REPORT ON ACTIVITIES
OF THE CAPITAL GROUP OF
BANK HANDLOWY W WARSZAWIE S.A.
IN 2012

MARCH 2013

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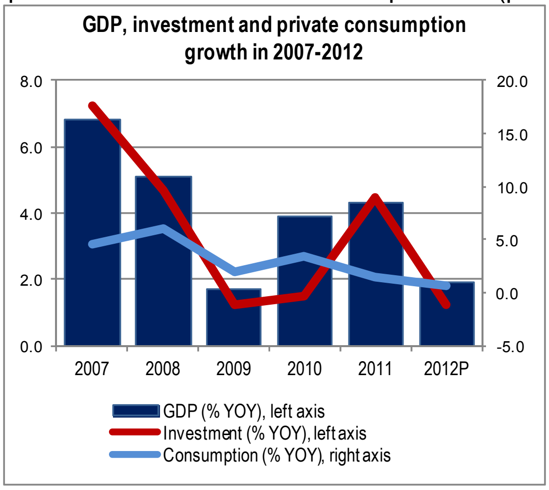
I. Poland's economy in 2012

1. Main macroeconomic trends

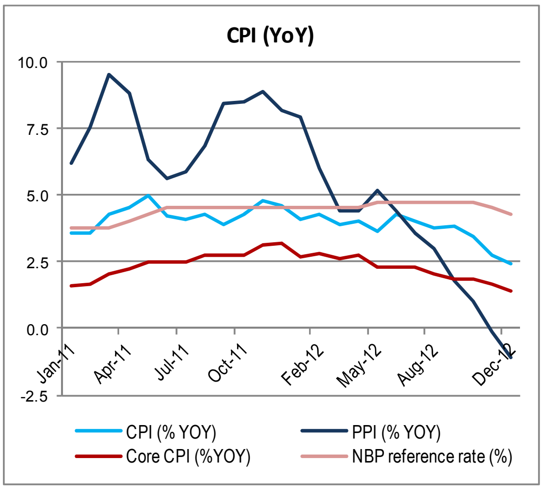
Gross Domestic Product grew by 2.0% YoY in 2012 compared to 4.3% YoY in 2011. Growth of industrial production slowed down to ca. 1.4% YoY in 2012 compared to 7.0% YoY in 2011 and was particularly low in the second half of 2012. The weaker growth in production was mainly driven by declining economic performance of the main trade partners (particularly Germany), which resulted in a gradual decrease in demand for Polish exports, as well as a decrease in domestic demand. While the performance of exports varied considerably from month to month, the average growth rate of exports decreased from 11.6% YoY in 2011 to ca. 5.3% YoY in January-November 2012. The slow-down of imports was even stronger, from 11.9% YoY in 2011 to 1.5% YoY in 2012, mainly due to considerably lower domestic demand. As a result, the trade balance improved substantially while the current account gap decreased from 4.3% of GDP in 2011 to 3.5% in 2012.



Source: Chief Statistical Office, own calculations

The conditions on the labor market were declining throughout the year, concurrently with economic slow-down and in continuation of trends which began in mid-2011. The growth rate of employment in the corporate sector decreased during the year from 0.9% in January to -0.5% in December while average annual employment grew by only 0.2% compared to 3.3% YoY in 2011. The decrease in demand for labor was combined with no wage pressures and a moderate increase in salaries. The average growth rate of salaries in the corporate sector fell from 4.9% YoY to 3.5% YoY.

Growth in productivity slowed down in 2012 while unit labor costs stabilized at a relatively low level. The unemployment rate increased from 12.9% in December 2011 to 13.4% at the end of 2012, peaking at 13.5% in February. However, in contrast to previous years, when the growth of the unemployment rate was driven by an increase of the rate of professional activity, this was increasingly caused by falling employment.



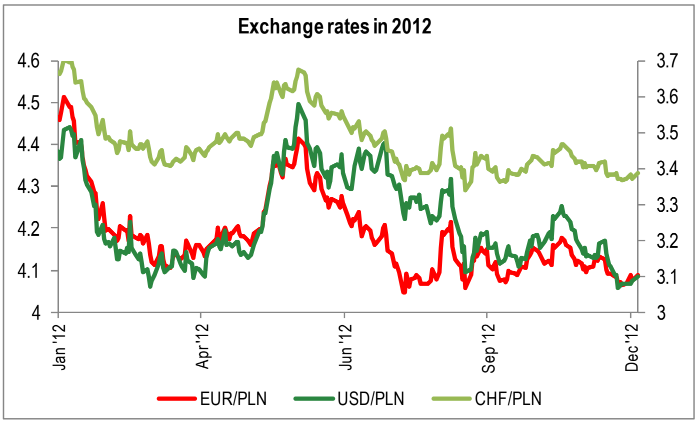
Source: National Bank of Poland, own calculations

The average consumer price index decreased from 4.3% YoY in 2011 to 3.7% YoY in 2012. The decrease in the YoY price index was mainly observed in food and energy prices as well as clothing and footwear prices. Later in the year, inflation fell sharply to 2.4% YoY in December 2012, which was below the central bank's inflation target, mainly owing to slower increase in fuel and food prices. Inflation net of food and energy prices was 2.2% YoY on average in 2012 compared to 2.4% YoY in 2011, and fell to 1.4% YoY at the end of 2012.

In view of concerns about inflation remaining much above the inflation target for a long period of time and relatively good indicators from the Polish economy, the Monetary Policy Council (RPP) decided to raise the interest rates in May 2012. However, the economic slow-down which deepened in the second half of the year and the fast-falling inflation prompted the Council to change its bias and initiated a monetary policy relaxation cycle. By the end of 2012, the Monetary Policy Council cut the interest rates twice, in November and December, by 25 basis points at each time. As a result, the reference rate went down from 4.50% at the end of 2011 to 4.25% at the end of 2012.

2. Money and forex markets

In 2012, the zloty appreciated strongly against the main currencies owing to alleviation of concerns about the euro zone, prevailing positive prospects of the Polish economy and a major inflow of foreign capital onto the local Treasury bond market. The zloty strengthened fast against the euro to 4.10 already in Q1. However, the zloty depreciated again to ca. 4.40 against the euro in Q2 as volatility on foreign markets grew. In the second half of the year, the fx rate of the zloty was much more stable as risk aversion on foreign markets gradually decreased. As a result, the EUR/PLN rate was ca. 4.07 at the end of 2012 compared to 4.46 at the end of 2011. At the same time, the USD/PLN rate grew to 3.08 from 3.44 at the end of 2011.



Source: National Bank of Poland, own calculations

The interest rate hike in May caused a temporary increase of WIBOR3M from 4.99% to ca. 5.15% in mid-year. However, in line with growing expectations of a more relaxed monetary policy and actual decisions of the Monetary Policy Council, WIBOR3M decreased to 4.13% at the end of 2012. At the same time, expectations of interest rate cuts and a major inflow of foreign capital onto the debt market caused the bond yields to fall sharply in 2012. The yield of 2Y Treasury bonds decreased from 4.85% at the end of 2011 to 3.15% at the end of 2012 while the yield of 10Y bonds fell from 5.89% to 3.74% respectively. At the same time, the CDS rates, which reflect the market perception of Poland's creditworthiness, decreased sharply from 279 basis points at the end of 2011 to 79 basis points.

3. Capital market

The year 2012 was very good for investors on the stock market. Improvement of global liquidity (including the effect of the LTRO program introduced by the European Central Bank, a new round of quantitative easing in the USA and operations of Japan's Central Bank) largely reduced risk aversion. The perception of the market was not affected by a correction of the sentiment in Q2 driven by concerns about the euro zone and the risk of economic slow-down in China. The local stock market was also supported by the Monetary Policy Council's decision to initiate a series of interest rate cuts.

The main indices enjoyed double-digit growth in 2012. The growth leaders were WIG-PL (Polish companies index) and WIG (broad market index), which gained 28.2% and 26.2%, respectively. The performance of mid-caps was less spectacular but very solid as mWIG40 gained 17.4%.

The fastest-growing sector indices were WIG-Commodities (+78.9%) and the 2011 growth leader WIG-Chemicals (+57.9%). The negative sentiment for construction companies continued as WIG-Construction lost 30.9%. WIG-Telecoms proved a nasty surprise as it lost 21.2% mainly due to TPSA.

Initial public offerings were not ample in 2012. A total of 19 companies were floated on the main market (including 2 companies transferred from NewConnect) while 7 companies were delisted. The total value of IPOs was slightly more than PLN 3.4 billion (with a major contribution of PLN 2.1 billion from the IPO of Alior Bank), which was the lowest number reported since 2003.

The stock of 437 companies with a total capitalization of over PLN 734 was traded on the WSE at the end of 2012. The share of capitalization of local companies (394 companies) in total capitalization was 71%.

Stock market indices, as at 31 December 2012

Index	2012	Change (%)	2011	Change (%)	2010
WIG	47,460.59	26.2%	37,595.44	(20.8%)	47,489.91
WIG-PL	47,709.64	28.2%	37,217.06	(20.4%)	46,737.15
WIG-DIV	1,103.30	22.2%	903.09	(9.7%)	1,000.00
WIG20	2,582.98	20.4%	2,144.48	(21.9%)	2,744.17
mWIG40	2,552.54	17.4%	2,173.89	(22.5%)	2,805.26

Index	2012	Change (%)	2011	Change (%)	2010
sWIG80	10,443.68	22.9%	8,496.54	(30.5%)	12,219.94
Sector sub-indices				,	
WIG-Banks	6,648.51	22.6%	5,421.04	(21.7%)	6,921.28
WIG-Construction	1,690.66	(30.9%)	2,445.10	(54.7%)	5,400.33
WIG-Chemicals	9,658.35	57.9%	6,117.02	18.6%	5,156.38
WIG-Developers	1,446.06	9.6%	1,319.94	(51.3%)	2,709.52
WIG-Energy	3,748.02	(2.7%)	3,850.58	(10.8%)	4,314.39
WIG-IT	1,118.85	3.7%	1,079.26	(11.7%)	1,221.85
WIG-Media	2,654.07	7.8%	2,461.89	(35.1%)	3,792.19
WIG-Fuel	3,571.11	39.1%	2,567.58	(16.6%)	3,079.41
WIG-Food	3,666.41	5.3%	3,481.45	(23.3%)	4,536.52
WIG-Commodities	6,063.70	78.9%	3,388.75	(28.6%)	4,748.99
WIG-Telecoms	1,106.15	(21.2%)	1,403.12	10.3%	1,271.86

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

Value of trading in shares and bonds, volume of trading in derivatives on WSE, as at 31 December 2012

	2012	Change (%)	2011	Change (%)	2010
Shares (PLN m)	405,760	(24.3%)	536,276	14.4%	468,883
Bonds (PLN m)	2,085	24.7%	1,672	(41.4%)	2,855
Futures (‘000 contracts)	21,185	(27.5%)	29,218	4.3%	28,018
Options (‘000 contracts)	1,431	(20.3%)	1,796	33.0%	1,350

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

The high return rates on the stock market reported in 2012 were not combined with high turnover. The value of trading in shares decreased by more than 24% compared to 2011 and stood at PLN 405.8 billion.

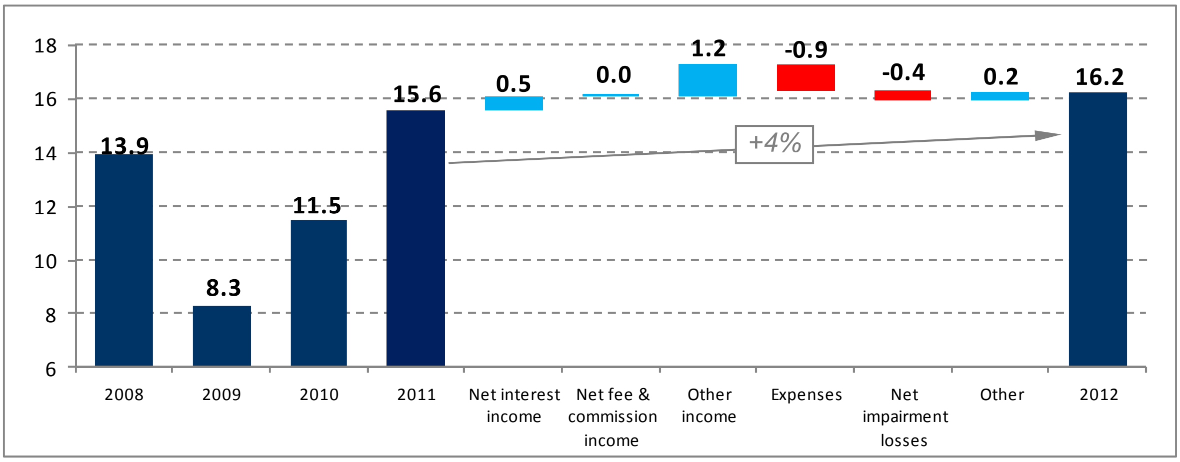
The debt instruments market was the only one of the main segments to report improved investor activity compared to 2011. The total value of trading in bonds increased by almost one-fourth to PLN 2.1 billion. However, this was still less than in 2010.

The futures market enjoyed less investor interest in 2012, resulting in a decrease of the volume of trading in futures by 27.5% YoY to less than 21.2 million contracts.

The volume of trading in options was down by 20.3% in 2012 and reached slightly more than 1.4 million contracts.

4. Banking sector

Net profit of the banking sector (PLN billion)



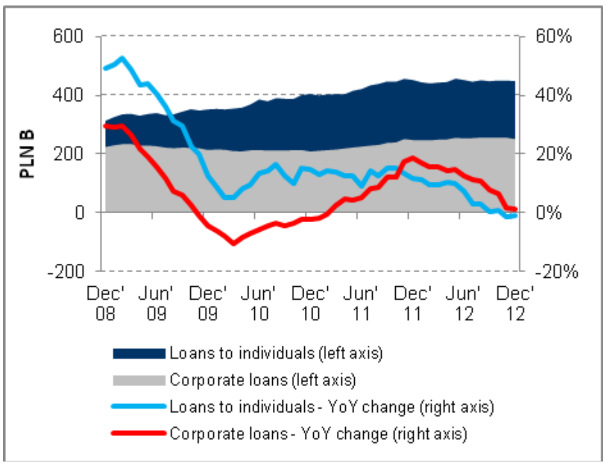
Source: NBP, own calculations

The net profit of the banking sector increased by 4% YoY (PLN 0.6 billion) to PLN 16.2 billion in 2012, exceeding the historically highest net profit earned in 2011. The main driver of growth was an increase in other income by 14% YoY (PLN 1.2 billion), largely due to the profit on Treasury operations. As for core income, net interest income grew modestly by 1% YoY (PLN 0.5 billion) while net commission income was stable. As a result, the total income of the banking sector increased by 3% YoY to PLN 59.5 billion. The net profit of the banking sector in 2012 was adversely impacted by an increase in expenses by 3% YoY (PLN 0.9 billion) and an increase in net impairment write-offs by 4% YoY (PLN 0.4 billion). The increase of write-offs was driven by deterioration of the quality of the corporate loan portfolio (driven among others by problems of large construction companies) and gradual deterioration of the quality of PLN mortgage loans. The ratio of non-performing loans (NPL) in the portfolio of loans granted to large companies was on an increase from January 2012 (7.4%) and reached 9.7% in December 2012 (an increase of 2.3 percentage points YoY) while the NPL ratio of the SME loan portfolio deteriorated sharply from 12.5% in November to 13.0% in December 2012 (an increase of 0.8 percentage points YoY). The quality of the household loan portfolio deteriorated slightly (NPL of 7.4% compared to 7.3% at the end of 2011) as a result of a continued uptrend of the NPL ratio of the property loan portfolio (+0.5 percentage points to 2.8% at the end of 2012), which was mitigated by an improvement of the quality of other retail loans, down by 0.6 percentage points YoY to 17.3%.

The effectiveness of the sector as measured by its cost/income ratio deteriorated slightly. C/I increased from 50% to 51%.

The growth rate of loans to entities of the non-financial sector slowed down gradually during the year and was under 1% YoY (PLN 6 billion) at the end of December 2012. The volume of corporate loans was PLN 250 billion at the end of 2012. As for different categories of corporate loans, the volume of investment loans decreased slightly (3% YoY, PLN (2.0) billion to PLN 77 billion) in an important change of the trend. The biggest growth was reported for loans with original maturities under 1 year and overdraft facilities (an increase of 6% YoY, PLN 4.3 billion).

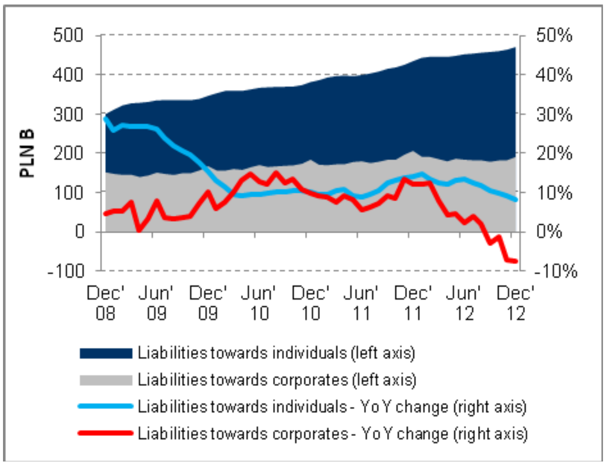
Loans granted to corporate entities and individuals



Source: NBP, own calculations

The growth rate of loans granted to individuals was also negative for the first time since June 2001. The volume of those loans decreased by 1% YoY (PLN (3.7) billion) at the end of 2012, mainly due to nearly two years of a downtrend in volumes of consumer loans (5% YoY, PLN (6.2) billion), which reached PLN 129 billion. The volume of property loans increased by 1% YoY (PLN 2.6 billion) to PLN 320 billion. The growth rate was largely affected by the volatility of the fx rate. Net of the effect of appreciation of the zloty against the Swiss franc and against the euro by 7% YoY, the volume of the portfolio grew by 5% YoY. The segment of PLN property loans grew at a very high rate. Their volume increased by 18% YoY (PLN 22.0 billion) in 2012.

Liabilities towards corporate entities and individuals



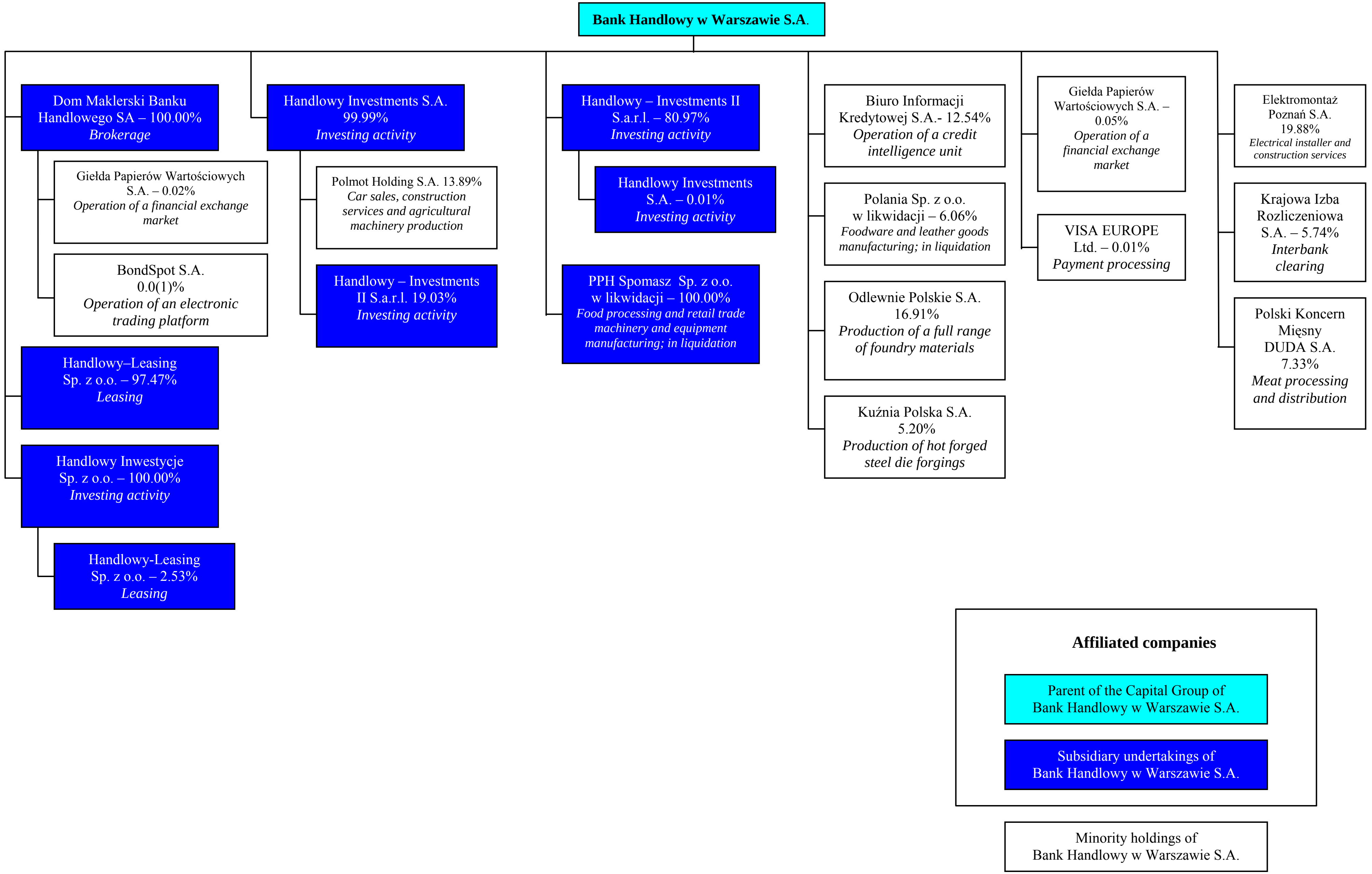
Source: NBP, own calculations

Corporate deposits decreased by 7% YoY (PLN (15.3) billion) to PLN 190 billion. The negative growth rate prevailed in the last four months of 2012. A decrease of corporate deposits had previously been reported only once, in December 2000. This was due to the volume of term deposits, which decreased by 22% YoY (PLN (25.1) billion) to PLN 91 billion. At the same time, current deposits increased significantly by 11% YoY (PLN 9.8 billion) to PLN 99 billion. The application of cash held by companies and its partial transfer to current accounts could be a result of completing their existing investments and adjusting their liquidity position to the deteriorating macroeconomic environment.

Retail deposits increased noticeably. Their volume grew by 8% YoY (PLN 36 billion) to PLN 471 billion. In contrast to corporate deposits, 97% of the growth was contributed by term deposits (15% YoY, PLN 35 billion) as a result of continued uncertainty on the capital markets combined with attractive interest rates on safe bank deposits. The volume of current deposits increased by only 1% YoY (PLN 1.2 billion) to PLN 206 billion.

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

The organisational chart below depicts the corporate entities which jointly formed the Capital Group of Bank Handlowy w Warszawie S.A. (“Bank”) as at 31 December 2012; the Bank’s share interest in each specified.


