standard & Poor's (prepared on the basis of information available to the public) remained unchanged at BBBpi (affirmed on 13 December 2011).

4. Investor relations

An integral element of the Bank's information policy, intended to cater for information needs of all persons and institutions interested in corporate information, are investor relations, which ensure information to the existing and potential investors as well as the capital market analysts and rating agencies. In terms of investor relations, the main tools of the information policy are:

- systematic contacts with analysts and investors, in the form of teleconferences and meetings, also at the Bank's premises, attended by the members of the Management Board of the Bank;
- support of the Press Office during quarterly press conferences for the media, organized after publication of interim reports;
- publishing current information on the Bank and its projects as well as all current and interim reports on the website. The website also makes it possible to contact the Investor Relations Team, which has a broad knowledge of the Bank and the Capital Group;
- enabling the media to be present at the General Meeting of the Shareholders of the Bank.

Under its investor relations activities in 2011 the Bank organized four conferences for analysts and investors, on the subject of financial performance and business achievements of the Bank. Besides, members of the Management Board and representatives of the Investor Relations Team participated in regular meetings with investors and analysts (in the Bank's premises, in investor conferences and under the so called "non-deal" road shows). In 2011 the Bank attended a conference organized by Danske Bank, WSE and the Polish Embassy in Denmark, aimed at promoting the Polish capital market (*Poland – Investment Opportunities in one of the Largest and Fastest Growing Economies in Europe*).

The quality of investment relations of the Bank was appreciated in the Listed Company of the Year 2011 ranking, which has been organized for 13 years by "Puls Biznesu" and Pentor Research Institute. The "Investor Relations" category, in which the Bank was ranked on the 7th position, is one of the five categories evaluated in the ranking.

VII. Statements of Bank Handlowy w Warszawie S.A. on its application of corporate governance rules in 2011

1. Corporate governance rules applied by Bank Handlowy w Warszawie S.A.

It is the priority of Bank Handlowy w Warszawie S.A. ("Bank", "Company") to become the most respected financial institution in Poland, with a considerable sense of business and social responsibility. Since 2003 the Bank has been complying with corporate governance rules adopted by Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange, WSE) in the form of "Best Practices in Public Companies 2005" and as of 1 January 2008 in the form of "Best Practices for WSE Listed

Companies”. The key objective behind the adoption of corporate governance rules as a standard determining the Bank’s functioning has been to establish transparent relations among all corporate bodies and entities involved in the Company’s operation as well as to ensure that the Company and its enterprise are managed properly, with due diligence and loyally with respect to all shareholders. The willingness to ensure transparency of the operation of Bank Handlowy w Warszawie S.A., including in particular the relations and processes between the Company’s statutory bodies, led to the adoption of best practices as set forth in the “Best Practices for WSE Listed Companies” to be applied by the Bank. The aforementioned document is available on the website of the Warsaw Stock Exchange. By a resolution of 13 May 2008 adopted by the Management Board and a resolution of 20 May 2008 adopted by the Supervisory Board, the Bank’s governing bodies declared their willingness to comply with the corporate governance rules specified in the “Best Practices for WSE Listed Companies”, except for three rules not applicable to the Bank’s operations, and after one of them was repealed by the Warsaw Stock Exchange in 2010 – two rules that are not applicable to the Bank’s operation. Additionally, by a resolution of 20 July 2010 adopted by the Management Board and a resolution of 6 August 2010 adopted by the Supervisory Board, the Bank’s governing bodies agreed to comply with corporate governance rules specified in the “Best Practices for WSE Listed Companies”, amended by the resolution of 19 May 2010 adopted by the Board of the Warsaw Stock Exchange.

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

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

2. Corporate governance rules as per the “Best Practices for WSE Listed Companies”, which were not applied by the Bank in 2011

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

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

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

The Bank did not apply rules II.3 and III.9 incorporated in the “Best Practices for WSE Listed Companies” only with respect to related party agreements regarding ongoing operations, in particular those related to liquidity management.

Considering the nature and number of transactions entered into as part of ongoing operations, it is not possible to obtain the Supervisory Board’s approval of their conclusion from the perspective of the operating activity. Simultaneously, it should be emphasized that a report on the ongoing monitoring of the Bank’s operations is submitted to the Supervisory Board on a monthly basis, which includes among others information on related party transactions exceeding PLN 100,000.

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

In 2010 the Bank did not apply the recommendation concerning broadcasting the General Meeting sessions via the Internet due to the fact that it does not have a fragmented shareholding structure, and sessions take place at the company's registered office at convenient times. However, to make it possible to hold future General Meetings session with the use of electronic means of communication, on 12 September 2011 the General Meeting adopted a resolution on amendments to the Bank's Articles of Association allowing for holding General Meeting sessions with the use of that type of means of communication.

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

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

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

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

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

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

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

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

4. Significant shareholdings

The Bank's shareholder holding a significant block of the Bank's shares is Citibank Overseas Investment Corporation (COIC) – a subsidiary of Citibank N.A. that holds 97,994,700 shares, which accounts for 75% of the Bank's share capital. The number of votes corresponding to COIC's shareholding is 97,994,700, which accounts for 75% of the total number of votes at the Bank's General Meeting.