Bank Handlowy w Warszawie S.A.
Dom Maklerski Banku Handlowego SA – 100.00% Brokerage
Giełda Papierów Wartościowych S.A. – 0.02% Operation of a financial exchange market
BondSpot S.A. 0.0(1)% Operation of an electronic trading platform
Handlowy–Leasing Sp. z o.o. – 97.47% Leasing
Handlowy Inwestycje Sp. z o.o. – 100.00% Investing activity
Handlowy-Leasing Sp. z o.o. – 2.53% Leasing
Handlowy Investments S.A. 99.99% Investing activity
Polmot Holding S.A. 13.89% Car sales, construction services and agricultural machinery production
Handlowy – Investments II S.a.r.l. 19.03% Investing activity
Handlowy – Investments II S.a.r.l. – 80.97% Investing activity
Handlowy Investments S.A. – 0.01% Investing activity
PPH Spomasz Sp. z o.o. w likwidacji – 100.00% Food processing and retail trade machinery and equipment manufacturing; in liquidation
Biuro Informacji Kredytowej S.A.- 12.54% Operation of a credit intelligence unit
Polania Sp. z o.o. w likwidacji – 6.06% Foodware and leather goods manufacturing; in liquidation
Odlewnie Polskie S.A. 16.91% Production of a full range of foundry materials
Kuźnia Polska S.A. 5.20% Production of hot forged steel die forgings
Giełda Papierów Wartościowych S.A. – 0.05% Operation of a financial exchange market
VISA EUROPE Ltd. – 0.01% Payment processing
Elektromontaż Poznań S.A. 19.88% Electrical installer and construction services
Krajowa Izba Rozliczeniowa S.A. – 5.74% Interbank clearing
Polski Koncern Mięsny DUDA S.A. 7.33% Meat processing and distribution
Affiliated companies
Parent of the Capital Group of Bank Handlowy w Warszawie S.A.
Subsidiary undertakings of Bank Handlowy w Warszawie S.A.
Minority holdings of Bank Handlowy w Warszawie S.A.

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

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

GROUP ENTITIES FULLY CONSOLIDATED

Entity	Core business	Capital relationship	% of authorized capital held	Accounting method	Equity (PLN '000)
Bank Handlowy w Warszawie S.A.	Banking	parent	-	-	7,343,728*
Dom Maklerski Banku Handlowego S.A. (DMBH)***	Brokerage	subsidiary	100.00%	full consolidation	93,218
Handlowy - Leasing Sp. z o.o.***	Leasing	subsidiary	100.00%**	full consolidation	135,444
Handlowy Investments S.A.***	Investing activity	subsidiary	100.00%	full consolidation	29,621
PPH Spomasz Sp. z o.o. w likwidacji***	Ceased operations	subsidiary	100.00%	full consolidation	in liquidation

** Equity of Bank Handlowy w Warszawie S.A. as per the statement of the financial position of the Bank for 2012*
*** Including indirect participations*
**** Pre-audit data*

GROUP ENTITIES NOT FULLY CONSOLIDATED

Entity	Core business	Capital relationship	% of authorized capital held	Accounting method	Equity (PLN '000)
Handlowy Inwestycje Sp. Z o.o.***	Investing activity	subsidiary	100.00%	equity valuation	11,278
Handlowy Investments II S.a.r.l.***	Investing activity	subsidiary	100.00%**	equity valuation	6,857

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

On 11 October 2012, the shareholding in Bank Rozwoju Cukrownictwa S.A. in liquidation, representing the 100% share in share capital and 100% votes at the General Meeting of that company, were derecognized on the consolidated statement of financial position of the Bank. The derecognition was based on the company being struck off the National Court Register upon conclusion of the company's liquidation. The liquidation proceeds of PLN 42.4 million, corresponding to the value of shareholding in the statement of financial position, were transferred in June 2012.

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

1. Major Developments in 2012

Year 2012 – the final year of the Bank's Strategy for 2010-2012 – was a success for the Group, both in terms of financial and business achievements. It was also the year when the Strategy for 2012-2015 was adopted to continue the main assumptions of the Strategy for 2010-2012 (for more information about the outline of the Strategy for 2012-2015, see page 50).

The consistent efforts of the Bank in strategic areas are confirmed by the following achievements:

- **Record-breaking consolidated profit** after tax from the moment of the Bank's debut on the Warsaw Stock Exchange, i.e., since 1997, of **PLN 970.1 million** (increase by 32% compared to 2011);
- **Growth** of all key **efficiency** ratios:
  - ROE of 15.5% (increase by 2.6 p.p. YoY);

  - ROA of 2.4% (increase by 0.8 p.p. YoY);
  - Net interest margin on 4.4% (increase from 0.4 p.p. YoY and maintaining one of the highest margins on the market);
- Another year of **growth in the credit action** in the **Corporate Bank** segment (+14% YoY) generated thanks to increased credit volumes in all segments of corporate customers and two-digit growth of the **mortgage loans** portfolio in the Consumer Bank segment (up by 59% YoY);
- Two-digit **growth of income and operating margin** (by 12% and 30% YoY, respectively);
- Maintenance of **cost discipline** – overheads and depreciation went down by 0.2% in 2012 compared to 2011; reduction of the Cost/Income ratio down to 52% (from 59% in 2011);
- Material **improvements** in the **credit risk** area:
  - **Reduction of credit risk costs** (calculated as the relation of net impairment losses to net loans to non-financial sector) – from 0.6% in 2011 down to 0.4% in 2012,
  - **Improvement of the non-performing loans ratio** – from 9.4% in 2011 to 7.5% at the end of 2012;
- Maintaining **safe and stable capital and liquidity positions**:
  - Loans/Deposits ratio of 73%,
  - Capital adequacy ratio of 18.1% (increase by 1.7 p.p. YoY);
- High **quality** of services rendered by the Bank as confirmed by **independent rankings** – ranked second in the "Bank Quality" ranking by TNS OBOP and ranked third in the "Newsweek-Friendly Bank" and according to the **results of the customer satisfaction survey NPS** (Net Promoter Score). The NPS ratio in the key areas surpassed the last year's levels and the strategic target of 30%. In 2012, NPS for the quality of branch services was 44% (increase by 2 p.p. YoY), for services of Citigold customers – 49% (increase by 5 p.p. YoY) and in case CitiService, telephone business service center, NPS reached 69% at the end of 2012 (increase by 11 p.p. YoY);
- Market launches of **innovative** products such as: new internet platform for trade finance products – Citi Trade Portal in the corporate bank area; new version of the electronic banking system CitiDirect EB and its mobile version – CitiDirect EB Mobile for corporate clients; new version of the CitiFX Pulse was launched at the year-end in the Treasury, as well as new version of the mobile banking system CitiMobile for retail clients;
- Leader in the **Treasury Area** – according to the prestigious Euromoney magazine, Citi Handlowy is the market leader in foreign exchange transactions with corporate clients and CitiFX Pulse is the most popular online fx platform. In 2012, the Bank was also ranked first in the 2013 Treasury Securities Dealer competition organized by the Ministry of Finance;
- **DMBH remained the market leader** (its market share is measured by the value of stock trading and block trades on the secondary market of the Warsaw Stock Exchange);
- **Successes of transactional banking** – the leader in the field of custody services (the Bank has been Top Rated in the most prestigious *Global Custodian* survey), the prepaid cards market; MicroPayments and direct debit transactions. It is also noteworthy to underline the Bank being selected by the Poland's capital as the provider of full bank account services;
- **High return for shareholders** – in 2012, shares of Citi Handlowy were among the companies enjoying the top growth on the Warsaw floor. Including the dividend paid in 2012, the Bank generated a 48% return for its investors. In 2012, the Bank remained a part of the fifth edition of the RESPECT Index, a Warsaw Stock Exchange index of socially responsible companies. Citi Handlowy is one of two banks to be chosen an index member since the first edition.

2. Summary financial data of the Group

PLN million	**2012**	**2011**
Total assets	43,508.8	42,278.2
Equity	7,391.4	6,444.5
Loans*	16,221.4	14,719.5
Deposits *	23,629.7	23,922.0
Net profit	970.1	736.4
Capital adequacy ratio	18.1%	16.4%

** Due from and to non-bank financial entities and non-financial sector entities, including public entities*

3. Financial results of the Group in 2012

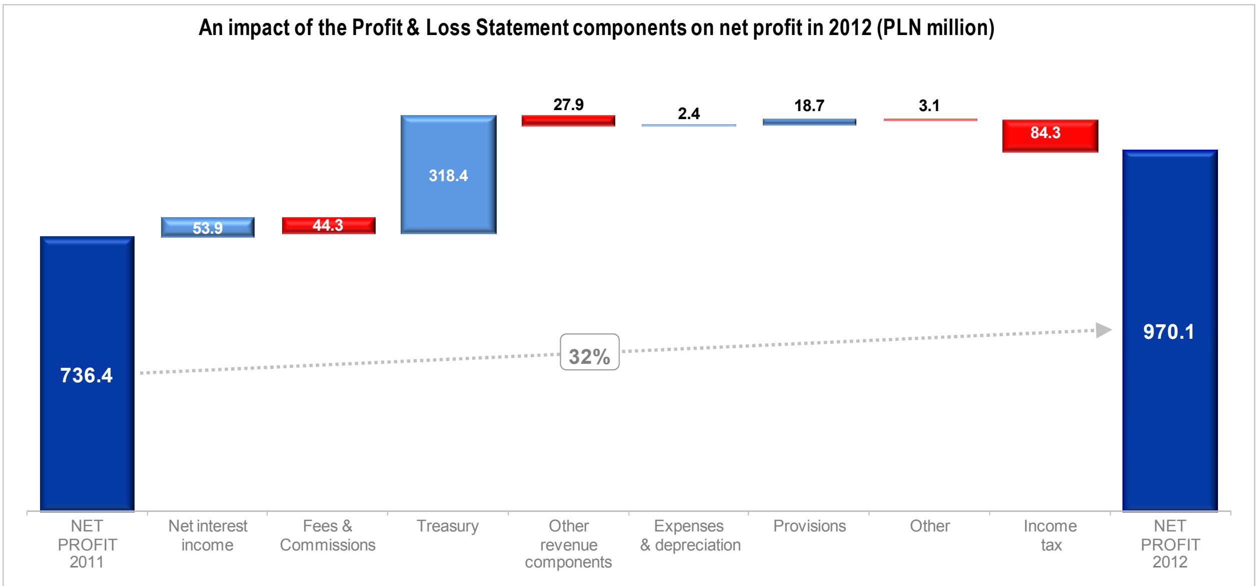
3.1 Income statement

The Group's profit before tax was PLN 1,239.5 million in 2012, an increase of PLN 318.1 million (34.5%) year on year. Over the same period, the consolidated net profit was PLN 970.1 million, an increase by PLN 233.7 million (31.7%) compared to 2011.

Selected income statement items

PLN '000	2012	2011	Change	
			PLN '000	%
Net interest income	1,488,281	1,434,354	53,927	3.8%
Net commission income	598,858	643,170	(44,312)	(6.9%)
Dividend income	6,493	5,688	805	14.2%
Net gains on financial instruments held for trading and on revaluation	371,993	302,917	69,076	22.8%
Net gains on investment debt securities	279,451	30,142	249,309	827.1%
Net other operating income	(18,430)	10,288	(28,718)	(279.1%)
Total income	**2,726,646**	**2,426,559**	**300,087**	**12.4%**
Overheads and general administrative expenses and depreciation, including	(1,429,634)	(1,432,022)	2,388	(0.2%)
Overheads and general administrative expenses	(1,364,951)	(1,372,006)	7,055	(0.5%)
Depreciation/amortization of tangible and intangible fixed assets	(64,683)	(60,016)	(4,667)	7.8%
Net gains on sale of fixed assets	84	2,073	(1,989)	(95.9%)
Net change in impairment losses	(58,101)	(76,809)	18,708	(24.4%)
Share in net profits/(losses) of entities valued by equity method	540	1,677	(1,137)	(67.8%)
Profit before taxation	**1,239,535**	**921,478**	**318,057**	**34.5%**
Income tax expense	(269,403)	(185,065)	(84,338)	45.6%
Net profit for the year	**970,132**	**736,413**	**233,719**	**31.7%**

The impact of individual items of the income statement on net profit is shown on graph below:



The increase in net profit in 2012 when compared to 2011 was mainly driven by the following:

- Operating income (which includes net interest and commission income, dividend income, net gains/losses on trading financial instruments and revaluation, net gains/losses on investment debt securities and net other operating gains/losses) of PLN 2,726.6 million in 2012 compared to PLN 2,426.6 in 2011 – an increase by 300.1 million owing mostly to the increase in net gains on investment debt securities (on the above graph, it is presented under Treasury operations) and the increase of net interest income by PLN 53.9 million.
- Overheads and general administrative expenses and depreciation of PLN 1,429.6 million compared to PLN 1,432.0 million in 2011 – a decrease by PLN 2.4 million due to the reduction of overheads and

general administrative expenses (growth by PLN 46.1 million YoY). At the same time, an increase in staff costs was recognized (by PLN 39.1 million YoY) mostly owing to the restructuring provision of PLN 42.2 million created in the first quarter of 2012 (PLN 32.4 million for staff costs and PLN 9.8 million for building maintenance and rent costs).

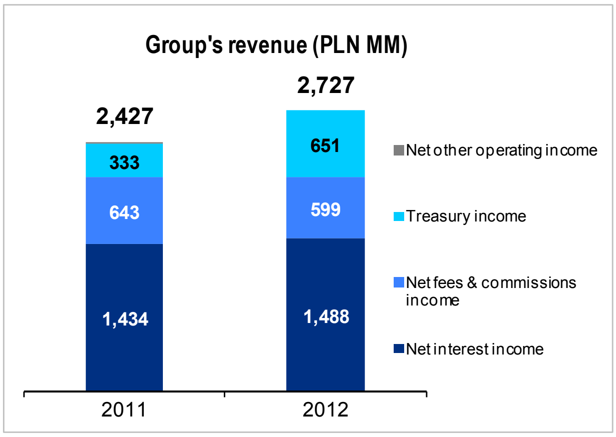
- Net impairment losses of PLN (58.1) million compared to PLN (76.8) million – a decrease by PLN 18.7 million was the effect of improvement of the quality of the loan portfolio in the Consumer Bank.
- Income tax of PLN 269.4 million compared to PLN 185.1 million for 2011. The 2012 income tax charge was augmented in the fourth quarter by the amount of written-off deferred tax assets of a subsidiary, Handlowy-Leasing Sp. z o.o., amounting to PLN 19.9 million. The reason for that write-off was the insufficient level of projected taxable income considering the reduced scale of business of that company.

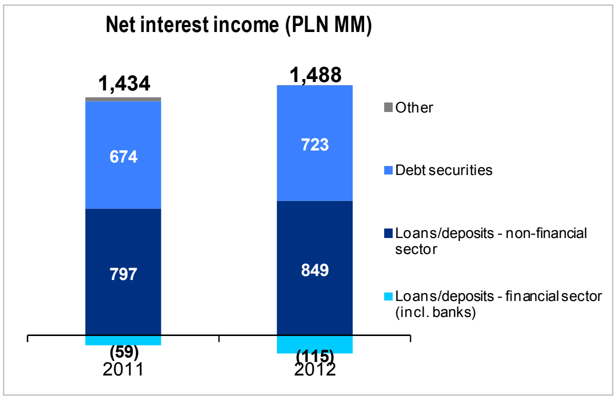
3.1.1 Revenue

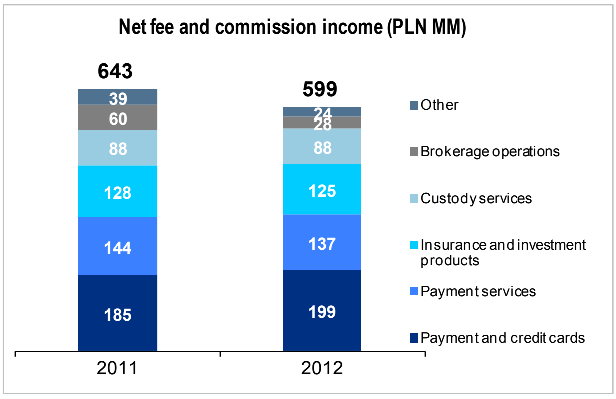
Operating income was PLN 2,726.6 million in 2012 compared to PLN 2.426.6 million in the previous year, an increase of PLN 300.1 million or 12.4%.

In 2012, operating income was affected by:

- net interest income by of PLN 1,488.3 million compared to PLN 1,434.4 million in 2011 (increase by PLN 53.9 million or 3.8%), mainly driven by higher income on customer loans, especially due to a significant increase in the volume of corporate loans. Interest income on debt securities held-for-trading also increased in 2012. On the other hand, interest expenses increased in 2012, mainly on amounts due to financial sector entities and banks;
- net commission income of PLN 598.9 million compared to PLN 643.2 million in 2011 – decrease by PLN 44.3 million or 6.9%, mainly due to declining commission income relating to the capital market, i.e., from the brokerage activity due to a reduced trading in stocks on the secondary market of the Warsaw Stock Exchange (trading volume went down by 25.3% compared to 2011), brokerage in selling investment and insurance products (owing to stronger customer interest in safer products at lower margins to the Bank) and commissions on payment orders. That decline was partially offset by income from credit and payment cards, largely as a result of a higher volume of transactions with City Handlowy credit cards;
- net gains on trading financial instruments and revaluation of PLN 372.0 million compared to PLN 302.9 million in 2011 – an increase by 69.1%, driven by improved gains on management of the Bank's proprietary position;
- net gains on investment debt securities of PLN 279.5 million compared to PLN 30.1 million in 2011; strong improvement of net gains owing to profits realized in view of falling bond yields in 2012;
- result of other operating income and expenses of PLN (18.4) million compared to PLN 10.3 million in 2011 – a decrease by PLN 28.7 million. The 2011 loss was affected by the repayment of interest accrued on CIT overpayments to the Tax Office amounting to PLN 17 million.





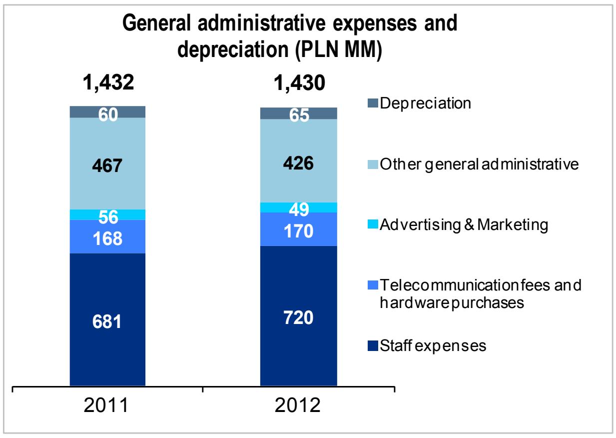


3.1.2 Expenses

General Expenses & Depreciation

PLN '000	2012	2011	Change	
			PLN '000	%
Personnel costs	**720,051**	**680,966**	**39,085**	**5.7%**
General administrative expenses, including:	**644,900**	**691,040**	**(46,140)**	**(6.7%)**
Telecommunication fees and IT hardware	170,003	167,567	2,436	1.5%
Building maintenance and rent	111,841	106,081	5,760	5.4%
Advisory, audit, consulting and other external services	81,470	91,494	(10,024)	(11.0%)
Total overheads	**1,364,951**	**1,372,006**	**(7,055)**	**(0.5%)**
Depreciation	64,683	60,016	4,667	7.8%
Total expenses	**1,429,634**	**1,432,022**	**(2,388)**	**(0.2%)**

The Bank continued to pursue its cost discipline policy over 2012. Compared to 2011, the Group reported general administrative expenses and depreciation slightly reduced by PLN 2.4 million or by 0.2%, mostly owing to lower external services costs relating to distribution of banking products, reduction of advisory costs, and reduced advertising and marketing costs. At the same time, it should be noted that in the first quarter of 2012, a restructuring provision of PLN 42.2 million was charged against expenses (PLN 32.4 million for staff costs and PLN 9.8 million for building maintenance and rent costs).



Depreciation expenses of tangible fixed assets and intangible assets were slightly higher than in the previous year and amounted to PLN 64.7 million in 2012.

3.1.3 Net impairment losses on financial assets and provisions for financial and guarantee commitments

Net impairment losses on financial assets and provisions for financial and guarantee commitments

PLN '000	2012	2011	Change	
			PLN '000	%
Net impairment losses incurred but not reported (IBNR)	28,514	23,119	5,395	23.3%
Net impairment losses on loans and off-balance sheet liabilities	(76,993)	(108,446)	31,453	(29.0%)
accounted for individually	(51,168)	32,058	(83,226)	(259.6%)
accounted for collectively, on a portfolio basis	(25,825)	(140,503)	114,678	(81.6%)
Net impairment losses on equity investments	(5,092)	0	(5,092)	-
Other	(4,530)	8,518	(13,048)	(153.2%)
Net impairment losses on financial assets and provisions for financial and guarantee commitments	**(58,101)**	**(76,809)**	**18,708**	**24.4%**

Net impairment losses were PLN (58.1) million in 2012 compared to net impairment of PLN (76.8) million in 2011. The reduction by PLN 18.7 million or 24.4% was related to the continued considerable improvement of quality of the loan portfolio in the Consumer Bank segment (especially credit cards and cash loans). The quality improvement was driven by an amendment of the credit policy, which resulted in a significant reduction of the proportion of delinquency volumes and the number of restructuring procedures. Furthermore, a part of assets with recognized impairment at PLN 89.5 million (fully written off the Bank's balance sheet) were sold for PLN 14.2 million in Q2 2012. Net impairment losses increased in the Corporate Bank by PLN (48.2) million (from PLN 20.1 in 2011 to PLN (28.1) million in 2012) as a result of an increased risk of borrower default, mainly in the Commercial Bank segment (SME and MME).

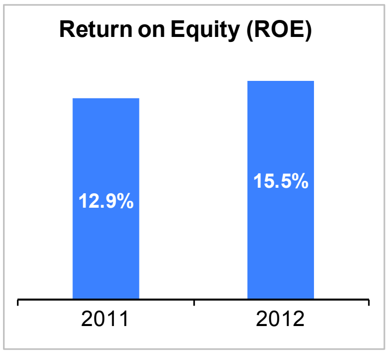
3.1.4 Ratio analysis

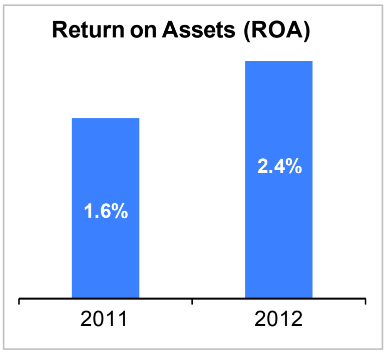
The Group's efficiency ratios

	2012	2011
Return on equity (ROE)*	15.5%	12.9%
Return on assets (ROA)**	2.4%	1.6%
Net interest margin (NIM)***	3.7%	3.1%
Margin on interest-bearing assets	4.4%	4.0%
Earnings per share in PLN****	7.72	5.52
Cost/income*****	52%	59%
Non-financial sector loans to non-financial sector deposits	73%	63%
Non-financial sector loans to total assets	35%	32%
Net interest income to total revenue	55%	59%
Net commission income to total revenue	22%	27%

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

All the key financial ratios improved in 2012. Return on equity (ROE) increased to 15.5% by 2.6 percentage points from 12.9% in the previous year. Return on assets (ROA) was 2.4%, an increase of 0.8 percentage points compared to 1.6% in 2011. The improvement of the above ratios was mainly driven by a significant increase of the net profit in 2012.