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

The restrictions result from Article 25 of the Banking Act – an entity which intends to purchase or acquire – directly or indirectly – shares, or rights attached to shares, of a domestic bank in an amount that ensures reaching or exceeding the thresholds of 10%, 20%, one-third, 50% of the total number of votes at the General Meeting or interest in the share capital, respectively, is obliged to notify each time the Polish Financial Supervision Authority of its intention. An entity which intends to become, directly or indirectly, a parent company of a domestic bank in a manner other than by purchasing or acquiring shares, or rights attached to shares, of a domestic bank in an amount that ensures a majority of the total number of votes at the General Meeting is obliged to notify each time the Polish Financial Supervision Authority of its intention. The Bank's Articles of Association do not provide for any other restrictions as regards the transfer of its shares.

5. Rules governing the appointment and dismissal of Members of the Management Board and their powers

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

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

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

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

1) determines the strategy of the Company;
2) establishes and liquidates the Company's committees and determines their competences;
3) develops its regulations and submits them to the Supervisory Board for approval;
4) develops regulations regarding the management of special funds created from the net profit and submits them to the Supervisory Board for approval;
5) determines dividend payment dates within the deadlines specified by the General Meeting;
6) appoints proxies, general attorneys and general attorneys with the right of substitution;
7) decides on matters specified in the regulations of the Management Board;
8) resolves issues raised by the President, Vice-President or a member of the Management Board;
9) takes independent decisions regarding acquisition and disposal of real properties, perpetual usufruct or share in a real property;
10) adopts a draft of the Company's annual financial plan, accepts investment plans and reports on their implementation;

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

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

President of the Management Board:

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

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

6. Amendments to the Articles of Association

The General Meeting is authorized to introduce amendments to the Bank's Articles of Association. Any changes to the Articles of Associations must be entered in the register. Pursuant to Article 34.2 of the Banking Act of 29 August 1997, any amendments to the Bank's Articles of Association require permission of the Polish Financial Supervision Authority, if they pertain to:

1) the Bank's name;

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

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

7.1 General Meeting procedure

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

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

of votes at the General Meeting of Shareholders. Motions concerning such issues should be justified in a detailed way.

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

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

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

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

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

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

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

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

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

General Meetings may be attended by the media.

7.2 Fundamental powers of the General Meeting

The General Meeting should be convened to:

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

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

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

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

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

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

7.3 Shareholders' rights and their exercise method

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

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

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

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

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

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

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

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

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

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

The governing bodies of the Company do not limit the information but at the same time they comply with the provisions of the Act on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organized Trading and Public Companies, the Act on Trading in Financial Instruments, the Regulation on current and periodical reporting by issuers of securities, the conditions under which the legally required information originating in a non-member state can be deemed equivalent thereof, as well as the provisions of the Code of Commercial Companies.

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

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

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

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

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

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

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

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

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

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

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

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

8.1 Management Board

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

As at the day of signing the Report on Activities, the composition of the Company's Management Board was as follows:

Member of the Management Board	Professional experience
Sławomir S. Sikora *President of the Management Board*	Sławomir S. Sikora is a graduate of the Warsaw School of Economics. Between 1990-1994 he served in the Polish Ministry of Finance as the Head of the Banking and Financial Institutions Department. Between 1994-2001 he worked for Powszechny Bank Kredytowy S.A. (PBK) as Deputy President of the Management Board of PBK, responsible for Corporate and Investment Banking. Between 2001 and 2003 he was the President of the Management Board of AmerBank. Sławomir S. Sikora was appointed President of the Management Board of Bank Handlowy w Warszawie S.A. on 2 July 2003. He is the Head of Corporate Bank. He has additionally Senior Credit Officer authorities. Since March 2005 he has been holding the office of Chief Executive Officer and Citigroup Country Officer, and has been responsible for overall operations of Citigroup in Poland. In December 2005 he joined the Citigroup Management Committee. He is also a member of the Supervisory Board of the Polish Banks Association and the Management Board of Polish Confederation of Private Employers Lewiatan.
Robert Daniel Massey Jr. *Vice-President of the Management Board*	Robert Daniel Massey Jr. graduated from Randolph-Macon College, Georgia State University and New York University, having majored in Corporate Finance. He has over 30 years' experience in banking and risk management. In 1975, he started working as a Senior Corporate Banking Executive at Citibank, where he gained extensive experience in corporate finance and credit portfolio management. Next, he served as President and Chief Operating Officer of AMBAC, a municipal bond insurance firm. Later, Mr. Massey became Executive Vice President for Fleet Bank, responsible for the commercial credit process in the State of New York. In 1996 he rejoined Citigroup and held the following offices: Executive Director of Credit Risk Management at Citibank Mexico, Senior Risk Officer for Citigroup's Corporate and Investment Bank in Asia Pacific, Manager responsible for Portfolio Management of Citigroup's credit exposures in Global Technology, Media and Telecommunications, Shipping and Logistics and European

Member of the Management Board	Professional experience
	Leveraged Finance, and Managing Director in Citigroup's Global Corporate and Investment Bank in New York. In December 2006 he joined Guangdong Development Bank, where he served as Chief Risk Officer and Vice-President of Guangdong Development Bank. He has been the Head of the Risk Management Sector at Bank Handlowy since May 2010. Robert Daniel Massey Jr. was appointed Vice-President of the Management Board of Bank Handlowy w Warszawie S.A. on 26 May 2010.
Misbah Ur-Rahman-Shah *Vice-President of the Management Board*	Misbah Ur-Rahman-Shah holds a degree in Commerce from Govt. College of Commerce and Economics Karachi. He has been with the Polish banking business since 1992, when he became head of Treasury of Citibank (Poland) S.A. Between 1996 and 1998 he was the head of Strategy & Management Processes for CEECA. His main responsibilities included strategy implementation in the Corporate Bank. During 1998-2002, as Member of the Management Board of Saudi American Bank (SAMBA), U.K., he was responsible for the treasury business. Between 2002 and 2004, he managed the Sales & Trading Business in the Central and Eastern Europe, Russia and CIS. On 12 September 2008 he was appointed Member of the Supervisory Board of Dom Maklerski Banku Handlowego w Warszawie S.A. and then in 2011 as the Chairman of this Supervisory Board. Since 2004 he has been the Head of the Treasury Division of Bank Handlowy and currently also Head of Market Business for Central & Eastern Europe. Misbah Ur-Rahman-Shah was appointed Vice-President of the Management Board of Bank Handlowy w Warszawie S.A. on 15 March 2011.
Sonia Wędrychowicz - Horbatowska *Vice-President of the Management Board*	Sonia Wędrychowicz-Horbatowska holds a Master's degree in Foreign Trade from the Warsaw School of Economics and a BA in European Business Studies from Brunel University in London. She started her work in Citibank Poland in 1994 in Cash Management of Transaction Services Division. In 2002 she became the Head of Cash and Trade, and was given the additional responsibility in Security Services in 2003. Later that year, she became Global Transaction Services Head. She has been the Head of the Consumer Bank since 2006. Sonia Wędrychowicz-Horbatowska was appointed Vice-President of the Management Board of Bank Handlowy w Warszawie S.A. on 26 September 2006.
Witold Zieliński *Vice-President of the Management Board*	Witold Zieliński holds a master's degree and graduated from post-graduate studies in International Law at the University of Warsaw. He started his career in 1980 in Bank Handlowy w Warszawie S.A. in the Southern European Department in the Foreign Loans Division. Between 1986 and 1990 he worked for the Polish Commercial Office in New York. In 1991 Witold Zieliński joined Citibank (Poland) S.A. In the years 1992-1995 he was a Member of the Management Board, then he worked for Citibank N.A. London Branch, where he was responsible for the sales of global products and customer risk assessment in Southern and Eastern European markets. In 1998 he set up a representative office of Citibank NA in Kiev and then established a fully licensed Citibank Ukraine, which he ran as President of the Management Board until the end of 2003. Between 2004 and 2005 he was the President of the Management Board of Citibank Romania. Witold Zieliński was appointed Vice-President of the Management Board of Bank Handlowy w Warszawie S.A. on 1 January 2006. He is also the Chief Financial Officer and Head of the Management and Support Sector. He has additionally Senior Credit Officer authorities.
Iwona Dudzińska *Member of the Management Board*	Iwona Dudzińska holds MA in Economics and is a senior executive with 15 year's experience in management of strategic projects and complex operation and technology processes. She has been with Citigroup since 1999 – first as Senior Branch Operations Officer Citibank (Poland) S.A. responsible for management of documentary operations, local and foreign clearings, money market operations and the bank's administrative functions. She was also in charge of Corporate Clients Department.

Member of the Management Board	Professional experience
	Between 2001 and 2004 she managed Centralized Operations Division of Corporate and Commercial Bank. From April 2004 to July 2008, as the Managing Director, she was the Head of Operations and Technology of Corporate and Investment Bank. As the Head of Operations and Technology Sub-Sector she has been responsible for all operation and technology activities in Bank since July 2008. Iwona Dudzińska was appointed Member of the Management Board of Bank Handlowy w Warszawie S.A. on 18 September 2009 for a three-year term of office. She is also the Head of Operations and Technology Sub-Sector.

In 2011 Michał H. Mrożek was a Vice-President of the Management Board. He resigned from that office as of 28 February 2011.

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

The Regulations of the Management Board of the Bank set forth the scope, rules of procedure of the Management Board as well as the procedure for the adoption of resolutions.

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

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

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

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

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

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

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

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

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

1) agenda;
2) first and last names of attendees;
3) information on excused absence or reasons for the absence of members of the Management Board from a meeting;

4) texts of resolutions adopted;
5) number of votes cast for a particular resolution and dissenting opinions;
6) name of the entity or organizational unit or first and last name of the person in charge of implementation of the resolution; and
7) resolution implementation deadline.

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

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

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

8.2 The Supervisory Board

The Supervisory Board of the Company is composed of five to twelve members, each of whom is appointed by the General Meeting for a term of three years. In accordance with Article 14.2 of the Articles of Association, by Resolution No. 6 of 5 December 2006 the Extraordinary General Meeting of the Bank resolved that the minimum number of members of the Supervisory Board is 8. At least half of the members of the Supervisory Board should be of Polish nationality.