The Bank's cost efficiency also improved as its cost/income ratio decreased to 52% from 59% in the previous year.

The interest margin, both on total assets and on interest-bearing assets, increased in 2012 and remained among the highest margins in the Polish banking sector.

The loan/deposit ratio went up by 10 percentage points to 73% in 2012, mainly as a result of expansion of credit action for corporate customers. That ratio, despite its growth YoY, remained at a safe level, showing the Bank's liquidity position at advantage compared to the sector.

3.2 Consolidated statement of financial position

As at 31 December 2012, the Bank's total assets stood at PLN 43,508.8 million, an increase of 2.9% compared to the end of 2011.

Consolidated statement of financial position

PLN '000	As at		Change	
	31.12.2012	31.12.2011	PLN '000	%
ASSETS				
Cash and balances with central bank	1,357,308	979,616	377,692	38.6%

PLN '000	As at		Change	
	31.12.2012	**31.12.2011**	**PLN '000**	**%**
Receivables from banks	1,461,901	548,256	913,645	166.6%
Financial assets held for trading	6,838,483	5,805,044	1,033,439	17.8%
Debt securities available-for-sale	15,003,003	17,625,355	(2,622,352)	(14.9%)
Equity investments, held at equity value	15,110	57,945	(42,835)	(73.9%)
Equity investments	19,921	24,912	(4,991)	(20.0%)
Receivables from customers	16,221,412	14,719,473	1,501,939	10.2%
Property and equipment	409,916	457,929	(48,013)	(10.5%)
Intangible assets	1,379,931	1,292,067	87,864	6.8%
Deferred income tax assets	221,488	338,757	(117,269)	(34.6%)
Other assets	567,736	403,182	164,554	40.8%
Non-current assets available-for-sale	12,554	25,662	(13,108)	(51.1%)
Total assets	**43,508,763**	**42,278,198**	**1,230,565**	**2.9%**
LIABILITIES				
Liabilities towards banks	2,356,429	6,011,378	(3,654,949)	(60.8%)
Financial liabilities held for trading	5,846,404	4,840,447	1,005,957	20.8%
Liabilities towards customers	26,852,165	24,095,847	2,756,318	11.4%
Liabilities from issuance of debt securities	-	25,336	(25,336)	-
Provisions	28,656	34,914	(6,258)	(17.9%)
Income tax liabilities	55,343	72,921	(17,578)	(24.1%)
Other liabilities	978,351	752,874	225,477	29.9%
Total liabilities	**36,117,348**	**35,833,717**	**283,631**	**0.8%**
EQUITY				
Issued capital	522,638	522,638	-	-
Supplementary capital	3,011,380	3,009,396	1,984	0.1%
Revaluation reserve	257,791	(82,294)	340,085	(413.3%)
Other reserves	2,637,066	2,264,082	372,984	16.5%
Retained earnings	962,540	730,659	231,881	31.7%
Total equity	**7,391,415**	**6,444,481**	**946,934**	**14.7%**
Total liabilities and equity	**43,508,763**	**42,278,198**	**1,230,565**	**2.9%**

3.2.1 Assets

Gross loan receivables

PLN '000	As at		Change	
	31.12.2012	**31.12.2011**	**PLN '000**	**%**
Non-banking financial entities	952,385	1,028,401	(76,016)	(7.4%)
Non-financial sector entities	10,377,197	8,457,491	1,919,706	22.7%
Individuals	5,920,993	5,862,179	58,814	1.0%
Public entities	101,195	606,439	(505,244)	(83.3%)
Other non-financial sector entities	569	752	(183)	(24.3%)
Total	**17,352,339**	**15,955,262**	**1,397,077**	**8.8%**

In 2012, gross amounts due from customers increased by 8.8% year on year and stood at PLN 17,352.3 million. An increase was reported mainly for non-financial sector entities (up by PLN 1.9 billion or 22.7% compared to the end of 2011). Hence, it was the second consecutive year of the Bank's double-digit growth rate in corporate loan volumes. An increase was also reported for loans granted to individuals (up by PLN 0.1 billion or 1%) as a result of growth of the mortgage loan portfolio

Net loan receivables

PLN '000	31.12.2012	31.12.2011	Change	
			PLN '000	%
Receivables from financial sector entities	**933,272**	**1,009,315**	**(76,043)**	**(7.5%)**
Receivables from non-financial sector entities, including:	**15,288,140**	**13,710,158**	**1,577,982**	**11.5%**
Corporate clients*	10,027,941	8,598,887	1,429,054	16.6%
Individuals, including:	5,260,199	5,111,271	148,928	2.9%
Credit cards	2,150,189	2,250,751	(100,562)	(4.5%)
Cash loans of individuals	2,103,643	2,189,440	(85,797)	(3.9%)
Mortgage loans	925,740	583,674	342,066	58.6%
Total net receivables from clients	**16,221,412**	**14,719,473**	**1,501,939**	**10.2%**

**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 balance of the debt securities portfolio decreased by PLN 2,032.1 million (10.4%) at the end of 2012. This was mainly due to a reduced position in Treasury bonds and NBP monetary bills as well as bonds issued by non-financial sector entities.

Debt securities portfolio

PLN '000	As at		Change	
	31.12.2012	31.12.2011	PLN '000	%
Treasury bonds	6,829,474	8,248,116	(1,418,642)	(17.2%)
Treasury bills	2,982	148	2,834	1914.9%
Bank's bonds	2,705,424	2,403,458	301,966	12.6%
Bonds issued by non-financial sector entities	-	423,185	(423,185)	(100.0%)
NBP bills	7,997,178	8,492,235	(495,057)	(5.8%)
Total	**17,535,058**	**19,567,142**	**(2,032,084)**	**(10.4%)**

3.2.2 Liabilities

Liabilities towards customers

PLN '000	As at		Change	
	31.12.2012	31.12.2011	PLN '000	%
Deposits of financial sector entities	**2,791,494**	**2,231,183**	**560,311**	**25.1%**
Deposits of non-financial sector entities, including	**20,818,624**	**21,670,515**	**(851,891)**	**(3.9%)**
Non-financial sector entities	11,700,802	11,900,593	(199,791)	(1.7%)
Non-commercial institutions	399,846	417,184	(17,338)	(4.2%)
individuals	5,886,508	5,982,349	(95,841)	(1.6%)
Public sector entities	2,831,468	3,370,389	(538,921)	(16.0%)
Other liabilities (including accrued interest)	**3,242,047**	**194,149**	**3,047,898**	**1569.9%**
Total liabilities	**26,852,165**	**24,095,847**	**2,756,318**	**11.4%**
Deposits of financial and non-financial sector entities, including:				
Liabilities in PLN	18,619,512	18,973,685	(354,173)	(1.9%)
Liabilities in foreign currency	4,990,606	4,928,013	62,593	1.3%
Total deposits	**23,610,118**	**23,901,698**	**(291,580)**	**(1.2%)**

The main source of funding for the Bank's assets are deposits of non-banking sector clients, which decreased modestly in 2012 (by PLN 0.3 billion or 1.2%). The decrease affected term deposits whose volume decreased by PLN 1.3 billion or 12.6% compared to the end of 2011. On the other hand, volumes in current accounts increased (by PLN 1.1 billion or 7.9%), which proves that the strategy focused on operating accounts is implemented consistently.

Other amounts due to customers increased at the end of 2012, driven mainly by higher liabilities under repo contracts with financial institutions.

3.2.3 Source and use of funds

PLN '000	31.12.2012	31.12.2011
Source of funds		
Funds of banks	2,356,429	6,011,378
Funds of customers	26,852,165	24,095,847
Own funds with net income	7,391,415	6,444,481
Other funds	6,908,754	5,726,492
Total source of funds	**43,508,763**	**42,278,198**
Use of funds		
Receivables from banks	1,461,901	548,256
Receivables from customers	16,221,412	14,719,473
Securities, shares and other financial assets	21,876,517	23,513,256
Other uses of funds	3,948,933	3,497,213
Total use of funds	**43,508,763**	**42,278,198**

3.3 Equity and the capital adequacy ratio

Equity increased by PLN 713.2 million or 12.5% compared to the end of 2011. The increase was reported in reserve capital (by PLN 365.4 million) following retention of 50% of the Bank's profit of 2011, and in the revaluation reserve (by PLN 340.1 million).

Equity*

PLN '000	As at		Change	
	31.12.2012	31.12.2011	PLN '000	%
Issued capital	522,638	522,638	-	-
Supplementary capital	3,011,380	3,009,396	1,984	0.1%
Other reserves	2,126,900	1,761,529	365,371	20.7%
Revaluation reserve	257,791	(82,294)	340,085	(413.3%)
General risk reserve	507,500	497,500	10,000	2.0%
Other equity	(4,926)	(701)	(4,225)	602.7%
Total equity	**6,421,283**	**5,708,068**	**713,215**	**12.5%**

** Equity net of net profit/(loss)*

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

The table below presents financial data necessary to calculate the capital adequacy ratio based on the Group's consolidated financial statements.

Capital adequacy ratio*

	PLN '000	31.12.2012	31.12.2011
I	**Own funds for the calculation of capital adequacy ratio, including:**	**5,010,491**	**4,354,853**
	Less in core and supplementary funds		
	interests in subordinated financial entities	15,110	57,945
	intangible assets, including	1,379,931	1,292,066
	goodwill	1,245,976	1,245,976
II	**Risk-weighted assets and off-balance sheet liabilities (bank portfolio)**	**20,150,725**	**18,042,413**
III	**Total capital requirements, of which:**	**2,220,164**	**2,130,748**
	credit risk capital requirements (II*8%)	1,612,058	1,443,393
	counterparty risk capital requirements	95,648	133,148
	excess concentration and large exposures risks capital requirements	48,024	87,064
	total market risk capital requirements	78,194	83,167
	operational risk capital requirements	366,893	360,531
	other capital requirements	19,347	23,446
	Capital adequacy ratio (I/III*12.5)	**18.1%**	**16.4%**

** 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 amended)*

As at 31 December 2012, the Group's capital adequacy ratio stood at 18.1% and was 1.7 percentage points higher than the end of 2011. This resulted mainly from a 15% growth in the Bank's own funds. At the same time, risk-weighted assets and off-balance sheet liabilities increased by 12% due to expansion of the Bank's lending in 2012 (amounts due from customers increased by 10% YoY).

V. Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in 2012

1. Lending and other risk exposures

1.1 Lending

The lending policy within the Group is consistent and covers the Bank as parent company with its subsidiaries (DMBH, Handlowy-Leasing Sp. z o.o.), excluding special purpose entities (investment vehicles), companies undergoing liquidation or bankruptcy as well as dormant entities. Furthermore, the 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. Individual borrowers are continuously monitored so that any signs of deterioration in creditworthiness can be promptly detected and appropriate corrective measures undertaken as needed.

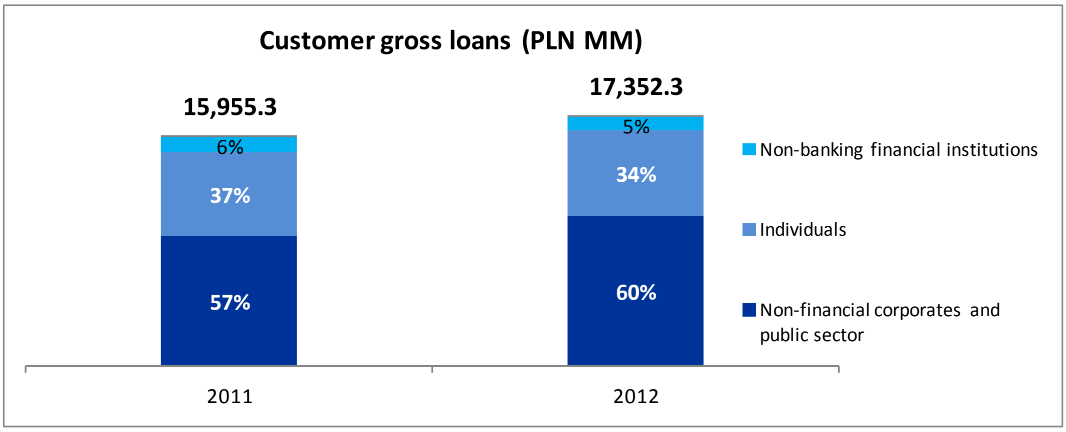
In 2012, the Group focused its credit risk management activities on:

- supporting the growth of assets,
- optimization of the lending process and adjustment of the Group's credit offer to the market situation,
- improvement of the credit portfolio quality,
- intensification of debt collection activities for the portfolio of retail credit exposures,
- effective allocation of capital,
- improvement of management processes of the risk of models used to measure credit risk, and
- continued development of credit risk management methods.

Gross loans to customers

PLN '000	As at		Change	
	31.12.2012	**31.12.2011**	**PLN '000**	**%**
Loans in PLN	14,720,657	13,267,524	1,453,133	11.0%
Loans in foreign currency	2,631,682	2,687,738	(56,056)	(2.1%)
Total	**17,352,339**	**15,955,262**	**1,397,077**	**8.8%**
Loans to non-financial sector entities	16,399,954	14,926,861	1,473,093	9.9%
Loans to financial sector entities	952,385	1,028,401	(76,016)	(7.4%)
Total	**17,352,339**	**15,955,262**	**1,397,077**	**8.8%**
Non-bank financial entities	952,385	1,028,401	(76,016)	(7.4%)
Non-financial sector entities	10,377,197	8,457,491	1,919,706	22.7%
Individuals	5,920,993	5,862,179	58,814	1.0%
Public sector entities	101,195	606,439	(505,244)	(83.3%)
Non-commercial institutions	569	752	(183)	(24.3%)
Total	**17,352,339**	**15,955,262**	**1,397,077**	**8.8%**

As at 31 December 2012, gross credit exposure to customers amounted to PLN 17,532.3 million, representing an increase by 8.8% compared to 31 December 2011. The largest part of the portfolio of amounts due from customers were loans to non-financial sector entities (59.8%), which increased by 22.7% in 2012. The portfolio of loans granted to individuals grew by 1% to PLN 5,921 million compared to 2011. The share of these loans in the total gross loans declined by 2.6 p.p.



As at the end of December 2012, the currency structure of loans outstanding changed slightly as compared to the end of 2011. The share of foreign currency loans, which at the end of 2011 stood at 16.8%, decreased to 15.2% at the end of 2012. It should be noted that the Group grants foreign currency loans to customers which have revenue streams in the loan currency or to entities which, in the Group's opinion, are able to predict or absorb the currency risk without a significant threat to their financial position.

The Group monitors the concentration of credit exposures on a regular basis, striving to avoid a situation where the portfolio would be exposed to a limited group of clients. As at the end of December 2012, the Group's credit exposure to customers did not exceed the exposure concentration limits required by the law.

Concentration of exposures to customers

PLN '000	31.12.2012			31.12.2011		
	Balance sheet exposure*	**Granted financial and guarantee liabilities**	**Total exposure**	**Balance sheet exposure***	**Granted financial and guarantee liabilities**	**Total exposure**
GROUP 1	295,507	660,984	956,491	6	533,350	533,356
GROUP 2	773,688	161,095	934,783	365,220	337,648	702,868
CLIENT 3	716,500	200,050	916,550	691,400	75,150	766,550
GROUP 4	217,656	499,661	717,317	328,489	419,451	747,940
GROUP 5	443,147	168,221	611,368	272,859	160,435	433,294
CLIENT 6	399,883	163,637	563,520	199,556	165,924	365,480
GROUP 7	440,436	60,233	500,669	-	-	-
GROUP 8	318,113	175,675	493,788	266,619	61,608	328,227
GROUP 9	303,686	167,502	471,188	187,823	20,539	208,362
GROUP 10	198,076	253,359	451,435	5	200,930	200,935
Total 10	**4,106,692**	**2,510,417**	**6,617,109**	**2,311,977**	**1,975,035**	**4,287,012**

** Net of equity and other securities exposures*

Concentration of exposure in individual industries *

Sector of the economy according to the Polish Classification of Economic Activity (PKD)*	**31.12.2012**		**31.12.2011**	
	PLN '000	%	PLN '000	%
Wholesale trade, excluding trade in vehicles	4,285,518	21.1%	3,666,012	20.8%
Manufacture and supply of electricity, gas, steam, hot water and air conditioning	2,733,355	13.5%	1,504,309	8.5%
Financial intermediation, excluding insurance and pension funds	1,684,544	8.3%	1,484,166	8.4%
Retail trade, excluding retail trade in vehicles	1,226,034	6.0%	1,216,060	6.9%
Production of food and beverages	1,038,106	5.1%	996,792	5.6%
Wholesale and retail trade in motor vehicles, repair of motor vehicles	832,465	4.1%	689,224	3.9%
Manufacture of motor vehicles, trailers and semi-trailers, excluding motorcycles	791,205	3.9%	585,434	3.3%
Production and processing of coke and petroleum products	715,034	3.5%	750,022	4.2%
Production of basic pharmaceutical substances, medicines and other pharmaceutical products	681,676	3.4%	510,935	2.9%
Metal ore mining	500,584	2.5%	-	-

Sector of the economy according to the Polish Classification of Economic Activity (PKD)*	31.12.2012		31.12.2011	
	PLN '000	%	PLN '000	%
Top 10 business sectors	**14,488,521**	**71.5%**	**11,402,954**	**64.6%**
Manufacture of electric appliances	453,766	2.2%	470,948	2.6%
Production of metal goods, excluding machines and equipment	424,532	2.1%	380,510	2.2%
Construction of buildings	346,996	1.7%	400,201	2.3%
Manufacture of chemicals and chemical products	288,537	1.4%	356,961	2.0%
Manufacture of rubber and plastic products	280,816	1.4%	267,054	1.5%
Production of beverages	255,236	1.3%	237,375	1.3%
Telecommunication	253,754	1.3%	263,904	1.5%
Manufacture of furniture	240,335	1.2%	228,580	1.3%
Business of head offices; management advisory	234,640	1.2%	191,107	1.1%
Manufacture of furniture	218,472	1.1%	202,083	1.1%
Top 20 business sectors	**17,485,605**	**86.3%**	**14,401,677**	**81.5%**
Other sectors	**2,781,814**	**13.7%**	**3,255,156**	**18.5%**
Total	**20,267,419**	**100.0%**	**17,656,833**	**100.0%**

**Gross balance-sheet and off-balance-sheet exposure to institutional customers (including banks).*

1.2 Loan portfolio quality

The Group's receivables are divided into two portfolios: a portfolio with recognized impairment and a portfolio without recognized impairment (IBNR). In the portfolio with recognized impairment, classifiable exposures are individually assessed while exposures that are not individually significant are collectively analyzed for impairment.

Loans to customers per portfolio with not recognized credit losses vs. portfolio with recognized credit losses

PLN '000	31.12.2012	31.12.2011	Change	
			PLN '000	%
With not recognized credit losses, including:	15,938,733	14,356,929	1,581,804	11.0%
non-financial sector entities	15,005,344	13,347,525	1,657,819	12.4%
corporate clients*	9,833,172	8,331,622	1,501,550	18.0%
individual clients	5,172,172	5,015,903	156,269	3.1%
With recognized credit losses, including:	1,299,462	1,481,786	(182,324)	(12.3%)
non-financial sector entities	1,280,466	1,462,789	(182,323)	(12.5%)
corporate clients*	531,645	616,513	(84,868)	(13.8%)
individual clients	748,821	846,276	(97,455)	(11.5%)
Dues related to matured derivative transactions	114,144	116,547	(2,403)	(2.1%)
Total loans to customers, gross, including:	**17,352,339**	**15,955,262**	**1,397,077**	**8.8%**
non-financial sector entities	16,285,810	14,810,314	1,475,496	10.0%
corporate clients*	10,364,817	8,948,135	1,416,682	15.8%
individual clients	5,920,993	5,862,179	58,814	1.0%
Impairment, including:	**(1,130,927)**	**(1,235,789)**	**104,862**	**(8.5%)**
dues related to matured derivative transactions	(94,925)	(96,063)	1,138	(1.2%)
Total loans to customers, net	**16,221,412**	**14,719,473**	**1,501,939**	**10.2%**
Provision coverage ratio**	**79.7%**	**76.9%**		
corporate clients*	67.0%	60.0%		
individuals	88.2%	88.7%		
Non-performing loans ratio (NPL)	**7.5%**	**9.4%**		

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

The volume of loans with recognized impairment declined by PLN 182.3 million (12.3%) compared to 2011, mainly as a result of improved quality of the portfolio of both corporate (following repayments of restructured loans) and individual loans as well as write-offs of the consumer loans made in the second half of 2012. At the same time, the amount of total loans increased in 2012, which resulted in an improvement of the non-performing loans ratio (NPL) to 7.5%.

The Management Board believes that provisions for loan 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 a 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 the probability of customer default and historical loss at default depending on the risk profile and on the basis of the Limit Risk Rating, taking account of expected recovery rates based on collateral.

As at 31 December 2012, the impairment of the portfolio was PLN 1,130.9 million, a decrease by 8.5% from PLN 1,235.8 million at the end of December 2011. The portfolio of classifiable loans also recorded an increase in impairment (by PLN 107.3 million or 14.9%), as well as IBNR impairment (decrease by PLN 28.4 million or 19.3%). The provisions coverage ratio decreased from 7.7% in December 2011 to 6.5% in December 2012 as a result of an increase in total loan receivables by PLN 1.5 billion combined with a decrease in impairment over the same period.

Impairment of the customer loan portfolio

PLN '000	As at		Change	
	31.12.2012	31.12.2011	PLN '000	%
Impairment due to incurred but not reported (IBNR) losses	118,608	146,995	(28,387)	(19.3%)
Impairment of receivables	1,012,319	1,088,794	(76,475)	(7.0%)
accounted for individually	400,831	370,035	30,796	8.3%
accounted for collectively	611,488	718,759	(107,271)	(14.9%)
Total impairment	**1,130,927**	**1,235,789**	**(104,862)**	**(8.5%)**
Provision coverage ratio (total loans)	6.5%	7.7%		

1.3 Off-balance-sheet commitments

Off-balance sheet commitments of the Group stood at PLN 14,254.0 million as at 31 December 2012, a 6.0% increase compared to 31 December 2011. The largest change was reported for issue underwriting, which increased by PLN 661.4 million (120%). Credit commitments once again represented the biggest share (77.8%) of off-balance-sheet commitments and increased by 3.9%, i.e. PLN 417.8 million, in 2012. Credit commitments consist of committed but currently unutilized credit lines and unutilized overdraft facilities.