As at the day of signing present Report on Activities, the composition of the Company's Supervisory Board was as follows:

Member of the Supervisory Board	Professional experience
Stanisław Sołtysiński *Chairman of the Supervisory Board*	Stanisław Sołtysiński, Professor of Law, is affiliated with the Adam Mickiewicz University in Poznań (where he used to be the Dean of the Faculty of Law and Administration) and has been a recurring visiting professor at the Pennsylvania University, the Law School in Philadelphia, and the College of Europe in Brugge, the Max Planck Institute in Munich and the International Law Academy in the Hague. He is a member of many associations and scientific organizations. Among others, he is a corresponding member of the Polish Academy of Arts and Sciences and a member of the Board of Directors of UNIDROIT. He is a co-author of the Code of Commercial Companies. Prof. Sołtysiński is also engaged in private law practice as a partner in a law firm "Sołtysiński, Kawecki i Szlęzak - Legal Advisors" limited partnership. Prof. Sołtysiński was appointed member of the Supervisory Board of Bank Handlowy w Warszawie S.A. on 26 March 1997 and since 30 June 2000 he has been the Chairman of the Supervisory Board.
Shirish Apte *Vice-Chairman of the Supervisory Board*	Shirish Apte is a Chartered Accountant from the Institute of Chartered Accountants in England and has an MBA diploma from the London Business School. He has more than 26 year's experience with Citi, starting with Citibank India. He has held various assignments in corporate banking, risk management, corporate finance and investment banking. He moved to London in 1993 as one of senior Risk Managers. Then he was appointed Corporate Finance Head for CEEMEA. He has also held the positions of

Member of the Supervisory Board	Professional experience
	Country Manager in Poland, Vice-President of Bank Handlowy w Warszawie S.A. and CEO of Central & Eastern Europe. Until 2011 he was CEO of South Asia in Citi Asia Pacific. Presently he is joint Chief Executive Officer of Asia Pacific Banking responsible for Citi customer services in Southeast Asia. Shirish Apte has been a Vice-Chairman of the Supervisory Board of Bank Handlowy w Warszawie SA. since 25 June 2003.
Andrzej Olechowski *Vice-Chairman of the Supervisory Board*	Andrzej Olechowski holds a Ph.D. degree in Economic Sciences. He is the author of numerous publications on international trade and foreign policy. He was the Department Head at the Foreign Trade Research Institute (in the years 1978-1982) and a lecturer at the Catholic Theology Academy, Collegium Civitas and the Jagiellonian University. At present, Andrzej Olechowski is a member of supervisory boards or advisory committees in Euronet, Layetana Developments Polska, MCI Management S.A., ACE, Citigroup Europe, and Macquarie European Infrastructure Fund. Previously, he was the Minister of Finance and the Minister of Foreign Affairs of the Republic of Poland. He was also a candidate for the office of President of the Republic of Poland. He is a member of a number of non-governmental organizations, among others, the European Vice-Chairman of the Trilateral Commission. In the years 1991-1996 and 1998-2000 Andrzej Olechowski served as Chairman of the Supervisory Board of Bank Handlowy w Warszawie S.A. He was reappointed to the Supervisory Board on 25 June 2003.
Igor Chalupec *Member of the Supervisory Board*	Igor Chalupec is a graduate of the Faculty of Foreign Trade at the Warsaw School of Economics (formerly: Main School of Planning and Statistics) and the Faculty of Law and Administration at the Warsaw University. He is a licensed broker of securities. In the years 1991-1995 he founded and then managed Centralne Biuro Maklerskie Banku Pekao SA. Between 1995 and 2000 he was a Member, and then until 2003, Vice-President of the Management Board of Pekao SA, responsible for corporate and investment banking, treasury and custody services as well as asset management. In the years 2003-2004 he was Under-Secretary of State in the Ministry of Finance responsible for e.g. European affairs, financial markets and financial information. At the same time he was Vice-Chairperson of the Commission for the Insurance and Bank Supervision. From October 2004 to January 2007 he was the President of the Management Board and CEO of Polski Koncern Naftowy ORLEN. Presently, he is a member of the supervisory boards of PZU Życie SA and Budimex SA, a member of the Program Council of the Economic Forum in Krynica, the Executive Partner and President of the Management Board of ICENTIS Sp. z o.o. Corporate Solutions S. K-A and ICENTIS Capital Sp. z o.o. Igor Chalupec has been a Member of the Supervisory Board of Bank Handlowy w Warszawie SA since 18 June 2009.
Mirosław Gryszka *Member of the Supervisory Board*	Mirosław Gryszka is a graduate of Gdańsk Technical University. Since 1990 he has held managerial positions in Asea Brown Boveri Group and since 1997 he has been the President of ABB Sp. z o.o. and Country Manager of ABB Group in Poland. Mirosław Gryszka has been a Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 30 June 2000.
Marc Luet *Member of the Supervisory Board*	Marc Luet is a graduate of the Institut d'Etudes Politiques de Paris and holds BSc in Economics from the Panthéon Sorbonne University and MBA from the Tuck School of Business Administration at Dartmouth College. Between 1990 and 2002 he was the Consumer Business Manager for Hungary and Belgium at Citigroup, in the years 2002-2005 he was the CEO at Egg France and until 2008 he was the CEO of Consumer Finance & Retail International at Fortis Group. During 2008-2010 Mr Luet was VISA President for CEMEA. Since June 2010 he has been the Chief Executive Officer of Consumer for Europe, Middle East and Africa (EMEA), where he