Contingent off-balance sheet liabilities granted

PLN '000	As at		Change	
	31.12.2012	31.12.2011	PLN '000	%
Guarantees	1,764,624	2,054,187	(289,563)	(14.1%)
Letters of credit issued	144,855	132,833	12,022	9.1%
Third-party confirmed letters of credit	4,273	5,385	(1,112)	(20.6%)
Committed loans	11,092,470	10,674,678	417,792	3.9%
Underwriting	1,212,550	551,150	661,400	120.0%
Other	35,186	31,410	3,776	12.0%
Total	**14,253,958**	**13,449,643**	**804,315**	**6.0%**
Provisions for off-balance sheet liabilities	11,476	11,474	2	0.0%
Provision coverage ratio	0.08%	0.09%		

The total amount of collateral established on the accounts or assets of the Bank's borrowers amounted to PLN 2,483 million at 31 December 2012 and PLN 1,736 million at 31 December 2011.

The Bank issued 11,119 enforcement titles in a total amount of PLN 176.7 million in 2012 and 16,283 enforcement titles in a total amount of PLN 225.5 million in 2011.

2. External funding

The total external funding of the Group (from customers and banks) stood at PLN 29.2 billion as at the end of 2012 and was PLN 0.9 billion (3.0%) lower than at the end of 2011. The changes to external funding of the Group's operations was largely contributed by term deposits, including both term deposits of banks (down by PLN 3.6 billion or 87.0%) and deposits of non-financial sector entities (down by PLN 1.7 billion or 19.8%). On the other hand, volumes of customers' current accounts increased (by PLN 1.1 billion or 7.9%) and so did liabilities due to sold securities under repurchase agreements (up by PLN 3.1 billion).

Funding from banks

PLN '000	As at		Change	
	31.12.2012	**31.12.2011**	**PLN '000**	**%**
Current account	938,655	1,304,018	(365,363)	(28.0%)
Term deposits	537,903	4,132,423	(3,594,520)	(87.0%)
Loans and advances received	323,924	556,973	(233,049)	(41.8%)
Liabilities from securities sold under agreement to repurchase	552,680	-	552,680	-
Other liabilities	127	10,518	(10,391)	(98.8%)
Accrued interest	3,140	7,446	(4,306)	(57.8%)
Total	**2,356,429**	**6,011,378**	**(3,654,949)**	**(60.8%)**

Funding from customers

PLN '000	As at		Change	
	31.12.2012	**31.12.2011**	**PLN '000**	**%**
Deposits of financial sector entities				
Current accounts	444,961	267,645	177,316	66.3%
Term deposits	2,346,533	1,963,538	382,995	19.5%
Accrued interest	3,296	1,077	2,219	206.0%
	2,794,790	**2,232,260**	**562,530**	**25.2%**
Deposits of non-financial sector entities				
Current accounts, including:	13,834,538	12,961,126	873,412	6.7%
Corporate clients	6,990,395	5,616,881	1,373,514	24.5%
Individuals	4,835,774	4,736,739	99,035	2.1%
Public entities	2,008,369	2,607,506	(599,137)	(23.0%)
Term deposits, including:	6,984,086	8,709,389	(1,725,303)	(19.8%)
Corporate clients	5,110,253	6,700,896	(1,590,643)	(23.7%)
Individuals	1,050,734	1,245,610	(194,876)	(15.6%)
Public entities	823,099	762,883	60,216	7.9%
Accrued interest	16,306	19,230	(2,924)	(15.2%)
	20,834,930	**21,689,745**	**(854,815)**	**(3.9%)**
Total deposits	**23,629,720**	**23,922,005**	**(292,285)**	**(1.2%)**
Other liabilities				
Liabilities from securities sold under agreement to repurchase	3,059,546	-	3,059,546	-
Other liabilities, including:	160,143	173,089	(12,946)	(7.5%)
Cash collateral	74,380	73,729	651	0.9%
Accrued interest	2,756	753	2,003	266.0%
	3,222,445	**173,842**	**3,048,603**	**1,753.7%**
Total	**26,852,165**	**24,095,847**	**2,756,318**	**11.4%**

3. Interest rates

The table below presents weighted average effective interest rates for receivables and liabilities by segment of the Bank's activities:

As at 31 December 2012

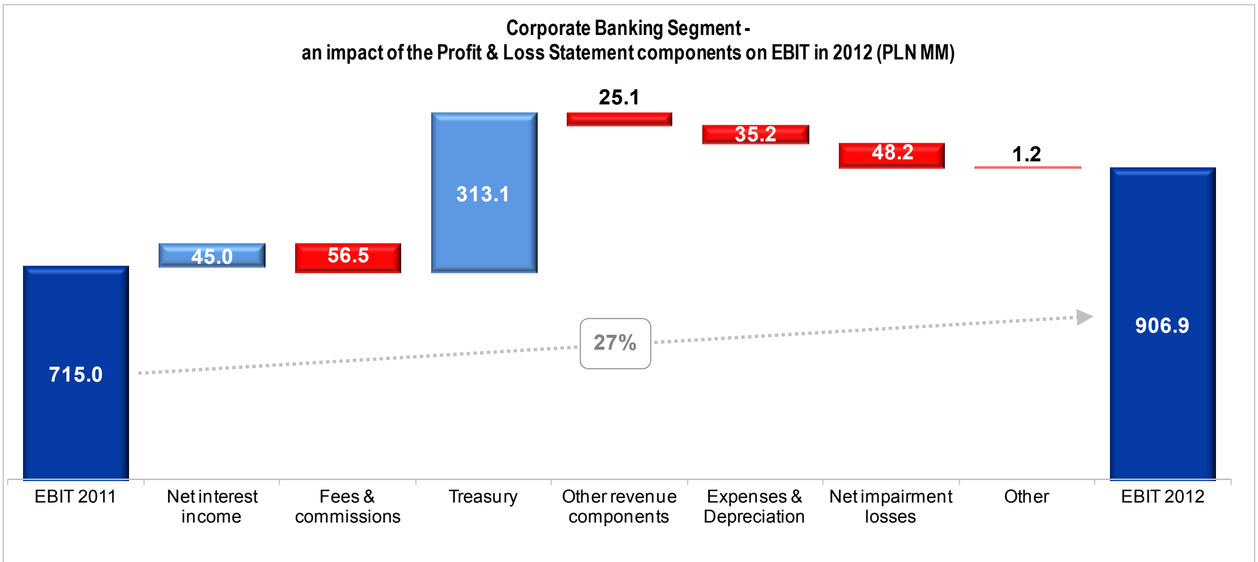
in %	Corporate Bank			Consumer Bank		
	PLN	EUR	USD	PLN	EUR	USD
ASSETS						
Receivables from banks and customers						
- fixed term	5.77	1.81	1.42	15.82	2.06	-
Debt securities	4.49	2.62	2.82	-	-	-
LIABILITIES						
Liabilities towards banks and customers						
- fixed term	3.56	0.17	0.21	3.62	0.37	0.26

As at 31 December 2011

in %	Corporate Bank			Consumer Bank		
	PLN	EUR	USD	PLN	EUR	USD
ASSETS						
Receivables from banks and customers						
- fixed term	6.58	2.89	1.45	15.46	2.60	7.40
Debt securities	4.99	3.64	4.47	-	-	-
LIABILITIES						
Liabilities towards banks and customers						
- fixed term	4.18	0.59	0.37	3.66	0.42	0.24

4. Corporate Banking Segment

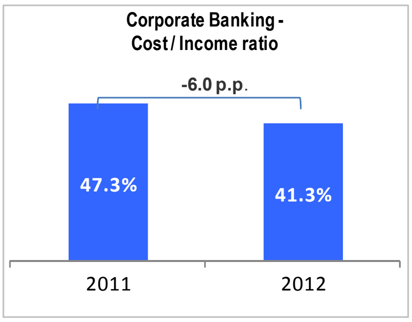
4.1 Summary of segment's results



In 2012, the Corporate Bank sector reported an increase in profit before tax by PLN 192.0 million or by 27%. The profit before tax of the Corporate Bank segment for 2012 was affected by the following factors when compared to the previous year:

- Net interest income of PLN 715.1 million compared to PLN 670.1 million in 2011 – an increase by PLN 45.0 million driven by higher income on loans owning to an increase in the volume of consumer loans and higher income on debt securities held-for-trading. On the other hand, interest expenses increased on amounts due to financial sector entities;
- Net commission income of PLN 250.9 million compared to PLN 307.4 million in 2011 – a decrease by PLN 56.5 million, mainly driven by reduced commission income on brokerage activities due to reduced trading in stocks on the secondary market of the Warsaw Stock Exchange (trading volume went down by 25.3% compared to 2011);

- Net gains on trading financial instruments and revaluation of PLN 335.7 million when compared to PLN 271.9 million in 2011 (increase by PLN 63.8 million) driven by improved gains on management of the Bank's proprietary position, and net gains on investment debt securities of PLN 279.5 million compared to PLN 30.1 million in 2011 (increase by PLN 249.3 million) owing to profits realized in view of falling bond yields in 2012) – those items are presented under Treasury operations on the graph below;
- Other operating income and expense of PLN 8.6 million when compared to PLN 35.1 million in 2011 – decrease by PLN 26.5 million due a non-recurring event – the repayment of interest PLN 17 million accrued on CIT overpayments to the Tax Office);
- Overheads and general administrative expenses and depreciation of PLN (658.1) million in 2012 when compared to PLN (622.9) million in 2011 – an increase by PLN 35.2 million mostly owing to increased staff costs (in 2012, they included a provision of PLN 4.3 million on severance pay for employees to be laid off according to an employment restructuring program). Despite growing costs, the higher rate of revenue growth allowed for reducing the Cost/Income ratio down to 41.3% or by 6.0 p.p. when compared to 2011;



- Net impairment losses were PLN (28.1) million in 2012 compared to PLN 20.1 million in 2011 – their growth was a result of an increased risk of borrower default, mainly in the Commercial Bank segment (SME and MME).

4.2 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 entities.

The number of corporate clients (including Commercial Bank clients, global clients and corporate clients) was 7.6 thousand at the end of 2012, a decrease of 5% compared to 2011, when the number was 8.1 thousand. In the Commercial Bank (small and medium-sized enterprises, large companies and the public sector), the Bank served 5.6 thousand clients at the end of 2011, a decrease of 8% compared to 6.1 thousand clients served at the end of 2011.

What corporate banking clients have in common is their demand for advanced financial products and advisory in financial services. In this 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 innovative, competitive and modern financing structures on offer rely on a combination of the 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 according to the management reporting format.

Assets

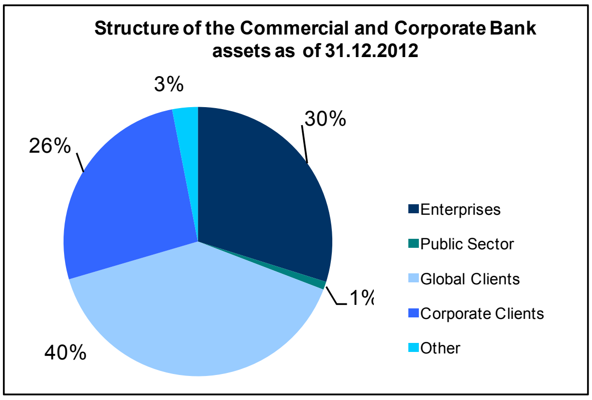
PLN million	31.12.2012	31.12.2011	Change	
			PLN'000	%
Enterprises, including:	3,133	2,823	310	11%
SMEs*	1,491	1,494	(3)	(0%)
Large enterprises*	1,642	1,329	313	24%
Public Sector	101	109	(8)	(7%)
Global Clients	4,165	3,317	848	26%
Corporate Clients	2,778	2,207	571	26%
Other**	323	612	(289)	(47%)
Total Commercial Bank	**10,500**	**9,068**	**1,432**	**16%**

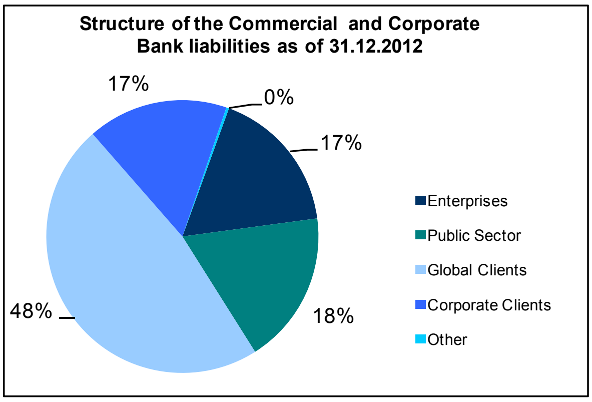
Liabilities

PLN m	31.12.2012	31.12.2011	Change	
			PLN'000	%
Enterprises, including:	2,969	3,289	(320)	(10%)
SMEs*	2,224	2,344	(119)	(5%)

PLN m	31.12.2012	31.12.2011	Change	
			PLN'000	%
Large enterprises*	745	945	(200)	(21%)
Public Sector	3,110	3,642	(532)	(15%)
Global Clients	8,147	7,258	889	12%
Corporate Clients	2,860	2,981	(121)	(4%)
Other**	54	52	2	4%
Total Commercial Bank	**17,140**	**17,222**	**(82)**	**(0%)**

** Enterprises include clients with annual turnover from PLN 8 million to PLN 150 million (SME) and from PLN 150 million to PLN 1.5 billion (large enterprises).*
*** "Other" includes, among others, clients under restructuring and clients of Handlowy Leasing Sp. z o.o. who are not clients of the Bank.*





<u>Key transactions and successes of the Corporate and Commercial Bank in 2012:</u>

- The Bank participated in the closing of the biggest foreign acquisition in the history of Polish companies made by the Polish copper mining leader KGHM Polska Miedź S.A. The acquisition target was the Canadian mining company Quadra FNX and the deal was worth close to PLN 9 billion. Citi Handlowy was one of the banks providing financial services throughout the acquisition process (from USD/CAD currency exchange to final settlement). The spectacular project was carried out as part of the Emerging Market Champions program active in the Bank since October 2011;

- In December 2012, the Bank signed an agreement to provide bank account services to the City of Warsaw. The Agreement is effective as of 1 January 2013 for a term of 5 years. The agreement also provides for a PLN 500 million overdraft facility.

  Citi Handlowy operates the bank accounts of the City of Warsaw since 2008. The 2012 agreement extends the Bank's services for another 5 years as a result of a public procurement procedure opened by the City in June and awarded in August 2012. The services under the agreement include: provision of POS terminals supporting card payments at the City's cash desks, post transfers of local taxes, and provision of family benefits in pre-paid cards;

- In 2012, the Bank signed the following financing facility agreements with corporate clients in the banking, energy, mining, FMCG, pharmaceutical and retail industries:
  - 3Y credit facility agreement with a client from the banking sector. The Bank is one of the lead arrangers of financing and has the biggest participation at CHF 100 million. The Bank is also the Documentation Agent and the Credit Agent;
  - PLN 600 million short-term credit facility agreement;
  - PLN 500 million overdraft facility agreement;
  - PLN 256 million long-term credit facility agreement;
  - PLN 200 million overdraft facility agreement (financing combined with bank account service for the company and its branches);
  - PLN 100 million mid-term credit facility agreement;
  - PLN 50 million overdraft facility agreement combined with transactional banking services;

- In 2012, the Bank closed among others the following transactions with clients in the Global Clients segment:

- The Bank participated in arranging and partial financing of exports for a leading automotive industry manufacturer. The Bank's participation in the EUR 150 million program is EUR 52 million;
- The Bank granted a PLN 300 million 1Y loan to a key player in the food sector;
- The Bank established relations with a client in the fuel and energy sector and signed a PLN 240 million working capital facility agreement;
- The Bank signed a PLN 100 million 2Y facility agreement with a leading food sector operator;
- The Bank raised a vendor finance program for a retail industry client by PLN 100 million (to PLN 300 million);
- In June 2012, the Bank closed a trade finance deal for a leading construction operator covering 450 trade partners under a PLN 85 million program;
- The Bank granted a PLN 50 million working capital facility to a new client in the food sector;
- In 2012, the Bank was awarded a contract in a tender to provide services to a cable television operator and a tender to provide services to a garden equipment manufacturer including transactional services and financing;

- In 2012, the Bank closed a number of financing deals with Commercial Banking clients including:
  - 1Y syndicated facility arranged together with four other banks, where Citi Handlowy's participation is PLN 95 million, for a car parts importer and distributor;
  - PLN 70 million overdraft facility for a leading IT hardware wholesaler;
  - PLN 50 million trade credit facility for a railcar producer and a PLN 40 million trade credit facility for a metal structure producer;
  - PLN 33 million investment facility and PLN 11.5 million overdraft facility for a packaging producer;
  - PLN 30 million overdraft facility for a client in the home electrical appliances wholesaler;
  - USD 10 million investment facility agreement with a brewery;
  - PLN 25 million 4Y working capital facility for a publisher;
- In 2012, the Bank signed among others the following bond program agreements:
  - PLN 1.6 billion subordinated bond issue program for a top Polish bank; Citi Handlowy was the bond issue Arranger and Dealer;
  - annex to a December 2010 agreement increasing the bond issue program for a major energy industry client and raising the Bank's participation to PLN 917 million;
  - bond issue program agreement with a key power sector company in Poland; the Bank's participation in financing is PLN 408 million;
  - PLN 1 billion bond issue program agreement with an automotive industry client.

4.3 Treasury

City Handlowy's Treasury Division generated a profit in 2012 which was record-high in the past few years. It was driven by spectacular performance on the primary market and the Bank's leading position in secondary market quotations. As importantly, the Bank was involved in the promotion of the Polish market and actively contributed to the development of the local debt issue policy.

The Bank remained the market leader in foreign exchange transactions with corporate clients and reported very good results on fx transactions in 2012 as the value of trade increased by 20% compared to 2011. Cash and fx position management solutions offered by the Bank address the expectations of the most demanding clients.

The Bank's position on the fx market was confirmed by a ranking published by the prestigious Euromoney magazine in May 2012, placing Citi Handlowy for a fourth consecutive year in the first position for foreign exchange transactions with corporate clients.

Citi Handlowy's market share in Poland was 28% in this area, over 10% more than the score of the next best competitor in the second position. The ranking is based on the market share estimated using data provided by surveyed clients.

CitiFX Pulse, an online fx platform, remains very popular. Nearly 80% of all foreign exchange transactions were made via the platform in 2012 while the volume of online transactions increased by 23% compared to 2011. CitiFX Pulse is an innovative and functional tool which offers a broad range of useful functionalities and, most importantly, provides unlimited real-time access to quotations. Clients can single-handedly close transactions at attractive prices, place currency buy and sell orders at a specific fx rate, and use access to economic research and latest news from Poland and the world. According to Euromoney, CitiFX is the most popular online fx platform in the market.

Thanks to the dedication and efforts of the Financial Markets Department, the Bank ranked #1 in the "Best Debt House in Poland" category of the Euromoney Awards for Excellence 2012.

The volume of transactions in Treasury bonds with financial institutions increased by 93% year on year in 2012. The Bank achieved this result thanks to its competitive offer of Treasury bond buy and sell transactions addressed to institutional investors.

The Bank remains a leader in arranging issues of bonds and certificates of deposit for banks. According to the Fitch Ratings Rating&Rynek report, the Bank had a nearly 28% market share at the end of December 2012.

Citi Handlowy ranked first in the 2013 Treasury Securities Dealer competition organized by the Ministry of Finance. The Bank performs this function and cooperates with the Ministry of Finance in order to build a transparent, liquid and effective market in Treasury securities. In 2012, we were the most active bank buying Treasury bonds on the primary market. Our market share was over 20%, twice that of the next best bank in the ranking. Our success was possible also due to the fact that we were the leader of an overall ranking of the quality of quotations on the secondary market. We also scored high thanks to our cooperation with the Ministry of Finance aiming to promote the Polish market among clients and our initiatives supporting the development of Poland's debt issue policy. The Treasury Securities Dealer system is used in almost all European Union countries. It has been used in Poland since 1996, mainly in open market operations. The Treasury Securities Dealer competition is organized by the Ministry of Finance since 2002.

4.4 Transactional services

The Bank is a leader in the transactional services market in Poland. The Bank's broad range of transactional services helps clients to improve the effectiveness of cash management. Transactional banking services optimize control over payments due, help to deposit surplus cash, clear transactions with foreign partners and finance working capital through trade finance solutions. 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; the Bank is the leader in the prepaid cards market; MicroPayments, a product dedicated for mass deposits, is the leading solution in the market; the liquidity management products offered by the Bank are most advanced. Custody services offered by the Bank are chosen the most often by foreign and domestic financial institutions on the Polish market. In recognition of the top quality of provided custody services, the Bank has been Top Rated in the most prestigious *Global Custodian* survey. The Bank has been awarded in the survey for a fourth consecutive time. It should also be stressed that the Bank is the only bank in Poland to have been awarded in the most prestigious category of Leading Clients.

One of the strategic directions of development of transactional banking is the expansion of remote customer service channels. A milestone in online banking was reached in 2012 with the implementation of a new version of CitiDirect: CitiDirect Ewolucja Bankowości (CitiDirect EB). Functionalities offered by the new platform are mainly addressed to SME clients. CitiDirect EB is one of the means employed by the Bank to attract new clients and further engage existing clients. The key features of the new system include fast access to the most frequently used functionalities, the option of customizing displayed content to the user's individual needs, and a simplified method of entering payments.

The Bank also implemented CitiDirect Mobile in 2012. The new service enables institutional clients to authorize and send payments and view account information on mobile devices. Several months after the implementation of the service, 1.8 thousand companies already have access to the application.

The implementation of Citi Trade Portal opened a new chapter in the Bank's online banking service. The new application supports trade finance products online. A range of functionalities available in the new application allow clients to import files in any format, send applications, and generate reports online. The new platform has been appreciated by experts: Citi Trade Portal was named the Innovation of the Year 2012 in November 2012. The Innovation of the Year 2012 contest was organized by the Business Forum under the auspices of the Department of Technical Sciences of the Polish Academy of Sciences. Citi Trade Portal strengthens the Bank's expansion in trade finance.

The constantly expanded offer of trade finance products is increasingly popular: assets of the trade finance area increased for another consecutive year, growing by 35% year on year at the end of 2012. A spectacular success in this regard, and best proof of the top quality of expertise, came with the Bank's participation in an international syndication arranged to finance the biggest transaction supporting Polish exports with the participation of KUKE in 2012.

Services for public sector entities are a pillar of the Bank's growth strategy. In 2012, the Bank was once again awarded a contract in a tender opened by the City of Warsaw to appoint an institution providing comprehensive bank account services to the City. The renewal of the Bank's contract is particularly noteworthy given the high complexity of the local government structure in Warsaw. This is yet another proof of the highly advanced profile of the Bank's transactional services offered to the public sector. The experience acquired to date ensured further success as another 36 public sector entities joined the Bank's clients, including the Cities of Elbląg, Olsztyn, Kołobrzeg and Inowrocław, as well as the University of Warmia and Mazury.

Deposits and current accounts

The current account gives customers access to the full range of services offered by the Bank. Cash put by clients in current accounts, which is not needed to finance current activities, may be placed in term deposits.

In addition to term deposits, the Bank's offer includes:

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

Liquidity management products

Liquidity management structures are advanced instruments that optimize cash flows within a group of companies. The liquidity management offer of the Bank provides the possibility of optimal management of a cash surplus in over-liquid companies and firms 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 balance and costs at no liquidity risk.

The Bank's offer has been expanded to include cash management solutions that are unique on the Polish market: multi-currency cash pooling, which can add accounts in different currencies to an existing single-current cash pooling structure. The process first converts cash into the lead currency and then consolidates the balances of all accounts in the lead account of the structure.

MicroPayments

In 2012, 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. The MicroPayments product also supports calculation of historical interest value, i.e., allocation of interest amounts to respective past deposits placed by the payer.

In 2012, all clients were migrated to the new version of the technology platform. The core application was developed in 2011 and new functionalities were added in 2012. The customer service process in the system has been simplified and automated while inconveniences have been eliminated. The hours of accepting orders during the business day have been extended. Interest can be accrued on the basis of different periods. The range of available options of returning cash is also broad. The Bank acquired more than 20 new clients in 2012, which contributed to an increase of MicroPayments cash balances by 36% year on year in 2012.

This product is currently used by clients of the Bank mainly including courts and prosecution administrations. MicroPayment services are also offered to clients from beyond the public sector: this solution of the Bank is an excellent tool for tender procedures.

Electronic banking

CitiDirect is the primary electronic banking system that the Bank offers to its corporate clients. The number of transactions processed in the electronic banking system remains high at ca. 25 million transactions annually. Nearly 5 thousand clients were actively using electronic banking at the end of 2012. The share of bank account statements delivered to clients only in electronic form remained high and stable at 90%, similar to 2011.

Three major developments in electronic banking took place in 2012. A new service was launched: CitiDirect EB Mobile, which gives access to electronic banking from mobile devices including smartphones and tablets. Currently 1,800 companies have access to the service. A new version of the electronic banking system CitiDirect Ewolucja Bankowości (CitiDirect EB) significantly improved SME customer satisfaction. The service gives access to standard functionalities of the electronic banking system and offers a simplified user interface, which facilitates work with the system. First opinions of SME clients confirm the benefits of the new platform. Two thousand clients already use the platform. Citi Trade Portal was launched for clients who use trade finance products. The application was acknowledged by experts. The platform was named the Innovation of the Year 2012 in a contest organized by the Business Forum under the auspices of the Department of Technical Sciences of the Polish Academy of Sciences. The competitive edge of the system consists in a range of solutions supporting client data imports, online access to limit and cost data, and feedback messages delivered to clients. The implementation of Citi Trade Portal strengthens the Bank’s expansion in trade finance.

Card products

In the business card segment, the value of cash transactions increased by 8% and the value of cashless transactions increased by 3% year on year in 2012. The number of cashless transactions increased by 8% and the number of cash transactions remained stable in the same period.

Business cards made a significant contribution to the Bank’s acquisition of new clients in the global segment in 2012.

In the debit card segment, the value of cash transactions increased by 27% and the value of cashless transactions remained stable year on year in 2012. The number of cashless transactions increased by 5% and the number of cash transactions increased by 3% in the same period.

The Bank continues to deliver new solutions and new functionalities and constantly modifies banking services offered to corporate card users.

Debt management: Direct Debits, SpeedCollect

The Bank provides its clients with comprehensive debt management services. One of the segments of this service market, in which the Bank holds a dominant position, is the direct debit market. In 2012, the Bank remained the direct debit market leader and cleared the highest number of transactions as the creditor’s bank.

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 as it makes it possible to manage their counterparties’ settlements effectively. The Bank has nearly fifteen years of experience in SpeedCollect services. It was the first entity in the Polish market to include a product of this type in its offer. In 2012, the Bank maintained its leading position in the Polish market as regards the processed volume of transactions.

In order to ensure top quality of debt management service, the Bank launched a new technology platform supporting SpeedCollect and Direct Debit services in 2012. With its three-tier system architecture, system scalability and parallel processing of information independently for each client, the new platform ensures fast execution of even the most complex projects.

Foreign bank transfers

The volume of foreign bank transfers increased by over 10% year on year in 2012.

Cash products

The Bank provides its clients with comprehensive cash management services. The highest volume of cash transactions served by the Bank are over-the-counter deposits made by clients. The year 2012 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 Bank offers over-the-counter deposits in different variants tailored to the expectations of clients. The transactional banking offer also includes the following solutions:

- 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;
- cash transport;
- purchase of safe envelopes for depositing cash;
- electronic document transfer;
- SpeedCash (SpeedCollect for over-the-counter payments);
- bank vault services.

Since 2012, the Bank's offer of open over-the-counter deposits includes deposits made in Polish Post outlets across Poland. As a result, the Bank added around 4 thousand locations to the map of outlets where clients can make over-the-counter deposits.

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

In 2012, the Bank optimized its branch network by reducing the number of branches in big cities and closing down branches in cities with a low customer activity ratio. Cash desks were opened at locations where the Bank needs to have a presence in order to handle low volumes of basic banking operations. Direct access of customers to the Bank has been strengthened in partnership with Post Bank (Bank Pocztowy S.A.), which opened up 216 dedicated outlets which accept payments for US visas.

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. Increasingly popular are currency purchase and sale services offered to other banks (so-called providing).

EU advisory

In 2012, 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 sparked interest of many clients. As a result of the meetings, new EU advisory contracts were signed.

An important element of the work of the EU Office was a technological loan application round. As a result, the Bank filed 22 applications with Bank Gospodarstwa Krajowego S.A. for clients' investment projects in a total amount of PLN 141 million.

On 12 December, representatives of Bank Handlowy w Warszawie S.A. and Kreditanstalt fur Wiederaufbau signed an agreement whereby the Bank raised EUR 30 million for financing of energy efficiency investments. KfW (Kreditanstalt fur Wiederaufbau) operates the SME Energy Efficiency Program and the Municipal Energy Efficiency Program on behalf of the European Commission and in cooperation with the Council of Europe Development Bank (CEB) to provide resources and expertise facilitating energy efficiency investments of SMEs and public sector entities. KfW programs are designed to encourage participants to invest in energy efficiency and prompt banks in the program countries to add energy efficiency investment finance to their offers.

Trade finance products

Trade finance products play an important role in the Bank's transactional banking services. The key elements of the offer include financing of trade receivables through factoring, trade credit, as well as buyer's credit.

Interest of clients in the trade finance offer allows the Bank to gradually increase its assets in this segment. The Bank's assets under trade finance products increased by 35% year on year in 2012. It was the fourth consecutive year of growth in assets reported in this segment.

In 2012, the Bank participated in one of the biggest buyer's credit facilities arranged in Poland for a top manufacturer of agricultural machinery in Europe. It was the biggest transaction supporting Polish exports for KUKE in 2012. The Bank's participation in the facility as part of an international credit syndication was EUR 51 million.

The Bank implemented reverse factoring services on the electronic banking platform Citi Trade Portal in mid-2012. Citi Trade Portal offers useful functionalities at each stage of the customer service process: data import (the Bank accepts the client's file in any format), delivery of a financing application (cost controls, checking available limits online), and full feedback on transactions (status, reports, platform messages, text messages, e-mail messages). Citi Trade Portal was named the Innovation of the Year 2012 in November 2012. The Innovation of the Year 2012 contest was organized by the Business Forum under the auspices of the Department of Technical Sciences of the Polish Academy of Sciences. More modules will be added to the platform to support trade finance products in 2013.

In June 2012, the trade credit offer was additionally enhanced by the addition of financing in foreign currencies: the product was introduced to the offer in 2011 and ensures comprehensive working capital finance. The product is currently used by several dozen clients of the Bank, mainly in the SME sector.

The Bank has extensive experience and offers high quality of structured trade finance services. Major events in 2012 in this area included:

- significant increase of turnover in the Bank's biggest vendor finance program for a top retail chain in Poland;
- PLN 75 million reverse factoring facility for a top construction and chemical producer;
- cooperation with other financial institutions to launch and develop debt discounting programs for the biggest petroleum and FMCG operators;
- PLN 40 million structured pre-finance for a heating infrastructure delivery and modernization contract;
- PLN 50 million structured pre-finance for a railway industry vendor contract.

4.4.1 Custody services

The Bank provides custody services under Polish regulations and in compliance with international standards for custody services offered to investors and intermediaries active on international securities markets. The Bank can meet the requirements of the largest and most demanding institutional clients.

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

As part of its statutory activities provided on the basis of a permit from the Securities and Exchange Commission (currently the Polish Financial Supervision Authority), the Bank operates securities accounts, clears securities trades, executes 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, which includes mediation in clearing transactions of domestic clients in foreign markets.

In the reporting period, the Bank maintained its position of a market leader in clearing of securities transactions executed for the benefit of remote members of the Warsaw Stock Exchange and BondSpot S.A. In addition, the Bank participated in the clearing of transactions closed by institutional clients on the electronic debt securities trading platform Treasury BondSpot Poland organized by BondSpot S.A.

The Bank is the first custodian bank in Poland to take advantage of the opportunities opened by amended legislation and add to its offer a solution where the Bank operates omnibus securities accounts for authorized foreign entities, thus acquiring new customers and strengthening its position in the segment of foreign financial intermediaries.

As at 31 December 2012, the Bank maintained 11.4 thousand securities accounts.

At the same time, the Bank was a custodian bank for five Open Pension Funds (OFE): Amplico OFE, Aviva OFE Aviva BZ WBK, ING OFE, Pekao OFE, Nordea OFE; five voluntary pension funds: MetLife Amplico DFE, Nordea DFE, ING DFE, DFE Pekao, Generali DFE; two employee pension funds: Pracowniczy Fundusz Emerytalny PZU "Słoneczna Jesień" and Pracowniczy Fundusz Emerytalny Telekomunikacji Polskiej S.A.

The Bank was a custodian bank for investment funds managed by the following Investment Fund Companies (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 S.A.

In 2012, the Bank continued its activities aimed at improvement of the legislation regulating the securities market. A representative of the Bank was the Chair of the Bureau of Custodian Banks at the Polish Bank Association for the third consecutive term of office. During the reporting period, the Council continued negotiations with the Polish Financial Supervision Authority opened in 2011 in order to clarify doubts arising in connection with the performance of some duties of an investment fund and pension fund custodian. The Council participated in discussions of the rules of financing of the capital market activities of the Polish Financial Supervision Authority. Through the Council, representatives of the Bank took active part in developing new solutions on the capital market, including a project introducing a new mechanism of novation in clearing, the implementation of the new trading system UTP on the Warsaw Stock Exchange, the amendment of two regulations of the Minister of Finance: concerning the procedure and conditions of activities of investment firms […] and custodian banks; concerning the detailed technical and organizational conditions for investment firms […] and custodian banks; as well as development of short-selling rules.

The Council was actively involved in the evaluation of other draft legal acts related to operations of domestic custodian banks. Moreover, a representative of the Bank was the Chairman of the Advisory Committee to the National Depository for Securities (KDPW S.A.) whose activity consists in evaluation of draft KDPW regulations concerning the operation of omnibus securities accounts. Based on the Bank's resources, experience and competences, employees of the Bank in cooperation with the Polish Financial Supervision Authority, the National Depository for Securities and the Warsaw Stock Exchange participated in consultations on the implementation of new solutions in the Polish capital market through working groups established at the Polish Bank Association and in deliberations of market working groups which develop transaction settlement standards, in particular the National Market Practice Group appointed by KDPW S.A.

4.5 Brokerage Activity

The Group pursues brokerage activities on the capital market via the Brokerage House of Bank Handlowy (Dom Maklerski Banku Handlowego S.A.) ("DMBH") which is wholly owned by the Bank.

In 2012, DMBH acted as a broker in 12.2% of stock trades on the secondary market (unsolicited data) thus being the market leader. Over the period concerned, the value of transactions brokered by DMBH on the stock market of the Warsaw Stock Exchange was PLN 45.9 billion (decline by 22.6% compared to a corresponding period of the preceding year). The value of deals at the Warsaw Stock Exchange went down by 25.3% compared to a corresponding period of 2012.

In the "2012 Brokerage Houses" Ranking published by Forbes (Oct. 2012), DMBH was again rated the best brokerage office in Poland by institutional investors; it is appreciated for professionalism and strong confidence level. Moreover, in the stock market activity ranking prepared by the *Parkiet* newspaper (Jan. 2013), DMBH was again recognized as the most active broker – it maintained the leadership from 2011. In summaries of brokerage activities in 2012, our institutional brokers and analysts were also recognized. In Forbes' "Stock Exchange Analysts" (Apr. 2012), Piotr Zielonka was among the best analysts in Poland for the third time – this time he won.

Value of equity turnover and volume of derivative trades of DMBH in 2012

	2012	2011	Change (%)	Share in turnover in 2012	Share in turnover in 2011
Equity (PLN MM)	45,908	59,317	(22.6%)	12.2 %	11.1%
Futures ('000 of units)	363.7	584.1	(37.7%)	1.5%	2.0%
Number of investment accounts (units)	9,309	9,238	0.8%	-	-

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

The number of investment account maintained by DMBH was 9,300 at the end of 2012 (compared to 9,200 accounts at the end of 2011) – an increase by 0.8%.

In 2012, a variety of distribution channels of brokerage services was used in the Consumer Bank segment. Instructions to open 581 brokerage agreements were fulfilled via the Bank's points for accepting orders. In 2012, a significant majority of investors used the online channel for access to their investment account. At the end of the year, ca. 3,100 customers enjoyed an online access to their investment accounts. Approximately 80% of all orders placed in 2012 were placed online.

Towards the end of 2012, DMBH was the market maker for shares of 32 companies listed on the stock exchange in Warsaw. This represents 8.9% of all shares listed on the main stock market in Warsaw. The declining number of issuers for whom DMBH was the market maker was compensated by the growing activity of companies remaining in DMBH's portfolio. It is also noteworthy that in 2012, DMBH was the market maker of all WIG20 companies. Based on the annual summary prepared by the Warsaw Stock Exchange, DMBH was the second most active market maker among all players in that capacity.

In 2012, DMBH carried out the following transactions on the capital market:

- **Giełda Papierów Wartościowych w Warszawie S.A.** – DMBH acted as the Joint Lead Manager in public offering on series B bonds worth PLN 75 million (February 2012);
- **Polska Grupa Energetyczna S.A.** – DMBH was the Joint Book Builder in an accelerated sale of the block of shares owned by the State Treasury and worth PLN 2.5 billion (February 2012);
- **KRKA, d.d.** – DMBH was the investment manager supporting the company in the WSE listing process (April 2012);
- **Dom Maklerski TMS Brokers S.A.** – DMBH acted as an intermediary in public call to sell shares made by Nabbe Investments, worth PLN 114 million (April 2012);
- **Dom Maklerski TMS Brokers S.A.** – DMBH acted as an intermediary in compulsory buyout of shares announced by Nabbe Investments, worth PLN 15 million (June 2012);
- **Centrum Klima S.A.** - DMBH acted as an intermediary in public call to sell shares made by Lindab AB, worth PLN 56 million (June 2012); and
- **Centrum Klima S.A.** - DMBH acted as an intermediary in public call to sell shares made by Lindab AB, worth PLN 3.3 million (August 2012).

DMBH was also involved, as an intermediary, in non-public transactions to buy or sell shares (the value of transactions and the name of participants of transactions have not been disclosed).

Summary financial data as at 31 December 2012*

Company	Headquarter	% of authorized capital held by the Bank	Balance sheet total	Equity	Net financial profit/loss for 2012
		%	PLN '000	PLN '000	PLN '000
Dom Maklerski Banku Handlowego S.A.	Warszawa	100.00	503,900	93,218	6,168

**pre-audit data*

4.6 Leasing

The lease business of the Group is carried out by Handlowy-Leasing Sp. z o.o. ("Handlowy Leasing", "HL") which is wholly owned by the Bank.

Total leased assets was PLN 250.7 million in 2012 which, a decrease by 0.4% when compared to total lease assets of PLN 251.8 million in 2011.

The structure of leased assets in 2012 was as follows:

- share of motor vehicles represented 54% of total assets funded;
- share of plant and machinery amounted to 46% of the value of leased fixed assets.

Net asset value of leases

PLN milion	2012	2011	Change	
			PLN million	%
Value of leases contracted in the period	250.7	251.8	(1.1)	(0.4%)
for vehicles	134.4	177.9	(43.5)	(24.4%)
for machinery and equipment	116.3	73.9	42.4	57.4%

Over 2012, the Company continued the strategy focusing on the sale of lease product to the Bank's customers only. The consequence of pursuing this strategy is the declining growth rate of the lease assets portfolio (decline by 20.5% when compared to 2011) – this is a deliberate strategy towards total elimination of the portfolio of mono-product customers that have no other business relationship with the Bank. The reduction of the aggregate balance of lease assets is in line with expectations and is accompanied with the simultaneous considerable improvement in the quality and profitability of that portfolio.

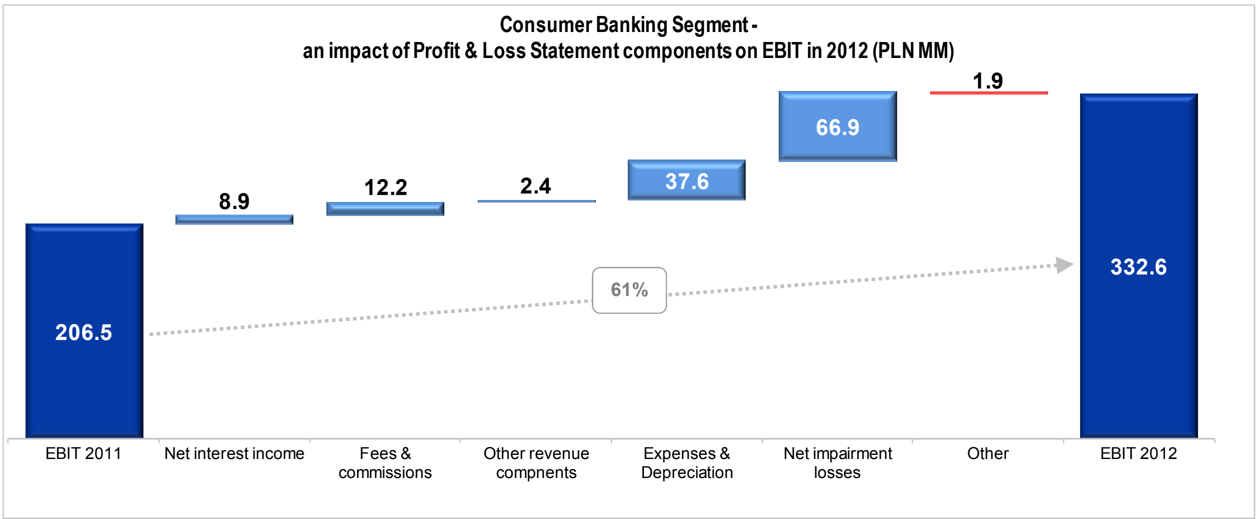
Summary financial data as at 31 December 2012*

Company	Headquarter	% of authorized capital held by the Bank	Balance sheet total	Equity	Net financial profit/loss for 2012
		%	PLN '000	PLN '000	PLN '000
Handlowy-Leasing Sp. z o.o.	Warszawa	100.00	582,395	135,444	(14,920)

**pre-audit data*

5. Consumer Banking Segment

5.1 Summary of the segment's results



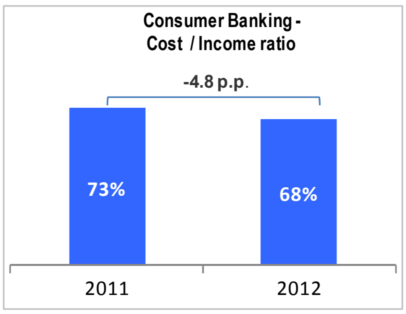
In 2012, the Consumer Bank segment reported the increase in profit before tax by PLN 126.1 million or by 61%. The profit before tax of the Consumer Bank segment for 2012 was affected by the following factors when compared to the previous year:

- Net interest income of PLN 773.2 million compared to PLN 764.3 million in 2011 – an increase by PLN 8.9 million or 1.2%, mainly driven by higher interest income on loans owning to an increase of the mortgage loans portfolio (by 57% YoY). At the same time, interest expenses were slightly higher in 2012;

- Net commission income of PLN 348.0 million compared to PLN 335.8 million in 2011 – an increase by PLN 12.2 million or by 3.6%, mainly driven by higher commissions on credit and debit cards (increased volume of card transactions) as well as investment products (mainly structured products and regular investing plans);

- Other components of income include net gains on trading financial instruments and revaluation (increase by PLN 5.3 million), dividend income (decrease by PLN 0.7 million) and net other operating gains/losses (decrease by PLN 2.2 million);

- Overheads and depreciation of PLN 771.5 million when compared to PLN 809.1 million in 2011 – decline by PLN 37.6 million, mainly thanks to the optimization of the branch network and associated head office support units (for more information about optimization of the branch network see page 39 of this report). At the same time, it should be noted that a restructuring provision of PLN 42.2 million was charged against expenses in the first quarter of 2012, with PLN 37.9 million reported in the results of the Consumer Bank. In 2012, the costs of direct sale channels and marketing expenditure also went down. The reduction of overhead in 2012 led to the improvement of the segment's cost/income ratio by 5 p.p. down to 68%;



- Net impairment losses were PLN (30.0) million in 2012 compared to PLN (96.9) million in 2011 – their reduction by PLN 66.9 million is the outcome of the continued improvement in quality of the credit cards and cash loans portfolio. The improvement in quality stems from amendments to the credit policy that allows for a significant reduction of the proportion of delinquency volumes and the number of restructuring procedures. Moreover, in the second quarter of 2012, some assets with recognized impairment loss of PLN 89.5 million (entirely written off on the Bank's balance sheet) were sold for PLN 14.2 million.

5.2 Selected business data

	2012	2011	Change
Number of individual customers	858,448	971,064	(112,616)
Number of current accounts, including:	585,742	655,250	(69,508)
number of operating accounts	180,678	181,961	(1,283)
Number of operating accounts newly acquired in the period	78,948	111,542	(32,594)
Number of savings accounts	193,102	221,977	(28,875)
Number of credit cards, including:	795,440	849,212	(53,772)
co-branded cards	464,263	482,962	(18,699)
Number of active credit cards	720,698	761,962	(41,264)
Number of debit cards, including:	417,967	472,411	(54,444)
PayPass cards	364,727	328,046	36,681

There were 858.4 thousand individual customers at the end of 2012 compared to 971.1 thousand at the end of 2011. The decrease resulted from a reduction in the number of customers holding deposit products from 499 thousand at the end of 2011 to 425 thousand at the end of 2012 following a review of the deposit product portfolio (closing of inactive accounts), as well as a change to the customer acquisition strategy. At the same time, the number of operating accounts decreased modestly (by 0.7% YoY) to 180.7 thousand at the end of 2012.

5.3 Key business achievements

Optimization of the branch network, workforce restructuring

On 19 March 2012, the Management Board of the Bank announced that the Supervisory Board acting on request of the Management Board approved the 2012-2015 Strategic Guidelines which define efficiency and further growth of profitability as key priorities of the Bank in 2012-2015. Consequently, the Bank took further measures in the Consumer Bank in order to align its business model with the retail banking strategy by focusing on those segments, products and markets which, in the opinion of the Bank, represent the biggest future growth potential and are most resilient to economic slow-down.