Member of the Supervisory Board	Professional experience
	oversees consumer banking, wealth management and credit cards businesses, and is responsible for the Internet and mobile banking strategy. Marc Luet has been a Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 1 June 2011.
Frank Mannion *Member of the Supervisory Board*	Frank Mannion has a Commerce Degree from the National University of Ireland in Galway and is a Chartered Accountant. He began his career in Ireland before moving to London to join PricewaterhouseCoopers. He joined Citi in 1989 in the Planning and Analysis Team in the UK. He has held various finance positions, including Technology Finance Manager and Head of CMB EMEA Product Control. Presently, he is the Citi Regional Franchise Controller for Europe, Middle East and Africa (EMEA), responsible for, among others, product control, controllers and regulatory reporting across the Region. Frank Mannion has been a Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 28 June 2010.
Dariusz Mioduski *Member of the Supervisory Board*	Dariusz Mioduski graduated from the Harvard Law School in 1990 and was awarded Bachelor of Arts degree from the University of St. Thomas in Houston in 1987. Chief Executive Officer and President of the Management Board of Kulczyk Investments S.A. and Kulczyk Holding S.A. Prior to becoming the CEO of Kulczyk Investments in 2007, he was the Executive Partner at CMS Cameron McKenna in Warsaw, responsible for energy and infrastructure practice. He spent four years in the New York and Warsaw offices of White & Case LLP and before that he was with Vinson & Elkins LLP in Houston. Mr Mioduski is a member of the Board of the Central Europe Energy Partners Association, Vice President of the Harvard Club of Poland and Vice President of the Polish Business Roundtable. He is also a member of the Polish Chapter of the Young President' Organization (YPO). Dariusz Mioduski is also a member of the Board of Directors of several public and non-public companies including Kulczyk Oil Ventures Inc., Autostrada Wielkopolska S.A., Aurelian Oil & Gas Corp. and KI Energy S.a r.l. Dariusz Mioduski has been a Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 12 September 2011.
Krzysztof Opolski *Member of the Supervisory Board*	Krzysztof Opolski was awarded Master's degree in Pedagogy and Psychology from the Warsaw University in 1971. In 1990 he received an academic title of Assistant Professor (Habilitation degree) in Economic Sciences and in 2003 he rose to the rank of Full Professor (Professor Ordinarius) of Economic Sciences. Since 1972 he has worked at the Warsaw University. In 1980-1982 he was a Deputy Dean at the Warsaw University's Faculty of Economic Sciences and in 1994 he became Senior Assistant Professor (Professor Extraodrinarius) at the Banking and Finance Department. Since 2006 he has been the Head of Strategy and Economic Politics Department. His career extends outside the Warsaw University, starting with the Institute of Science Policy and Higher Education, where he served as a Research Secretary in the years 1971-1989. Between 1991 and 1998 he was the Managing Director and President of the Management Board of OLYMPUS Centrum Edukacji i Rozwoju Biznesu S.A. In the years 1995-1997, he was a Member of the Supervisory Board of RUCH SA and from 1996 to 1999 he worked as Deputy Dean at the Higher School of Banking, Finance and Management in Warsaw. Between 1997 and 2000 he took on his role as an expert consultant in the Employment and Remuneration Policy Department at Powszechna Kasa Oszczędności BP S.A. From 2002 to 2005 he was a Member of the Supervisory Board of RUCH S.A. and between 2003 and 2005 he served as Quality Consultant at W. Orłowski Clinical Hospital. Professor Opolski was a Quality Consultant in the Marshal's Office of the Mazowieckie Voivodeship. He is an editor-in-chief of the *Ekonomia* magazine and in the years 2005-2006 he was a member of the team of economic advisors to the Prime Minister of the Republic of Poland. A

Member of the Supervisory Board	Professional experience
	member of Consortium for Higher Education Researchers (CHER) in Kassel, RN Axa Polska and Centrum Giełdowe S.A. w Warszawie, a member of advisor team to Chief Police Officer, a member of the chapter of the *Teraz Polska* competition, a member of the New Connect Advisory Committee at WSE and WSE Council for Information Order in Warsaw. At present, in addition to his Warsaw University position (since August 2009), he is the Head of Team of Advisors to the President of the National Bank of Poland. Krzysztof Opolski was a Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. in the years 2006-2009. On 28 June 2010 he was reappointed to the Supervisory Board.
Stephen Simcock *Member of the Supervisory Board*	Stephen Simcock graduated from the Colby College in Waterville, Maine with a degree in French literature in 1984 and received his JD degree from the Washington and Lee University, School of Law in 1988. He started his career with Semmes, Bowen & Semmes in Baltimore, where he worked in the corporate, financial institutions and professional services departments. He joined Citigroup as General Counsel of Citimortgage, Inc. in November 2002. Next, he was the General Counsel to the Commercial Businesses Group, General Counsel in the North American Retail Bank, General Counsel to Ajay Banga's North American Retail Bank, General Counsel of GCG International and General Counsel for Global Wealth Management Consumer Bank in EMEA. Currently, he serves as the General Counsel for the Global Consumer Group (GCG) and Deputy General Counsel for Citigroup, Inc. Stephen Simcock has been a Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 18 June 2009.
Alberto J. Verme *Member of the Supervisory Board*	Alberto J. Verme obtained a BA degree in Economics from Denison University in 1979 and an MBA from Columbia Business School in 1984. He began his career at The World Bank in 1979. Then he worked for The First Boston Corporation as the Director for Spain (1990-1992) and Head of Emerging Markets (1988-1990). Between 1992 and 1994 he worked for Metallgesellschaft AG as President of MG Global Capital in London. He joined Salomon Brothers in 1994 and held an office of the Head and later the Chairman of Citi's Latin America Investment Banking Group. In the period from 2001 to 2004, he was a Co-Head of Global Energy, Power and Chemicals Investment Banking, then Co-Head of the Global Investment Banking and a member of the Institutional Clients Group Management Committee as well as the Investment Banking Operating Committee. Until the end of 2011, he was CEO for EMEA (Europe, Middle East and Africa) and presently he is the CEO of EMEA Banking and a member of the Senior Leadership Committee. Alberto J. Verme has been a Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 20 November 2009.
Stephen R. Volk *Member of the Supervisory Board*	Stephen R. Volk graduated from the Dartmouth College and Harvard Law School. He joined Shearman & Sterling, a New York-based law firm, in 1960 and became a Partner of this company in 1968 and a Senior Partner in 1991. In 2001 he joined Credit Suisse First Boston. His professional experience with Citigroup began in September 2004. Presently he is a Vice-Chairman of Citigroup Inc. and responsible for Citigroup Senior Management matters as well as Investment Banking. He is also a member of the Citigroup Executive Committee. Stephen R. Volk has been a Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 20 November 2009.

In 2011 members of the Supervisory Board were also Sanjeeb Chaudhuri (who resigned as of 14 April 2011) and Wiesław Smulski (who resigned as of 14 July 2011).

The Supervisory Board is composed also of independent members, including the Chairman of the Supervisory Board.

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

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

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

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

   a) the Regulations of the Management Board of the Company;

   b) regulations for management of special funds created from the net profit;

   as adopted by the Management Board of the Company;
6) granting prior consent to undertaking measures with respect to management of the Company's fixed assets with value exceeding 1/10 of the Company's share capital;
7) appointment of the Company's statutory auditor;
8) granting consent to employment and dismissal of the Head of the Audit and Risk Review Department upon the motion of the Management Board and supervision over operations of the Department;
9) any performances made by the Company and its related parties for the benefit of members of the Management Board as well as granting consent to entering into a material agreement by the Company or its subsidiary with the Company's related party, member of the Supervisory Board or Management Board as well as their related parties;
10) supervision over implementation and monitoring of the Bank's management system, including in particular supervision over non-compliance risk management, as well as evaluation, at least once a year, of adequacy and efficiency of this system;
11) approval of the Bank's operational strategy and the principles for prudent and stable management of the Bank;
12) approval of the fundamental organizational structure of the Bank, adjusted to the size and profile of incurred risk and determined by the Bank's Management Board;
13) acceptance of the general level of the Bank's risk;
14) approval of the principles of the Bank's policy regarding the non-compliance risk;
15) approval of the Bank's internal procedures concerning the processes of assessment of internal capital, capital management and capital planning;
16) approval of the Bank's information policy;
17) approval of the internal control procedure.

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

Members of the Supervisory Board perform their duties in person. The Supervisory Board performs its duties collectively; each member of the Supervisory Board has the right to be provided by the Management Board with information required for due performance of their duties. Meetings of the

Supervisory Board are held at least once a quarter. Such meetings are convened by Chairman of the Supervisory Board, and in his/her absence – by one of Vice-Chairmen of the Supervisory Board on their own initiative, upon the motion of a member of the Supervisory Board or upon the motion of the Management Board of the Company. The Chairman of the Supervisory Board may determine fixed dates of the Supervisory Board's meetings. Notices convening such meetings, including the agenda and materials to be debated upon, are distributed by the Secretary of the Supervisory Board to members of the Supervisory Board at least 7 (seven) days prior to the date of the meeting.

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

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

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

Meetings of the Supervisory Board are chaired by the Chairman of the Supervisory Board and in his/her absence – by one of the Vice-Chairmen of the Supervisory Board. If both the Chairman and Vice-Chairman are absent – the meeting is chaired by a member of the Supervisory Board elected by the remaining members.