This is a continuation of existing efforts initiated in 2010 and aiming to focus the Consumer Bank on higher market segments and on the strengths of the Bank's product offer including wealth management and credit cards, where the Bank has a leading market position. As for the customer service model, this implies that the Bank wants to focus on and strengthen its position in the biggest cities in Poland that are strategically important target markets combined with an increased role of the remote channels: internet and mobile banking, where the Bank has a leading market position.

As a result, the Management Board of the Bank decided to reduce the number of retail banking outlets to around 90. The decision was a continuation of earlier efforts aimed at geographic concentration of the branch network in the biggest cities in Poland ("G9"). Some outlets (around 20) located outside the target markets were closed down and customers in those markets were offered alternative service options: 20 cash desks and Euronet ATMs / ATMs with deposit functions for cash transactions, as well as the remote channels: internet, mobile and telephone banking for other transactions. The other outlets (around 35) were consolidated with existing branches (i.e. some employees, customer portfolios and customer service functions were transferred to other branches and nearest outlets). As a result, the risk of customer attrition and resulting income attrition was minimized. Following these measures, the Bank's network comprised 88 branches at the end of 2012.

The process continues to be supported with projects which align the business model of customer service and product sales to the strategy of the Consumer Bank. The Bank wants to further intensify the use of the alternative distribution channels and state-of-the-art electronic platforms (internet and mobile banking, direct sales agents, telesales), which have developed fast over the past years, while the traditional branch network will focus on top quality customer service, advisory and sales.

Credit cards

There were 795.4 thousand credit cards including 720.7 thousand active cards at the end of 2012.

In 2012, the Bank remained the credit card market leader by the value of transactions: according to statistics available as at the end of Q3 2012, the market share of the Bank was 22.3% compared to 22.7% at the end of 2011. The Bank also remained the market leader by the value of credit card balances with a market share of 18.6% at the end of 2012 compared to 18.3% at the end of 2011.

In 2012, although the number of credit cards decreased, the Bank maintained its market share as measured by the number of credit cards issued: according to statistics available as at the end of Q3 2012, the market share of the Bank increased to 12.3% from 12.1% at the end of 2011. The decrease in the number of credit cards, including active cards, was driven by the Bank's focus on efficiency and further growth of profitability by means of reducing segments that are unprofitable or vulnerable to economic slow-down.

The dominant share in the structure of credit cards sold in 2012 was that of the multipartner Citibank World Credit Card with a share of 51% followed by the Citibank Wizz Air Credit Card with a share of 27% in the number of cards sold.

In 2012, the Bank focused on further development and enhancement of its credit card offer while focusing on growth in transactions and the profitability of the product. In order to boost credit card transactions, the Bank introduced a range of promotions and competitions where customers could win attractive prizes including Samsung Galaxy S III phones, holiday vouchers for stays in Austria and Croatia, travel books, and shopping vouchers. A new website of the Citibank Credit Card discount program www.citirabaty.pl was launched in July 2012 and features the latest discounts offered to Citi Handlowy customers.

In October 2012, the Bank worked with Burda Media and the magazines *Elle* and *In Style* to implement Poland's biggest shopping weekend "Shopping Craze" (*Szaleństwo Zakupów*). In the program, Citi Handlowy customers holding Citibank Credit Cards were awarded special discounts in 240 retail chains across Poland.

Bank accounts

Current accounts

The number of current accounts of individual customers decreased by 10% year on year and stood at 585.7 thousand at the end of 2012 (655.2 thousand in 2011), including more than 397.7 thousand PLN accounts (459.6 thousand in 2011) and more than 188 thousand foreign currency accounts (195.6 thousand in 2011). The decrease in the number of accounts was driven by the decision to close down 70 thousand inactive accounts rather than by customer attrition due to the optimization of the branch network. The Bank continued to pursue its policy of building customer relations and encouraging customers to use current accounts actively; as a result, although the number of accounts decreased, account balances with the Bank increased by 7%. Current account balances stood at PLN 2.4 billion at the end of 2012 compared to PLN 2.2 billion at the end of 2011.

Savings accounts

There were 193 thousand savings accounts with a total balance of PLN 2.5 billion at the end of 2012 compared to 222.9 thousand savings accounts with a total balance of PLN 2.5 billion in 2011. Similar to current accounts, the decrease in the number of savings accounts was driven by closing of inactive accounts.

Changes in the offer:

- In August 2012, the Bank modified the deposit product price list to align in with the strategy of focusing on affluent customers. For customers with incomes below PLN 5 thousand, some fees were raised modestly, including internal transfer fees and account maintenance fees as well as the threshold of waiving the account maintenance fee, while the offer as such remained attractive. Active customers who single-handedly perform transactions on their accounts can still use free-of-charge online transfers, free-of-charge cash withdrawals in ATMs, and free-of-charge accounts subject to a required minimum of cash inflows. No modifications were introduced for affluent customers.
- In 2012, the Bank largely enhanced the process of activating newly opened accounts with the implementation of a new process of building relations based on electronic communication. In April

2012, the Bank conducted an image campaign in the biggest cities in Poland in order to present the offer of bank accounts for affluent customers.

Credit products

Cash loans

The cash loan portfolio stood at PLN 2.1 billion at the end of 2012, which represented a decrease of 4% year on year. At the same time, new sales increased significantly, by 33% year on year in 2012. The profitability of the new portfolio as measured by the average interest rate also increased, by 11% year on year in 2012.

Mortgage products

Sales of Citi Handlowy mortgage products were record-high in 2012. The sales stood at more than PLN 440 million in 2012, an increase of 37% year on year.

The Bank's mortgage loan portfolio stood at PLN 926 million at the end of 2012, an increase of 59% year on year.

Along with sales of mortgage products, the Bank continued to pursue the cross-selling strategy. As a result, more than 95% of customers buying mortgage products also bought at least two other products from the Bank (primarily, personal accounts designated for payroll payments, as well as credit cards).

Investment and insurance products

Investment products

In order to add new investment opportunities to its product offer in 2012, the Bank introduced 10 investment funds from local investment fund companies and foreign investment firms. The additions to the offer included debt and equity products; most of the foreign funds added protect the customers' assets invested in foreign funds against the fx risk of participations denominated in PLN. The Bank offered its customers 143 funds (including 63 local funds and 80 foreign funds) at the end of 2012.

In Q4 2012, the Bank added investment fund advisory services addressed to Gold customers to its offer.

In structured products, the Bank further developed its offer of structured bonds and unit-linked insurance plans and maintained its competitive market position in this segment. The Bank offered 38 subscriptions for structured bonds addressed to CitiGold and CitiGold Select customers in 2012. The structured bonds were denominated in PLN (33 subscriptions), USD (4 subscriptions), and EUR (1 subscription).

The product offer was addressed both to customers interested in solutions which offer coupons indexed to WIBOR and customers interested in direct investments in Polish and foreign equities and commodities from issuers providing full or conditional protection of invested capital at maturity.

With growing customer interest in corporate and government bonds, the Bank participated in transactions with customers in Treasury bonds denominated in different currencies and in corporate bonds not admitted to public trading in Poland.

In collaboration with Dom Maklerski Banku Handlowego S.A. as part of the brokerage service of accepting and transmitting orders, the Bank supported 6 public offerings of securities by accepting subscriptions for investment certificates of closed-ended investment funds, stocks and bonds.

The total value of investment products (including certificates of deposit, bi-currency investments, investment deposits and insurance products) bought by individual customers via the Bank increased by 1.7% year on year at the end of 2012.

Insurance products

In insurance products, the Bank continued initiatives aimed at growing the sales of insurance and enhancing the insurance offer in 2012.

As part of its initiatives in 2012, the Bank introduced a new insurance product for credit card holders offered in a telephone campaign. The "Your Protection" (*Twoja Ochrona*) insurance product provides cover against permanent disability and death of the insured.

The Bank focused on the offer of regular savings and investment products, especially pension plans.

The Bank offered a broad range of products including insurance such as life and endowment assurance, as well as unit-linked insurance plans. Income from such insurance products increased by 24% year on year in 2012.

In the segment of unit-linked insurance plans, the Bank introduced an innovative solution to the market in October 2012: Portfolio Strategies based on the concept of a portfolio of funds of diversified risk profiles. In July 2012, the Bank introduced a new promotional offer of unit-linked insurance plans with a one-off premium (unit-linked life assurance plans, embedded derivatives life and endowment insurance) combined with term deposits. Customers who decided to buy any of the insurance products with a one-off premium in the promotion were offered special terms of term deposits.

In collaboration with PZU Życie S.A., the Bank offered 10 subscriptions for individual unit-linked insurance products (embedded derivatives life and endowment insurance) in 2012.

6. Development of distribution channels

6.1 Branch network

As at the end of 2012, the branch network of the Bank comprised 88 outlets and included L type outlets (formerly the Corporate Bank, CitiGold Wealth Management and Investment Centre) and M type outlets (former multifunctional outlets). All S type outlets (former CitiFinancial branches) were restructured in 2012.

According to the 2012-2015 Strategic Guidelines and the decision of the Management Board of the Bank to optimize the branch network, the Bank took the following measures in 2012:

- an M type branch was opened in Warsaw at 49, Francuska St. – the branch continues the operation of the branch at 4, Garibaldi St. which was closed down in 2011. The branch at the new location is fully functional, features an ATM and serves both individual and corporate customers;
- in view of the decision to sell the property, the operation of the L type branch in Kraków at 21, Grzegórzecka St. was discontinued. At the same time, an Investment Centre dedicated to Citigold Select customers was opened at a new location in Kraków at 25b, Al. Gen. T. Bora-Komorowskiego St.;
- as a result of circumstances preventing extension of the lease contract, the L type branch in Toruń at 21/29, Żółkiewskiego St. was moved to an existing expanded location at 4, Św. Katarzyny St.;
- an M type branch was opened after expansion in Bydgoszcz at 1, Gdańska St.;
- 8 branches formerly operated under the CitiFinancial brand were consolidated (in Poznań, Warsaw, Wrocław, Legionowo, Lublin, Gdańsk and Katowice). As a result, the operation of the branches was moved to an existing M or L type branch which offers a full range of products and services;
- the operation of 51 selected branches was discontinued in 44 cities: Białystok, Bełchatów, Bydgoszcz, Bytom, Dąbrowa Górnicza, Gdynia, Gliwice, Głogów, Gorzów Wielkopolski, Grudziądz, Elbląg, Inowrocław, Katowice, Kielce, Konin, Koszalin, Legnica, Leszno, Lublin, Łomża, Łódź, Mielec, Piła, Piotrków Trybunalski, Płock, Poznań, Pruszków, Radom, Olsztyn, Opole, Ostrów Wielkopolski, Słupsk, Sosnowiec, Szczecin, Świdnica, Tarnów, Tomaszów Mazowiecki, Tychy, Wałbrzych, Warszawa, Włocławek, Wrocław, Zabrze, Żory;
- the scope of deposit services offered to individual customers was expanded in 3 M type branches, now L type branches: in Kraków at 1, Rakowicka St., in Konin at 21b, Chopina St., and in Płock at 14, Tumska St.

Number of branches at the end of the period

	31.12.2012	31.12.2011	Change
Number of outlets:	**88**	**147**	**(59)**
- L type	35	44	(9)
- M type	53	85	(32)
- S type	-	18	(18)
Other POS / customer service outlets:			
Outlets of financial intermediaries (Open Finance, Expander and other)	412	248	164
Airports	7	5	2
Shopping malls	17	18	(1)
Cash desks (Billbird and Brinks)	20	-	20
Own ATMs	115	135	(20)
Euronet ATMs with the Citi Handlowy logo	-*	1,001	(1,001)

* Following the expiration of the Euronet contract, the logo of the Bank was removed from Euronet ATMs in September 2012.

6.2 Internet and telephone banking

6.2.1 Internet and Mobile Banking

Mobile banking

At the end of 2012, Citi Mobile (browser and application) was used by over 111 thousand customers, including over 30 thousand customers who logged on with Citi Mobile for the first time in H2 2012. Users logged on the Citi Mobile platform more than 2.2 million times in 2012, an increase of 130% compared to 970 thousand in 2011.

The Bank continued to develop mobile banking in 2012 and launched a dedicated Citi Mobile application for BlackBerry users. The Bank also modified the user interface for all users in order to make navigation more intuitive and to facilitate use of the application.

The Bank was developing the FotoKasa service in 2012. This innovative functionality of the Citi Mobile application launched in Q4 2011 supports fast payments by means of scanning 2D codes which contain data necessary to make a bank transfer and are placed by service providers on paper or electronic bills. The group of partners who allow FotoKasa payments increased in 2012 with the accession of Netia S.A., Telekomunikacja Polska S.A., PTK Centertel Sp. z o.o., MPT Sp. z o.o. (Warsaw), PGNiG S.A., the Integration Foundation, the Kronenberg Foundation and the Help the Children Foundation.

Furthermore, the Bank took measures to promote Citi Mobile and FotoKasa as a tool facilitating bill payments.

Internet banking

The year 2012 was another period of active development and optimization of credit card sales in the online channel. Online sales of credit cards as a percentage of the Bank's total sales increased by more than 37% year on year in 2012.

The number of the Bank's customers registered with the Online Bank Account Statement (*Wyciąg Online*) service increased by more than 22% year on year in 2012.

Social networks

The Bank remained active in social networks in 2012 and remained the leader of the banking sector in terms of presence on the social network Facebook. The banking fanpage Rabatowcy.pl had over 100 thousand fans at the end of 2012 compared to 40 thousand fans at the end of 2011. Initiatives taken on Facebook to promote Citi Mobile helped to build a community of over 60 thousand fans at the end of 2012 compared to 40 thousand fans at the end of 2011.

6.3 Direct and indirect customer acquisition

Direct customer acquisition

The Direct Sales channel, part of the Direct Sales Department, is an important pillar of the Bank's sales of credit cards. The Bank continued to pursue its sales strategy of the Direct Sales channel. Sales of the unit are generated by two sub-channels: field teams and stationary teams which sell at POS located in shopping malls, Multikino theatres and airports in the main cities in Poland.

The Bank's direct sales network comprised 24 outlets at the end of 2012 and comprised POS located in shopping malls (17) and POS located in airports in Poland (7).

Furthermore, the Bank began optimization of distribution channels in 2012 by expanding the direct sales channel addressed to employees of microenterprises.

Citibank at Work

Citibank at Work is a sales channel dedicated to employees of companies that are corporate customers of the Bank. Citibank at Work is responsible for ensuring top quality of customer service and sales of banking products to customers at their place of work.

Citibank at Work sold more accounts in the most profitable CitiGold segment in the period under review (an increase of 41% compared to 2011).

The financial seminars initiative was continued in 2012 in order to introduce prospective customers to products offered by the Bank (165 seminars were held for ca. 1.7 thousand participants in 2012).

Furthermore, in order to ensure a most comprehensive offer, Citibank at Work added new products to its offer: cash loans and mortgage loans.

7. Innovations

Innovations, one of the main directions of development under the strategy, were reflected in the operations of the Bank in 2012.

In order to implement the strategy and achieve the expected financial results in the area of innovations, the Bank concentrated on delivering specific solutions to clients, improving quality and customer satisfaction, and optimizing internal processes.

New solutions supported the maintenance of the market position in all major areas or further expansion in the key product lines of the Bank, including among others:

- new online platform for trade finance products Citi Trade Portal in the Corporate Bank;
- new version of the electronic banking system CitiDirect EN and its mobile version CitiDirect EB Mobile for corporate customers;
- new version of the CitiFX Pulse platform implemented at the turn of the year in the Treasury Division;
- new version of the mobile banking system Citi Mobile for individual customers.

The focus on innovation was also reflected in the results of competitions and rankings in 2012, both in Poland and abroad, where Citi Handlowy was awarded, among others, as follows:

2012 Innovations Market Leader for Quality, Creativity, Effectiveness in a survey organized by *Dziennik Gazeta Prawna* and *Strefa Gospodarki*.

First rank among banks in the **Top 500 Innovative Companies** ranking organized by the Institute of Economic Sciences of the Polish Economy of Sciences, and 39th position among all participants of the ranking. The Innovation Certificate confirms that our bank pursues with determination its strategy of innovative products and services.

Innovation of the Year award for the new online platform for trade finance products Citi Trade Portal.

Finalist in the Best Use of Mobile Technology in Financial Services category of the European Banking Technology Awards – FotoKasa service in Citi Mobile.

8. Changes in IT technologies

Technology projects implemented in 2012 supported maintenance of a stable technology platform necessary to pursue the current strategy of the Bank and to reduce technology costs while improving the quality of offered products. IT processes in the Bank operate according to top standards, as recognized in January 2012 with the positive outcome of an ISO 20000 supervisory audit, an ISO 27001 recertification audit and a compliance audit of the Bank's continuity of business plan under the international norm BS25999.

The following solutions were implemented in 2012:

- implementation of an omnibus securities account system in the securities custody area;
- automation and modernization of the Micropayments product used to manage cash placed as collateral against performance of covenants of agreements between the Bank's client and a payer;
- addition of an early warning module to the soft debt enforcement system;
- implementation of a new innovative electronic trade finance platform (first phase: MIAG vendors and reverse factoring);
- modernization of the SpeedCollect product platform – debt management product was made available to other group members on the global market;
- migration of TP S.A. voice services to Netia S.A. in 30 branches of the Bank and HQ locations; in addition to significant savings, the technology of connections between the Bank and the operator was modernized (SIP application);
- completion of the Poland HQ Cisco EOL project including replacement of 75 main network devices and modernization of network architecture in the Bank's HQ locations in Warsaw; the initiative mitigated operational risk of those elements of the ITT (information and telecommunication technology) infrastructure which have limited vendor support; the implementation provided 30% savings in maintenance of network devices and enabled full implementation of VoIP in the Bank's HQ locations in Warsaw and 60% of the branches;
- alignment of the ITT infrastructure to the network optimization plan currently under implementation for the Bank's branches in Poland;
- modernization of the B2B (Business-to-Business) network infrastructure architecture enabling migration of B2B network connections where and as required by clients – implementation of the Bank's network connection to the new trading system of the Warsaw Stock Exchange currently under implementation;
- optimization of the infrastructure of the Bank's international WAN connections in view of growing demand for multimedia and video conference transmissions;
- development of infrastructure supporting online broadcasts of proceedings of the General Shareholders' Meeting; the first webcast took place on 20 June 2012.

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

- implementation of a new integrated system platform for the Consumer Bank;
- continuation of work on UTP to interact with the new trading platform of the Warsaw Stock Exchange;
- alignment of the Bank's systems to new European Union legislation: the Capital Requirements Directive (CRD) IV (Basel III) and the Regulation on OTC derivatives (EMIR);
- implementation of the integrated system CitiRisk in the Risk Management Division;
- continued implementation of an innovative electronic platform for trade finance services: more products are now being added to the platform (factoring with and without recourse, import and export letters of credit, collections and guarantees);
- modernization of the application for investment clients to enhance sales processes under MiFID;
- implementation of a project supporting integration of financial and accounting systems of customers directly with the Bank; the project will enable new customer acquisition in the Corporate Bank;

- expansion of the offer of banking products, credit cards and mobile banking (BlackBerry and tablet applications);
- implementation of the new system SORBNET2 for settlement of high-value payments in the National Bank of Poland;
- implementation of a new platform ECS+ for pre-paid and commercial cards of corporate customers;
- development of infrastructure and a systemic solution to support the placement and receipt of money transfers online – functionality for corporate customers;
- systemic migration of B2B (Business-to-Business) network connections to a modernized B2B network infrastructure where and as required by the Bank and its clients;
- implementation of SIP in other branches of the Bank to support use of central telephone lines in Warsaw (HQ) instead of local lines in the branch in order to optimize the operational support model and telecommunication costs;
- further modernization of telephone exchanges and telephone call recording infrastructure;
- Desktop Optimization Initiative – improving the efficiency and optimizing the computer environment in the Bank; use of environment virtualization in order to reduce costs and enhance data security in the future.

9. Equity investments

All capital investments of the Group are classified as part of either strategic or divestment exposures portfolios. In 2012 the Group 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 Group 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 which expand the product offer of the Bank, strengthen its reputation and competitive advantage in the Polish financial services market.

The strategic holdings also include infrastructure providers operating for the benefit of the financial sector. The Bank does not hold controlling interests in such entities but they are of strategic significance to the Bank in view of the operations they pursue and their relations with the Bank.

The Bank intends to retain its strategic holdings in infrastructure providers and play an active role in defining the strategic directions of their development by exercising its right of vote. The Bank's overriding objective in the exercise of its corporate governance prerogatives over these companies is to ensure their stable development and continuation of their present operations which the participants of the financial market, including the Bank, rely on.

9.2 Divestment portfolio

The divestment holdings are entities in which the Bank's investment is not strategic. They include entities held directly and indirectly by the Bank, as well as special purpose vehicles used by the Bank to execute equity transactions. Some of these holdings are restructured exposures which originate from debt-to-equity conversion performed by the Bank.

The strategic objective of the Bank with regard to companies in the divestment portfolio is to gradually reduce the Group's investment. The assumption is that individual participations will be sold whenever market conditions are most favorable. The divestment portfolio comprises equity investments without a pre-determined 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 wherever the Bank acquired investments in the course of its operations.

10. Awards and honors

In 2012, the Bank, DMBH and the Kronenberg Foundation received a number of prestigious awards and honorary titles:

Citi Handlowy:

- **Europroduct** – three services of the Bank were awarded in the 17th edition of the Europroduct competition. The awarded products were Citi Mobile B2T, Citi Mobile FotoKasa, and the multipartner Citibank MasterCard World® Credit Card. The competition is organized by Polskie Towarzystwo Handlowe under the patronage of the Minister of Economy and Polish Enterprise Development Agency (PARP). The goal of the competition is to promote solutions that are considered best in the market and are aimed at catering to customer needs in a comprehensive and professional way;
- Citi Handlowy for the fourth consecutive time ranked first in a survey of the British magazine *Euromoney*. **The Bank's market share in foreign exchange transactions with corporate customers** was over 28%, more than double that of the next bank in the ranking. The survey is performed annually and includes the best institutions offering wealth management services. According to *Euromoney*, Citi Handlowy also offers the **market's most popular foreign exchange online platform, CitiFX Pulse**. The platform accounts for more than 77% of foreign exchange transactions with corporate customers;
- Citi Handlowy ranked second in the ***Jakość na Bank*** survey. The survey of 22 banks was conducted by TNS Polska. *Puls Biznesu* and Deloitte are the survey partners. The survey looked at the quality of customer service in branches. The review covered the understanding of customer needs, the presentation of the offer, the layout of the branch, as well as employees' engagement. The pollsters visited one in every 10 branches in Poland and conducted more than 1.5 thousand interviews with employees;
- Citi Handlowy received two honorary mentions in the report on innovation in the Polish economy in 2011 published by the Institute of Economic Sciences of the Polish Academy of Sciences; ranked second among **the top investors in research and development** in Poland in 2010; received an **Innovation Certificate** confirming that the Bank ranked 39th among the **top 500 innovative companies in Poland** in 2010, and ranked 25th among large companies in the survey. Citi Handlowy was awarded a score for market innovation, process innovation, innovation spending, patents and European contracts, and was the top ranking bank;
- Citi Handlowy was named the **2012 Innovations Market Leader for Quality, Creativity, Effectiveness** in a survey organized by *Strefa Gospodarki* and *Dziennik Gazeta Prawna*. According to the survey, the Bank is one of the most innovative companies in Poland. This distinction confirms that the Bank's strategy, of which innovation is an important pillar, proved most effective;
- **Top Employers Polska 2012** certificate: the Bank received the certificate for the second time as a member of the elite group of 32 top employers in Poland. The Bank's score was particularly high in the area of organizational culture, professional career development, as well as additional benefits and work conditions. The Top Employers certificates are awarded by the independent Corporate Research Foundation (CRF) to organizations which follow top HR management standards world-wide;
- Citi Handlowy received the **Best Credit Card** award and an honorary mention for FotoKasa in the ***Złoty Bankier* 2011** survey. The third edition of the survey organized by Bankier.pl and PayU S.A. covered more than 11 thousand online respondents who nominated the best financial products and services of 2011;
- Citi Handlowy was named the **2011 Banking IT Leader** and thus received the main award in the tenth edition of the *Gazeta Bankowa* survey 2011 Financial Institution IT Leader. The survey panel reviewed central IT system solutions, IT projects enhancing back-office operations of institutions and supporting financial operations over electronic channels;
- The Citi Mobile Facebook fanpage ranked **#1 in the response rate category of a survey published by the research service Socialbankers**. This means that the fanpage is the most responsive to user's posts of all the fanpages covered by the survey. The Citi Mobile Facebook fanpage was developed in 2010 and is addressed users of state-of-the-art mobile technologies;
- **Three stars in the *Forbes* ranking of banks**: the ranking is based on public data including banks' price lists and offers of financial products and services for corporate customers. The survey reviewed banks in five categories: price (the least expensive basket of core products), loans, deposits, customer service quality, and diversified offer;
- Citi Handlowy moved up to the top three in the **Friendly Bank for Traditional Customers** category of the Newsweek survey. The mystery shopper survey is performed by MillwardBrown SMG/KRC

auditors. In order to rank in the top three for traditional banking, the Bank had to get a top score for quality of customer service, branch profile, customer acquisition and retention methods, effective identification of customer needs, and a customized offer.

- **Citi Trade Portal**, the online platform for trade finance management, was named the **Innovation of the Year 2012**. The title was awarded by a panel made up of Business Forum editors of Dziennik Gazeta Prawna and members of the Department of Technical Sciences of the Polish Academy of Sciences. The platform was named an innovative solution enhancing trade operations.

Brokerage House of Citi Handlowy:

- DMBH was awarded for "**Highest Share of Stock Trading on Sessions in the Main Market**" by the authorities of the Warsaw Stock Exchange. DMBH received that award for the third time in a row from the President of the Warsaw Stock Exchange. This award confirms the strong position of the brokerage office whose market share in 2011 was 11.5%;

- Piotr Zielonka from DMBH received the **"Bulls and Bears" award** from the *Parkiet* newspaper **as the best analyst**. Piotr Zielonka is among a few analysts who gained his experience while working at the Financial Supervision Authority where he supervised the trading on the Warsaw Stock Exchange and detected exchange crimes. For several years, he has been a respected analyst in the segment of construction companies and developers and an expert on power companies;

- **DMBH is the best institutional brokerage house in Poland** in the 2012 Brokerage Houses Ranking published by Forbes (Oct. 2012). This means reinstatement to the leadership position after a one-year gap – we were also awarded as the best Brokerage House in 2010, ranked first in such categories as "confidence", "professionalism" and "quality of service on foreign markets";

- **#1 in Stock Exchange Analysts Ranking** – in Forbes' "Stock Exchange Analysts" (Apr. 2012), Piotr Zielonka of DMBH was among the best analysts in Poland for the third time – this time he won. More than one half of assets managers mentioned Piotr Zielonka among the most useful analyst.

Corporate social responsibility awards:

- The Bank remained part of the **RESPECT Index**, a Warsaw Stock Exchange index of socially responsible companies. In 2012, Citi Handlowy was included in a group of 23 companies in the fifth edition of the RESPECT Index as one of two banks to be chosen an index member since the first edition;

- The Kronenberg Foundation received the **Medal of the City Mayor** in recognition of its contribution to the development of the Amber Museum, the Gdańsk branch of the Museum of History. The Foundation has supported the Amber Museum in Gdańsk for five years. In 2006, the Foundation provided a grant for the acquisition of the Gierłowska Lizard, the only natural lizard inclusion in Baltic amber in Poland and one of two such artifacts in the world. In 2011, the Foundation financed the acquisition of another unique animal inclusion in amber: a Solifugae arachnid;

- The Citi Handlowy Employee Volunteer Program coordinated by the Kronenberg Foundation was the winner of the **Program** category in the **100 Percent: Employee Volunteer Program** competition. The Program's campaign carried out in partnership with the association Stowarzyszenie Kulturalne "Pocztówka" received an honorary mention. The 100 Percent: Employee Volunteer Program competition is Poland's first initiative aiming to reward the best local practices of employee volunteer work;

- The ***Dziennik Gazeta Prawna*** **Responsible Companies Ranking** was published in April 2012. It is the most prestigious and important CSR ranking in Poland. Citi Handlowy ranked #12 in the overall ranking, moving 14 positions up compared to 2011. The Bank came second in the sector ranking of the Banking, Financial and Insurance Industry.

11. Special purpose investment vehicle companies

In 2012 the Group conducted its capital investment operations through its three investment companies, their operations financed by the Bank through reverse capital increases and from their own earnings. As the Group intends to limit the scale of operations of this type, the investment companies are going to be successively divested or liquidated.
As per the data available at the date of preparation of the financial statements (initial, unaudited), summary financial data of these entities, as at 31 December 2012, were as follows:

Entity	Headquarter	Authorized capital held by the Bank	Balance sheet 31.12.2012	Equity 31.12.2012	Net financial profit/loss for 2012
		%	PLN '000	PLN '000	PLN '000
Handlowy Inwestycje Sp. z o.o.	Warszawa	100.00	11,320	11,278	443
Handlowy Investments S.A	Luksemburg	100.00	30,228	29,621	2,536
Handlowy Investments II S.a.r.l	Luksemburg	100.00	7,108	6,857	557

VI. Significant risks related to the activities of the Capital Group of Bank Handlowy w Warszawie S.A.

1. Significant risks and threats related to the Group's operating environment

1.1 Economy

The Polish economy started to slow down in 2012 and the trend may continue in early 2013. Under this scenario, there is the risk of further decline in incomes of households and financial results of companies, including customers of the Bank. The economic slow-down could also contribute to a decline of the position of the state budget resulting in an alignment of fiscal policy parameters. In case of major changes to the fiscal policy, this could affect the situation on the Treasury bonds market.

While the situation on the European financial markets stabilized in the last months of 2012, a potential deepening of the debt crisis in the euro zone still poses a potential risk to the prospects of the Polish economy. If this happens, it could once again increase risk aversion and volatility on the international financial markets and cause a deeper slow-down in the economies of Poland's main partners. This would adversely impact both the economic growth and the stability of the local financial market, resulting in increased risk premiums on Polish assets, depreciation of the zloty, and growing yields of Polish bonds.

1.2 Regulatory risks

Any changes in the economic policies or in the legal system could have a considerable effect on the Group's financial position. In terms of banking sector regulations, a particularly important role is played by legal acts and related secondary legislation, including regulations of the Minister of Finance, resolutions of the Management Board of the National Bank of Poland ("NBP"), orders of the Chairman of NBP and resolutions of the Polish Financial Supervision Authority ("KNF").

The most relevant of these regulations include:

- acceptable concentration limits of loans and total receivables (Banking Act);
- maximum limit of equity that may be invested in the capital market (Banking Act);
- liquidity, solvency and credit risk standards (resolutions of KNB and KNF);
- risk management in banks (Banking Act, resolutions of KNB and KNF);
- mandatory reserves – establishment and transfer (NBP Act, Banking Act, resolutions of KNB and KNF, resolutions of the NBP Management Board);
- taxes and similar charges;
- Act of 7 July 2005 amending the Civil Code and certain other acts limiting the maximum interest rates on consumer loans and the maximum fees chargeable on such loans;
- Competition and Consumer Protection Act of 16 February 2007;
- Countering Unfair Market Practices Act of 23 August 2007;
- Act on Countering Money Laundering and the Financing of Terrorism of 16 November 2000;
- Consumer Credit Act of 12 May 2011;
- Payment Services Act of 19 August 2011;
- Recommendation S of the Polish Financial Supervision Authority concerning best practice of managing property finance and mortgage-secured credit exposures;
- Recommendation T of the Polish Financial Supervision Authority concerning best practice of managing the risk of retail credit exposures;

- Guidelines of the European Securities and Markets Authority on systems and controls in an automated trading environment for trading platforms, investment firms and competent authorities;
- Guidelines of the European Securities and Markets Authority on certain aspects of the MiFID suitability requirements;
- Guidelines of the European Securities and Markets Authority on certain aspects of the MiFID compliance function requirements;
- Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories ("Regulation") and technical standards approved and published by the European Commission, developed by the European Securities and Markets Authority, which complement the Regulation;
- Act on Trading in Financial Instruments of 29 July 2005.

1.3 Competition in the banking sector

The environment of the banking sector remains very dynamic. Economic problems faced by well-developed economies result in ongoing consolidation and ownership transition in the banking sector. Capital groups in distress are pulling out from periphery markets, opening up investment opportunities for players in a stronger financial condition. Rising interest of institutions previously absent from the Polish market or willing to largely increase their presence proves that the Polish banking sector is very attractive and sustains strong competition among its players.

Competition from non-banking lenders operating under regulations which are less restrictive than those applicable to banks poses a growing threat to the banking sector. Their activity generates a potential risk to the quality of the loan portfolio. It derives from the inability to verify the actual level of borrowers' debt from non-banking firms, which prevents a complete rating of their creditworthiness and could potentially result in excessive debt of customers and their inability to pay loans back when due.

Despite aggressive competition and ongoing economic slow-down, the Polish banking sector remains an attractive market with a significant growth potential. In order to operate effectively in this competitive market, the Group takes a range of initiatives aiming to enhance the service offer with a special focus on those areas where the Group has a strong competitive advantage. The initiatives mainly cover the credit card market and services for affluent customers and, in the corporate segment, global customers and the biggest local companies. The areas of focus also include the foreign exchange market, transactional banking and securities custody, as well as institutional brokerage operations.

Innovations and top customer service are the key success factor in the strategy of the Bank. With on-going expansion of the offer to include innovative solutions which address all the needs and expectations of customers, the Bank can successfully complete in the financial services market.

The Bank maintains high liquidity and high capital adequacy ratios; as a consequence, it is ready to operate in a competitive environment and intends to actively acquire customers both in the consumer banking and the corporate banking segment.

2. Significant risks and threats related to the Group and its activity

2.1 Liquidity risk

As is typical of banking activity, the Bank experiences maturity gaps between loans and the underlying deposits. These can give rise to problems with current liquidity in case of 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 Assets and Liabilities Committee, which defines the strategy that is implemented by the Treasury Division.

The key task of the Assets and Liabilities Committee of the Bank 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 coordinate 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 Assets and Liabilities Committee of the Bank is responsible for the development and implementation of a uniform policy of liquidity risk management in the Bank, approves annual liquidity plans, funding plans of the Bank's assets and the Bank's liquidity limits, as well as liquidity contingency action plans. 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. Furthermore, the Bank has a large portfolio of liquid securities, good access to interbank funding and a high equity. The level of liquidity risk in 2012 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 liquidity and the foreign exchange position. In 2012, the market risk of the Bank's proprietary positions was low.

2.3 Interest rate risk

Similar to other Polish banks, the Bank is exposed to a risk arising from a gap in the timing of changes in interest rates on its assets and the underlying liabilities (revaluation date gap risk) and from the sensitivity of the value of debt securities and of interest rate derivatives to changes in the market interest rates (pricing risk). In respect of the revaluation date gap risk, interest rate risk can arise when a reduction in income caused by lower interest rates on loans proves impossible to offset through a corresponding reduction in interest rates paid to deposit holders. This risk also arises in situations where a rise in interest rates on deposits cannot be offset by a corresponding rise in interest rates on loans. In respect of the pricing risk, interest rate risk can arise when changes in the market rates have an adverse effect on the valuation of instruments in the trading portfolio and, consequently, on the Bank's financial result or on the valuation of the portfolio of securities available-for-sale and, consequently, on the Bank's equity. The management of interest rate risk is a responsibility of the Assets and Liabilities Committee of the Bank which, among others, determines the Bank's interest rate risk pricing policy. In 2012, the level of interest rate risk ranged between moderate and high both for the trading portfolios and the bank portfolios.

2.4 Credit risk

Credit risk represents the potential loss resulting from a customer's inability to settle its contractual obligations due to insolvency or other reasons, taking account of collateral, unfunded credit protection and other loss mitigating factors. The Bank monitors its credit portfolio on an ongoing basis as it classifies debt and establishes required provisions in accordance with the relevant regulations. The Bank's Management Board is of the opinion that the current level of provisions is adequate. As the possibility of change in the external environment or other circumstances that could adversely impact 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 position or that the provisions and the collateral in place will prove sufficient to absorb the possible losses arising out of lending.

2.5 Equity investment risk

Equity investments fall into two categories: strategic investments and divestment. The strategic investments portfolio includes shares held by the Bank in Polish financial institutions of strategic significance to the Bank due to its operations. The divestment holdings originate, among others, from debt-to-equity conversions and past investing activity of the Bank. Investments are held directly by the Bank or indirectly via its special purpose 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. Moreover, a number of macroeconomic developments, the conditions prevailing on 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 monitors and exercises ongoing oversight over its portfolio of equity investments and has already established substantial provisions against the equity investments, thus bringing the risk of further decline in value of its investment portfolio to a low level.

2.6 Operational risk

Operational risk is the risk of loss resulting from inadequate or failing internal processes, people, or technical systems, or from external events.

Operational risk includes reputation risk, associated with business practices or market conduct. Operational risk also includes legal risk and the risk of non-compliance with applicable laws and regulations.

Operational risk does not include strategic risk or the risk of loss resulting from decisions made with respect to accepted credit, market, liquidity or insurance risk.

The Bank's approach to operational risk management is described in the Bank's internal regulations. The objective of the implemented Policy of Operational Risk Management is to put in place a consistent and effective system of operational risk control, assessment, monitoring, measurement and reporting which provides added value, and to ensure general effectiveness of the internal control environment throughout the Bank. The Risk and Control Self-Assessment (RCSA) process implemented in the Bank aims to evaluate the effectiveness of the control system. The Bank manages operational risk using tools, techniques, systems and applications and regularly verifies, confirms and improves their effectiveness.

As part of operational risk, the Bank also manages compliance risk, which is defined as any effects of non-compliance with laws, including international regulations or laws of other jurisdictions which are relevant to the Bank's operation, internal regulations and the Bank's code of conduct. Compliance with laws, internal regulations, corporate regulations, standards of conduct and good practice standards is an integral part of the professional duties of each employee of the Bank.

The Supervisory Board and the Management Board of the Bank are supported in the oversight of operational risk management and in the operational risk management process by appointed Committees and a separate independent unit responsible for operational risk management.

Summary operational risk reports are discussed by Committees which support the Supervisory Board and the Management Board of the Bank. The reports cover data necessary to monitor the Bank's operational risk profile (including results of internal and external audits, RCSA results, KRI – Key Risk Indicators, operational losses, COB and information security updates, issues and corrective actions, capital requirements, stress tests).

Due to limited appetite for residual operational risk, the family of operational risks (including technological and technical risk, outsourcing risk, fraud risk, money laundering risk, information security risk, continuity of business risk, tax and accounting risk, product risk, compliance risk, legal risk, model risk) is managed largely through an effective control environment and the participation of special units in the management of specific risks. The main goals for 2013 are to strengthen the self-assessment process and to further improve and enhance operational risk management tools and techniques.

The use of third party services gives a greater number of customers access to information on the services and products offered by the Bank as well as access to new technological solutions without additional capital expenditures. The Bank uses the possibility of outsourcing activities relating to banking activity, particularly in areas of information technology and in cases where outsourcing is justified by business needs and at the same time does not endanger secure operation of the Bank. As outsourcing involves not only benefits but also increased risk, which the Bank can be exposed to in its operation, the Bank takes measures aimed at mitigating that type of risk, particularly by centralized coordination of the vendor management process performed by a special unit and by ensuring compliance with legal requirements and internal regulations, operating an effective system of internal control, and regular monitoring co-operation with third parties, security of processed information and privileged banking information. All decisions to outsource activities relating to banking activity are in the sole discretion of the Bank's Management Board.

The Bank applies a standard approach (STA) in order to calculate the capital requirement for operational risk, as set out in Resolution No. 76/2010 of the Polish Financial Supervision Authority of 10 March 2010 concerning the scope and detailed rules of calculation of capital requirements in respect of particular risks. The Bank adjusts the level of capital to the level and type of risk to which it is exposed, as well as the nature, range and complexity of its operations. For this purpose, the Bank has 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 the defined risk appetite. The purpose of the defined risk appetite is to ensure safety of operations and achievement of strategic goals.

2.7 Contributions to the Bank Guarantee Fund

Pursuant to the Act on the Bank Guarantee Fund ("BGF"; legal status as at 31 December 2012), 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 annual contributions to the BGF in accordance with Article 13 of the BGF Act and to invest and deposit assets to the guaranteed deposits insurance fund created by the Bank in accordance with Article 26 of the BGF Act.

When a guarantee condition is satisfied (for a domestic bank – a KNF decision to suspend the bank's activities and appoint a receiver, and to file to the competent court for bankruptcy), a body authorized to represent the bank immediately transfers BGF funds allocated for guaranteed payments. The ratio of contributions to total mandatory contributions of entities included in the scheme is the same as the ratio 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 net of the entity satisfying the guarantee condition. 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 mandatory deposit insurance scheme. The order of using funds by the Fund is provided under Article 16a of the BGF Act.

In January 2013, the Government approved a draft amendment of the BGF Act. According to the Government proposal, banks would be additionally required to pay in "prudential" contributions at a rate not greater than 0.2% times the contribution calculated according to Article 13.

The Government is planning to table the amendment for a vote in Parliament in Q1 2013. According to the Government draft, the amendment of the Act would take effect 30 days after publication.

VII. Development prospects for the Capital Group of Bank Handlowy w Warszawie S.A.

1. General development objectives of the Group

The Bank approved the 2012-2015 Strategy in 2012. The Strategy is based on the existing four pillars: customer segmentation, business model, quality and innovation, and effectiveness.

After taking measures to optimize its activity in 2012, the Group will focus on growing its revenue in 2013. The main driver will be effective acquisition of new customers on the target markets and deepening of relations with existing customers. At the same time, in view of the demanding market and macroeconomic environment, the policy of effective cost, capital and liquidity management will be continued. These objectives will be pursued by means of an optimized distribution network based on centralization of branches in large cities and a focus on effective sales of banking products over the remote channels.

The competitive advantage will be maintained through further improvement of the quality of services and processes and investment in new technologies, which will allow for the development and implementation of breakthrough innovations. An added value for customers will be provided by effective use of the global scope of Citi Handlowy enabling access to the Bank's services around the world.

The priority in both the Corporate Bank and the Consumer Bank will still be to focus on acquisition of operating accounts. The main focus will be on the affluent customer segment in the Consumer Bank and acquisition of new SME customers (mainly mid-sized companies) in the Corporate Bank. The Bank plans to attract 750 customers in the latter segment in 2013.

The main goal is still to build value of the Bank by improving operational effectiveness and leveraging the market advantage of a strong capital and liquidity position ensuring customer safety and trust in the institution.

1.1 Corporate Bank

In the Corporate Bank, the Bank plans to maintain its leading position in the segment of international corporations and the biggest local companies. For this purpose, the Bank is planning to acquire new customers and expand relations with existing customers in selected sectors, and to provide support to customers planning regional or international expansion (Emerging Market Champions initiative). The Bank's long-term ambition is to become the first-choice bank for SMEs. In the product offer, the Bank plans to maintain its leading position on the foreign exchange market, in cash management products and institutional brokerage operations.

It is an objective of the Bank to enhance effectiveness by improving processes, focusing on innovations and raising the quality of services. In transactional banking, the Bank will continue to expand the product offer for corporate customers in order to acquire customers by opening new operating accounts and to maximize the share of wallet of existing customers. Trade finance products will play a key role in attracting new customers with a potential of cross-selling of cash management products. The Bank aspires to cut the time to market of innovative solutions. This initiative is a responsibility of the Research and Development Centre established in 2011. It is the first research center in the Polish banking sector. The Citi Handlowy Research and Development Centre supports transactional banking with business analysis, technology research and the development of new solutions.

1.2 Brokerage activity

The customer base of DMBH mainly consists of Polish and foreign institutional investors, hence the activity of that group largely determines the activity of the brokerage office. Among factors that may affect the position of DMBH, is the growth in funds transferred to Open-end Pension Funds owing the increase in the contribution paid to the second pillar (0.5 p.p. up to 2.8% in 2013), as well as the increase of maximum limit of exposure in shares from 45% up to 47.5%. The performance of DMBH may be also favorably affected by potential inflows to domestic stock funds as an alternative for deposits which tend to become less attractive.

1.3 Consumer Bank

The Bank will continue to focus on the customer segments and products where it has the competitive advantage. This implies further growth in wealth management and relational banking focused on affluent and emerging affluent customer segments while aiming to strengthen the position of the Bank as the leader and bank of first choice in those segments. The acquisition of new customers, their share of wallet and loyalty of target groups of individual customers will be supported, as before, by the comprehensive offer of banking products, supplementary services and special privileges.

The leading position on the credit card market is pivotal to the Bank's competitive advantage and generates acquisition of new customers. The main objective in this area is to maintain the leading position in credit card use and transactions and to strengthen the sales of new credit cards by ongoing development of the credit card offer, partnerships, loyalty programs and other benefits both for existing and new customers of the Bank.

In the segment of cash loans, the Bank will take measures to stabilize the loan portfolio mainly through active sales processes. Relations with both existing and newly acquired customers of the Consumer Bank will be improved, as before, owing to mortgage products offered on attractive terms tied to the customer's overall level of relations with the Consumer Bank. The segment of small companies will remain a strategic driver of growth. Development of the product offer and further improvement of sales and customer service processes will help to maintain a dynamic growth of the portfolio of active customers in this segment. Fast growth in this area will also support the acquisition of new active relations with individual customers.

Furthermore, the Bank will remain focused on the quality of customer service by ensuring top standards of service, especially for the target segments of customers, both in the branch network and over the digital channels. The Bank will continue to align its business model with the current strategy and to improve processes and modernize infrastructure in order to generate further growth of sales and operational effectiveness. The Bank will provide customers with access to its products and services across Poland over different access channels including the state-of-the-art digital platforms and a network of branches situated in the biggest cities. The Bank's increasing focus on the potential of digitization is geared towards further growth of acquisition over the digital channels and of the number of channel users. At the same time, the resulting reduction of the workload in the traditional channels is expected to contribute to further improvement of the Bank's effectiveness.