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

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

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

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

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

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

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

Supervisory Board Committees

Standing Committees of the Supervisory Board include:

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

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

In line with the aforementioned procedure, in 2003 the Supervisory Board appointed the **Strategy and Management Committee** responsible for ongoing analyses of all issues related to the activities performed by the Bank's corporate bodies as well as streamlining their functioning. The Committee is composed of: Shirish Apte acting as the Chairman, Andrzej Olechowski and Alberto J. Verme acting as the Vice-Chairmen and Igor Chalupec, Mirosław Gryszka, Stanisław Sołtysiński and Stephen R. Volk acting as Committee members. Until 14 April 2011 Sanjeeb Chaudhuri was a member of the Committee. The Committee meets as convened by the Chairman.

Audit Committee

The Audit Committee is composed of:

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

Until 14 July 2011 Wiesław Smulski was a member of the Committee.

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

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

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

The Audit Committee should consist of at least two independent members, one of whom performs the function of the Committee Chairman. At least one member of the Committee should meet the independence requirements referred to in Article 56.3.1, 56.3.3 and 56.3.5 of the Act on auditors, their self-government and the entities authorized to audit financial statements and public supervision, as well as hold qualifications within the field of accounting or financial auditing.

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

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

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

At least on an annual basis the Audit Committee meets:

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

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

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

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

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

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

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

Upon consultation with the Deputy Chairman of the Committee, the Chairman may decide on considering a matter by circulation.

Remuneration Committee

The Remuneration Committee is composed of:

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

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

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

The powers and responsibilities of the Remuneration Committee include:

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

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

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

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

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

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

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

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

Risk and Capital Committee

The Risk and Capital Committee is composed of:

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

Until 14 April 2011 Sanjeeb Chaudhuri was a member of the Committee.

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

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

The Committee consists of at least four members of the Supervisory Board, one of whom performs the function of the Committee's Chairman. For the resolutions adopted by the Committee to be valid, at least three members must participate in the meeting.

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

Meetings of the Committee are held at least on a semi-annual basis at dates determined by the Committee Chairman upon consultation with the Deputy Chairman of the Committee.

A notice convening the meeting, including the agenda and materials subject to discussion is distributed to members of the Committee by the Secretary of the Committee (this role is performed by the Secretary of the Supervisory Board). The notice should include the agenda as well as materials related to the matters discussed at the meeting. The agenda of the Committee includes standing items as well as issues considered upon motion. The Supervisory Board, individual Committee members as well as the remaining members of the Supervisory Board have the right to propose issues to be considered at the Committee's meetings.

All members of the Committee are obliged to participate in its meetings.

The Committee has the right to consult advisors and invite the Bank's employees or other parties to its meetings to discuss or examine the issues considered by the Committee.

Parties invited by the Committee Chairman or Deputy Chairman may participate in the meeting or its relevant part.

Committee meetings are chaired by the Chairman of the Committee. In the Chairman's absence, the meetings are chaired by the Deputy Chairman.

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

Minutes are taken from the Committee meetings.

VIII. Authorities of Bank Handlowy w Warszawie S.A. and other corporate governance rules

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

The total amount of salaries, awards and benefits for 2011 paid to the current and former members of the Bank Management Board till the day of 2011 financial statements approval:

PLN '000	Salaries, awards and short term benefits		Capital assets granted
	Base salaries and awards	Other benefits	
Sławomir S. Sikora	3,025	236	580
Robert Daniel Massey JR	1,716	21	37
Misbah Ur-Rahman-Shah	2,163	941	349

PLN '000	Salaries, awards and short term benefits		Capital assets granted
	Base salaries and awards	**Other benefits**	
Sonia Wędrychowicz-Horbatowska	1,560	120	157
Witold Zieliński	1,405	102	128
Iwona Dudzińska	1,477	110	141
Former members of the Bank Management Board:			
Michał H. Mrożek(1)	253	4	147
Peter Rossiter (2)	-	22	22
	11,599	**1,556**	**1,561**

(1) until 28 February 2011
(2) until 31 October 2009

"Base salaries and awards" include gross base salary as well as awards granted in respect of 2011 paid till the day of 2011 financial statements approval.

After the 2010 financial statements were approved the awards in respect of 2010 were paid for Misbah Ur-Rahman-Shah in amount of PLN 3 574 thousand and for Robert Daniel Massey JR in amount of PLN 525 thousand.

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

"Capital assets granted" include Citigroup shares granted in the previous years and distributed in 2011 as well as value of options on Citigroup common stock for which exercise rights were granted in 2011.

The total amount of salaries, awards and benefits in respect of 2010 paid to the current and former members of the Bank Management Board till the day of 2010 financial statements approval:

PLN '000	Salaries, awards and short term benefits		Capital assets granted
	Base salaries and awards	**Other benefits**	
Sławomir S. Sikora	3,517	193	234
Robert Daniel Massey JR	1,144	100	-
Michał H. Mrożek	1,575	13	64
Sonia Wędrychowicz-Horbatowska	1,666	97	59
Witold Zieliński	1,471	81	53
Iwona Dudzińska	1,514	41	58
Former members of the Bank Management Board:			
Peter Rossiter (1)	-	169	-
Edward Wess (2)	-	9	-
	10,887	**703**	**468**

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

"Base salaries and awards" include gross base salary as well as the awards in respect of 2010 paid till the day of 2010 financial statements approval.

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

"Capital assets granted" include Citigroup shares granted in the previous years and distributed in 2010 as well as value of options on Citigroup common stock for which exercise rights were granted in 2010.

The total amount of salaries, awards and benefits paid to the current and former members of the Bank Supervisory Board in respect of the year 2011 and 2010:

PLN '000	**2011**	**2010**
Stanisław Sołtysiński	240	240
Andrzej Olechowski	216	183
Igor Chalupec	168	168
Mirosław Gryszka	168	168
Dariusz Mioduski	16	-
Krzysztof L. Opolski	120	45
Former members of the Bank Supervisory Board:		
Wiesław Smulski	75	120
	1,003	**924**

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

The total number and nominal value of the Bank shares and shares in affiliated companies of the Bank held by members of the Management Board and the Supervisory Board as at 31 December 2011 is presented below in the table:

	Shares of Bank Handlowy w Warszawie S.A.		Shares of Citigroup Inc.	
	Shares number (units)	Nominal value (in PLN)	Shares number (units)	Nominal value (in PLN)
Management Board				
Sławomir S. Sikora	-	-	7,779	266
Robert Daniel Massey JR	-	-	1,719	59
Iwona Dudzińska	600	2,400	9,611	328
Supervisory Board				
Stanisław Sołtysiński	-	-	253,400	8,660
Andrzej Olechowski	1,200	4,800	-	-
Marc Luet	-	-	39,190	1,339
Frank Mannion	-	-	11,076	379
Stephen Simcock	-	-	5,153	176
Alberto J. Verme	-	-	597,646	20,424
Stephen R. Volk	-	-	13,858	474

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

	Shares of Bank Handlowy w Warszawie S.A.		Shares of Citigroup Inc.	
	Shares number (units)	Nominal value (in PLN)	Shares number (units)	Nominal value (in PLN)
Management Board				
Sławomir S. Sikora	-	-	44,460	1,318

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

As at 31 December 2011 and 31 December 2010 no member of the Management Board and Supervisor Board was a shareholder of an affiliated company of the Bank.

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

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

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

4. Corporate governance rules

In 2011 the corporate government rules did not change. The rules are presented in the additional information to the financial statements of the Bank.

IX. Agreements concluded with the registered audit company

On 15 March 2011, the Supervisory Board of the Bank appointed a auditor – KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp.k. (KPMG) having its registered office in Warsaw at ul. Chłodna 51, a registered audit company No. 3546, to conduct an audit and a review of financial statements of the Bank and the Capital Group of the Bank for 2011. KPMG was selected in compliance with the applicable laws and auditing standards.

KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp.k. also conducted and audit of financial statements of the Bank and the Capital Group of the Bank for 2010. The review of the financial statements of the Bank and the Capital Group of the Bank for 2010 was commissioned to KPMG Audyt Sp. z o.o.

The contractual net fees (paid or payable) for the years 2011 and 2010 are presented in the table below:

PLN '000	For	2011	2010

Audit fees (1)	607	607
Review fees (2)	255	255
Other assurance fees (3)	163	291
	1,025	**1,153**

(1) The contract fees for the audit include fees paid or payable for audit of the annual standalone financial statements of the Bank and annual consolidated financial statements of the Capital Group of the Bank (the agreement relating to the year 2011 signed on 28 November 2011).

(2) The contract fees for the review include fees paid or payable for review of semi-annual standalone financial statements of the Bank and semi-annual consolidated financial statements of the Capital Group of the Bank (the agreement relating to the year 2011 signed on 9 June 2011).

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

X. Statement of the Bank's Management Board

Accuracy and fairness of the statements presented

To the best knowledge of the Bank's Management Board, which members are: Mr. Sławomir S. Sikora – President of the Management Board, Mr. Robert Daniel Massey JR – Vice-President of the Management Board, Mr. Misbah Ur-Rahman-Shah – Vice-President of the Management Board, Mrs. Sonia Wędrychowicz-Horbatowska – Vice-President of the Management Board, Mr. Witold Zieliński – Vice-President of the Management Board and Mrs. Iwona Dudzińska – Vice-President of the Management Board, the annual financial data and the comparative data presented in the "The Annual Stand-Alone Financial Statements of Bank Handlowy w Warszawie S.A. for the year ended 31 December 2011" were prepared consistently with the accounting standards in force and reflect the accurate, true and fair view of assets and financial position as well as the financial profit or loss of the Bank. "The Annual Report on Activities of Bank Handlowy w Warszawie S.A. for 2011" contained in the annual financial statements is a true representation of the development, achievements and situation (together with a description of the main kind risks) of the Bank in 2011.

Selection of the auditor authorized to examine financial statements

The entity authorized to audit financial statements KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp. k., has audited "The Annual Stand-Alone Financial Statements of Bank Handlowy w Warszawie S.A. for the year ended 31 December 2011", and was selected consistently with the legal regulations. KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp. k. and the registered auditors auditing the financial statement met the conditions necessary for issuing an impartial and independent auditor's opinion, consistently with the respective regulations of the Polish law.

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

Signatures of the Management Board Members

Date	Forename and surname	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	