VIII. The Bank's community initiatives and cultural sponsorship

1. The Bank's community initiatives

Community initiatives have been pursued for 16 years by the Kronenberg Foundation of Citi Handlowy. The year 2012 was a special time owing to the 200th anniversary of the birth of Leopold Kronenberg. The patron of the Foundation and the Founder of the Bank was a pioneer of capitalism in Poland, a most versatile man whose achievements never cease to impress. Kronenberg often said, "I do not like to do anything half-heartedly, one should always get to the bottom of things," and this was exactly what he did. He was always fully dedicated to all he attended to. His key achievements definitely include the creation of Bank Handlowy w Warszawie. The year 1812, which was Leopold Kronenberg's year of birth, was also the year of founding of Citi Bank of New York, now Citigroup, the strategic investor of Citi Handlowy. This is how the paths of both institutions intertwine symbolically.

Financial education is the strategic area of work of the Foundation, the unparalleled leader of such initiatives in Poland. The Foundation started new financial education programs in 2011 and expanded them in 2012 to reach new social groups (economically excluded women, academics). The Foundation successfully continued its existing and popular programs: My Finances (*Moje Finanse*) and From Penny to Pound (*Od Grosika do Złotówki*). A new innovative education program launched as part of the Savings Week is the interactive online game My First Million (*Pierwszy Milion*), which attracted more than 15 thousand participants from October to December 2012.

Protection of cultural heritage is another key area of work of the Foundation. In 2012, the Foundation signed a letter of intent with the Ministry of Culture and National Heritage concerning the recovery of works of art lost during and as a result of WW II. It is the only such partnership of a public institution and a corporate foundation. Moreover, the Foundation presented the Professor Aleksander Gieysztor Award for the 13th time in 2012. In this edition, the award went to Professor Norman Davies for his ample work in promotion of the Polish cultural heritage abroad and for his insightful critical research demonstrating the relations between the cultural heritage of Poland and Central and Eastern Europe with the heritage of the entire continent. As part of the Roots program, the Foundation promoted the profile and achievements of Leopold Kronenberg and his followers. In 2011, the Foundation initiated a project aimed at locating and digitizing documents concerning the history of Bank Handlowy w Warszawie and the Kronenberg family; the project continued in 2012.

Citi Handlowy employees have for several years participated in the **Employee Volunteer Program** through the Foundation. Last year, nearly 1,500 volunteers completed 169 projects. The Bank's volunteer program won the main award in the Program category and an honorary mention in the Action category of the 100 Percent: Employee Volunteer Program competition organized by the association Stowarzyszenie Centrum Wolontariatu. The competition is the first initiative designed to award the best practices of employee volunteer initiatives in Poland.

Development of local communities is another important area of work of the Foundation and includes the Grant Program. In 2012, the Foundation awarded 25 grants in an aggregate amount of over PLN 720 thousand, of which nearly one-third were local projects recommended by the Bank's Branch Managers. The More Trees Thanks to You (*Więcej drzew dzięki Tobie*) program has for several years now encouraged Citi Handlowy customers to forego paper bank account and credit card statements. The Bank plants one tree for each customer who opts for electronic statements. More than 100 thousand trees were planted in 2012. The Foundation also supports the Responsible Business League (*Liga Odpowiedzialnego Biznesu*) which promotes CSR among students.

It is important to note that in 2012, the Bank remained a member of the RESPECT Index, the Warsaw Stock Exchange index of socially responsible companies. It is one of the two banks present in the prestigious index since its creation. Citi Handlowy ranked second in the Banking, Financial and Insurance Industry category of the *Dziennik Gazeta Prawna* Responsible Companies Ranking and came 12th in the overall ranking.

Leopold Kronenberg: patron of the Foundation, founder of the Bank

Born in 1812, Leopold Kronenberg was the richest Pole of the 19th century and a pioneer of capitalism in Poland. He invested in the tobacco industry, banking, mining, metallurgy, sailing, sugar production, insurance, railways and the media. His key achievements included the creation of Bank Handlowy w Warszawie S.A. (1870), the construction and administration of many railway lines, and the creation of Szkoła Handlowa (1875), the predecessor of the Warsaw School of Economics. Before the January 1863 uprising, he was a member and founder of the committee Delegacja Miejska and the actual leader of the Whites. He opposed the idea of an insurgency but after the uprising broke out, he lent his support and financial assistance. He bought many of insurgents out of prison. He left Poland under threats from the Russians and the Reds but came back after more than a year. Kronenberg was also a well-known philanthropist. He died in 1878 in Nice.

Citi Handlowy Kronenberg Foundation programs

- **From Penny to Pound (*Od Grosika do Złotówki*), 6th edition** – the first program in Poland focused on financial education targeted at primary school students. The program is carried out in collaboration with the Junior Achievement Foundation Poland (*Fundacja Młodzieżowej Przedsiębiorczości*). In 2012, 14,247 students, 21,000 parents and 671 teachers took part in the program.

- **My Finances (*Moje finanse*), 7th edition** – the largest financial education program for the young in Poland. The program is sponsored by 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. In 2012 (January to December), 141,700 students participated in the program implemented by 1,631 teachers.
- **From School to Business (*Z klasy do Kasy*), 6th edition** – program addressed to junior and senior secondary school students, implemented in partnership with the National Bank of Poland and *Gazeta Wyborcza*. This year's edition covered 27,000 students. The finals of the 6th edition of the competition took place in Warsaw on 23 June. The winners were the student team of Junior Secondary School No. 6 in Koszalin.
- **Building Financial Independence of Women (1st edition)** – a program for women who are economically excluded or at risk of exclusion. The program is implemented in collaboration with the Women's Rights Centre. The pilot project of the program was completed in August 2012 and the first edition started in September 2012. The pilot project covered 358 women and 123 girls.
- **Business Startup Program (1st edition)** – a national program targeted at students and graduates planning to open a business. The program is implemented in collaboration with Academic Incubators of Entrepreneurship. The pilot project of the program had 1,500 participants. The first edition of the program started in November 2012 and will continue in 2013.
- **Saving Week** (***Tydzień dla Oszczędzania*), 6th edition,** is a national education action in the media. It promotes savings and the skills of rational management of personal finances among Poles. The campaign is carried out by the Kronenberg Foundation together with the Think! Foundation. The program published the results of the first edition of the survey "Poles' Saving Behavior". The educational campaign on finance in the media reached more than 3.5 million Poles. Direct actions addressed to schools had 20 thousand participants. In 2012, traditional educational materials were supplemented by a multimedia online game My First Million (*Pierwszy Milion*). This year's campaign also reached out to senior citizens. Starting in October, Citi Handlowy volunteers conducted finance workshops for 890 students of the University of Third Age in the region of Mazovia. The workshops were so popular that the cooperation with the University of Third Age will continue in the coming years.
- **Micro-Company of the Year 2012 (8th edition)** is a competition for micro-company owners. The competition promotes the philosophy of micro-entrepreneurship. The results of the competition were announced on 18 September 2012. The winner was the art books publisher Kurtiak i Ley of Koszalin.
- **Award of Bank Handlowy w Warszawie S.A. (18th edition)** 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 economics and finance. The award ceremony took place on 20 November 2012 and was combined with an economics conference. The winner of this year's edition of the competition was Dr. hab. Michał Brzoza – Brzezina, Professor of the Warsaw School of Economics and Director of the Economics Institute of the National Bank of Poland, for his study on Polish monetary policy "*Polska polityka pieniężna. Badania teoretyczne i empiryczne*."
- **Professor Aleksander Gieysztor Award (13th edition)** is the most prestigious award given annually to institutions or individuals in recognition of their efforts for the Norman Davies.
- **Recovering works of art** is a new program for the recovery of works of art lost by Poland during and as a result of WW II. In March 2012, the Citi Handlowy Kronenberg Foundation in partnership with the Ministry of Culture and National Heritage and the National Museum in Warsaw recovered the lost painting "*Murzynka*" by Anna Bilińska-Bohdanowiczowa. On 18 June 2012, the Foundation and the Ministry of Culture and National Heritage signed a letter of intent which defines the framework of cooperation in the program. It is the first such long-term partnership of the Ministry and a corporate foundation.
- **Roots (*Korzenie*)** is a program under which the Foundation promotes the history of the Bank and the profile and achievements of its founders, the Kronenberg family. In 2012, the Foundation digitized over 25 thousand pages of historical documents of Bank Handlowy and the Kronenbergs. Entries were drafted for a new website under construction.
- **Employee Volunteer Program in Citi Handlowy** aims to encourage community initiatives of the Bank's current and former employees. In 2012, 1,477 volunteers completed 169 projects. The key initiative was the 7th edition of the Citi Global Community Day.

- **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 2012, 29 grants were given in the aggregate amount of PLN 885,296, including PLN 265,406 for 12 grants for local projects recommended by the Bank's Branch Managers.
- **More Trees Thanks to You** (***Więcej Drzew Dzięki Tobie***) is a program in which the Foundation promotes environmental awareness and encourages customers of the Bank to forego paper bank account or credit card statements. The Bank plants one tree for each customer who opts for electronic statements. The program is implemented by the Bank in collaboration with the Kronenberg Foundation and the Nature Protection League (LOP). A total of 100 thousand trees were planted in 2012.
- **Responsible Business League (*Liga Odpowiedzialnego Biznesu*)** is a program that targets the academic community to promote CSR ideas as a business standard. The program is organized by the Responsible Business Forum in collaboration with the Kronenberg Foundation and public universities. The 8th edition of the program (academic year 2011/2012) reached over 4 thousand participants. The honorary patron of the Responsible Business League was the Minister of Education Barbara Kudrycka. The next edition of the program started in the academic year 2012/2013.

Environmental initiatives

The Bank is a leader of environmental management in the financial industry. The Bank has implemented an Environmental Management System and holds the Green Office certificate. It is the first Polish member of the Carbon Disclosure Project. The Bank's initiatives are comprehensive. Internal initiatives are designed to reduce the environmental impact of the Bank's operations. External projects are addressed to the Bank's customers, vendors and subcontractors aiming to support their environmental initiatives.

2. Cultural patronage and sponsorship

In 2012, the Bank sponsored several national and international conferences. It was a partner of the **4th European Economic Congress in Katowice** (14-16 May 2012) and the **Leviathan Awards Gala** on 23 May 2012 at the National Philharmonics in Warsaw. It also actively supported the **22nd Economic Forum in Krynica** (4-6 September) and the **European Forum for New Ideas in Sopot** (26-28 September). In 2012, the Bank once again participated in the **Women's Congress** (14-15 September). It also remained a sponsor of the exhibition entitled **"Stanisław August, the Last King of Poland. Politician, Patron, Reformer. 1764 – 1795"** which opened at the Royal Castle in Warsaw in 2011.

IX. Investor information

1. The Bank's shareholding structure and performance of its shares on the WSE

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 2012, 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 that they remain in free trading and are listed on the WSE.

Among shareholders participating in the share capital of the Bank are Open Pension Funds which, in accordance with public information about the structure of assets as at 28 December 2012 (last trading day in 2012), held a total of 14.3% of shares of the Bank, which was a decrease of 0.4 p.p. against 30 December 2011.

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

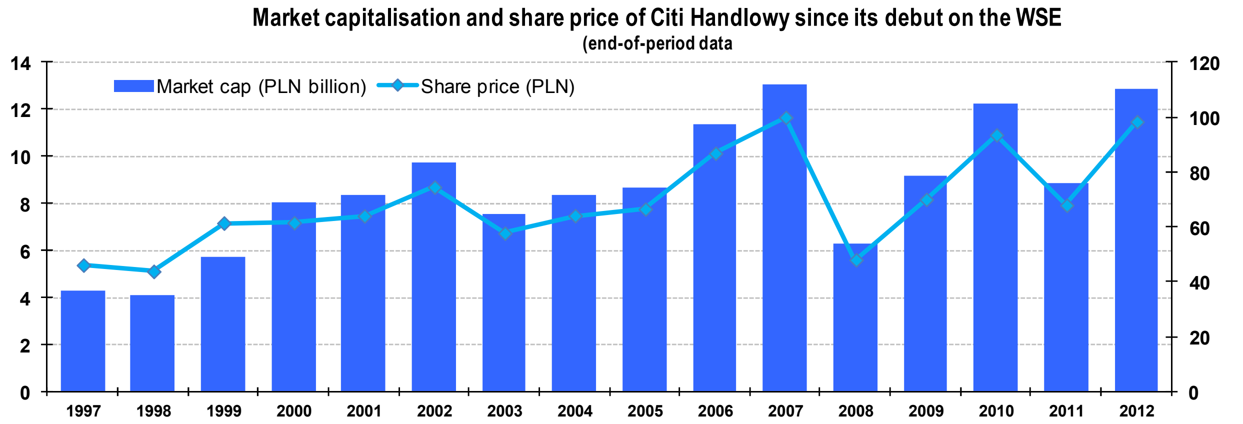
Shareholder	28.12.2012		30.12.2011	
	Number of shares and votes in GSM	% of total number of shares and votes in GSM	Number of shares and votes in GSM	% of total number of shares and votes in GSM
ING OFE	6,464,317	4.95%	6,443,995	4.93%
Aviva OFE Aviva BZ WBK	3,285,343	2.51%	3,565,984	2.73%
OFE PZU „Złota Jesień"	2,048,920	1.57%	2,539,385	1.94%
Amplico OFE	1,509,294	1.16%	1,708,056	1.31%
AXA OFE	1,085,723	0.83%	982,310	0.75%
Nordea OFE	861,812	0.66%	633,839	0.49%
Allianz Polska OFE	705,884	0.54%	554,483	0.42%
Generali OFE	672,043	0.51%	669,930	0.51%
PKO BP Bankowy OFE	600,468	0.46%	666,895	0.51%
Aegon OFE	553,289	0.42%	601,776	0.46%
OFE Pocztylion	371,620	0.28%	300,104	0.23%
OFE Warta	292,413	0.22%	210,644	0.16%
Pekao OFE	290,503	0.22%	416,171	0.32%
Total	**18,741,630**	**14.34%**	**19,293,572**	**14.77%**

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

1.2 Performance of the Bank's shares on the WSE

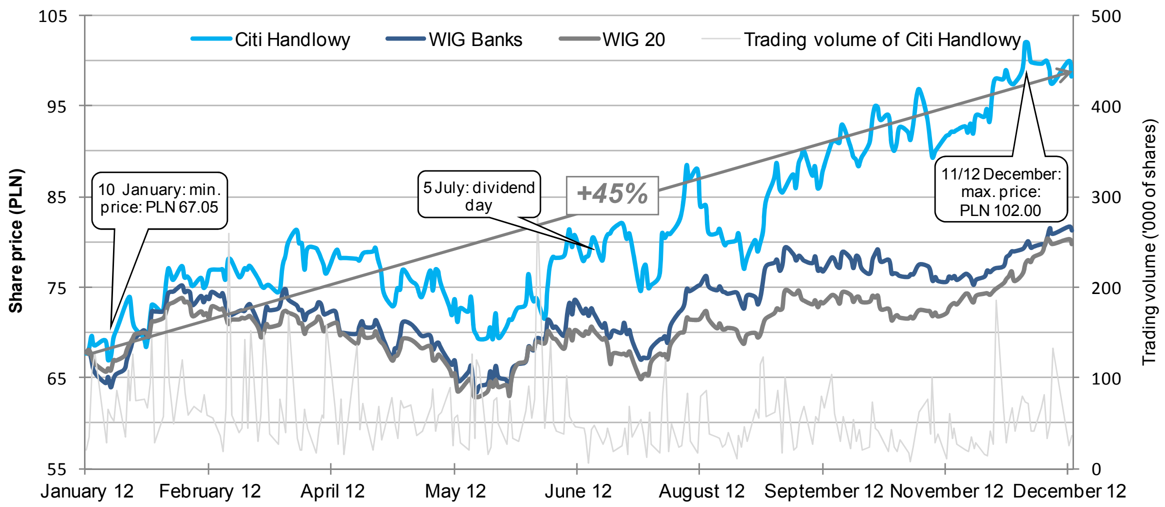
In 2012, it was 15 years since Bank Handlowy w Warszawie S.A. was floated on the WSE. In 2012, the Bank was included in the following indices: WIG, WIG20, WIG Banks and WIGdiv. In addition, the Bank was once again included in the RESPECT Index of socially responsible companies listed on the WSE Main Market.

The Bank's shares were among the best performing equities in 2012. The share price of Citi Handlowy at the last trading session in 2012 (on 28 December 2012) was PLN 98.3, gaining 45% since 30 December 2011 (PLN 67.90) and 2 January 2012 (PLN 67.75). The WSE's main indices also gained in 2012 but their performance was less impressive than that of the Bank's shares. By comparison, WIG gained 26%, WIG-20 gained 20% and WIG Banks gained 23% since the end of 2011.



The capitalization of the Bank at the end of 2012 stood at PLN 12.8 billion (compared to PLN 8.9 billion at the end 2011). The market price ratios were as follows: price to earnings (P/E) at 13.6 (12.5 in 2011); price to book value (P/BV) at 1.8 (1.4 in 2011).

The Bank's share price and trading volume in 2012 vs. WIG-Banks and WIG20 indices rebased (02/01/2012 = 67.75)



After a relatively weak beginning of the year (the lowest price in 2012 was reported on 10 January), the Bank's share price started to rise in the latter half of January and rose to ca. PLN 80 in March. The share price decreased slightly in May (to PLN 69.35 on 25 May) and then rose to PLN 80.80 at the end of June (closing price on 29 June).

In the second half of 2012, the share price continued to rise and hit new highs of 2012. The Citi Handlowy share price peaked on 11 December (PLN 102.0).

The Bank's average share price in 2012 was PLN 81.50 and the average daily volume of trading in the Bank's shares stood at more than 57 thousand.

2. Dividend

In 2012, the Bank's Ordinary General Meeting decided to allocate 50.0% of the stand-alone net profit of 2011 for a dividend, which implies a dividend per share at PLN 2.76.

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

Financial year	Dividend (PLN)	EPS (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%
2012***	756,519,084	7.72	5.79	75.0%

** Dividend-pay-out ratio for 2004 - 100% plus prior year profits*
*** On 18 June 2009, the Bank's Ordinary General Meeting decided to pay no dividend for 2008*
**** As recommended by the Management Board on 12 March 2013.*

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 gives the Bank a rating which is not commissioned by the Bank, on the basis of publicly available information.

Moody's ratings changed in 2012 as follows:

- on 21 February 2012, Moody's placed the long-term and short-term local and foreign currency deposit ratings under review for downgrade from negative outlook. The Bank Financial Strength Rating (BFSR) of the Bank remained unchanged at D+ with a negative outlook. This was a consequence of the rating of the Bank's strategic shareholder Citigroup being placed under review for downgrade according to Moody's release of 15 February 2012;
- on 22 June 2012, Moody's downgraded the Bank's long-term rating from Baa1 to Baa3 and short-term rating from Prime-2 to Prime-3. The rating outlook is stable. The rating downgrade was a consequence of a change of the rating of the Bank's strategic shareholder Citigroup N.A. The financial strength rating of Citibank N.A. was downgraded from C-/baa1 to D+/baa3, which is the financial strength rating of the Bank. The Citibank N.A. rating was downgraded on 21 June 2012. The Bank Financial Strength Rating (BFSR) of the Bank was affirmed at D+ while the outlook of the rating was changed from negative to stable. According to Moody's, the change of the rating outlook to stable reflected the Bank's high profitability in the last three years, its strong and growing capital base and low loan-to-deposit ratio.

As at the end of 2012, the Bank had the following ratings awarded by Moody's:

Rating for long-term deposits in the domestic currency	Baa3
Rating for long-term deposits in foreign currencies	Baa3
Rating for short-term deposits in the domestic currency	Prime-3
Rating for short-term deposits in foreign currencies	Prime-3
Financial strength	D+
Financial strength rating outlook	*Stable*
Long- term and short-term deposits in the domestic and foreign currency rating outlook	*Stable*

The ratings awarded by Fitch did not change in 2012 (the ratings were affirmed on 14 June 2012). As at the end of 2012, the Bank had the following ratings awarded by Fitch:

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

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

The rating from Standard & Poor's (prepared on the basis of publicly available information) remained unchanged at BBBpi in 2012 (affirmed on 13 December 2012).

4. Investor relations

An integral element of the Bank's information policy, intended to cater to information needs of all persons and institutions interested in corporate information about the Company, are investor relations which provide information to the existing and potential investors as well as 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 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 Meetings of the Bank.

As part of investor relations activities in 2012, the Bank organized 5 conferences for analysts and investors on the financial performance and business achievements of the Bank. Furthermore, members of the Management Board and representatives of the Investor Relations Team participated in regular meetings with investors and analysts (at the Bank's premises and at investor conferences).

In 2012, the Bank in collaboration with Dom Maklerski Citi Handlowy and the Kronenberg Foundation was a partner of the second edition of the national program of the Ministry of the State Treasury addressed to individual stock investors "Civic Shareholding. Know How to Invest." Citi Handlowy was the only bank partner of the campaign.

The "Civic Shareholding. Know How to Invest" program aims to build up social trust in the capital market and to increase the presence of individual investors on the Warsaw Stock Exchange. The key initiatives of this year's edition of the program included a series of workshops on stock market investments as well as a competition based on the online game My First Million (*Pierwszy Milion*). Participants can play the game to understand the basic rules of financial management and investments.

X. Statements of Bank Handlowy w Warszawie S.A. on its application of corporate governance rules in 2012

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

It is the priority of Bank Handlowy w Warszawie ("Bank", "Company") to become the most respected financial institution in Poland with a considerable focus on business and social responsibility. Since 2003, the Bank has complied with corporate governance rules approved by the Warsaw Stock Exchange ("WSE") as the Best Practices in Public Companies 2005 and, as of 1 January 2008, as the Best Practices for WSE Listed Companies. The key objective of the adoption of the corporate governance rules as a standard of the Bank 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 among the Company's statutory bodies, led to the adoption by the Bank of the best practices as set forth in the Best Practices for WSE Listed Companies. The 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 declared its will to comply with the corporate governance rules set forth in the Best Practices for WSE Listed Companies except for three rules not applicable to the Bank's operation. Furthermore, 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 agreed to comply with the corporate governance rules set forth in the Best Practices for WSE Listed Companies amended by a resolution of the Supervisory Board of the Warsaw Stock Exchange of 19 May 2010. In 2012, by a resolution of 10 January 2012 adopted by the Management Board and a resolution of 6 February 2012 adopted by the Supervisory Board, the Bank agreed to comply with the Best Practices for WSE Listed Companies amended by resolutions of the Supervisory Board of the Warsaw Stock Exchange of 31 August 2011 and 19 October 2011.

The Bank continuously takes measures aimed at improving transparency in its organization, the division of powers and the functioning of its governing bodies and their mutual relations. These include the following:

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

2. Corporate governance rules set forth in the Best Practices for WSE Listed Companies which were not applied by the Bank in 2012

In May 2008, the Bank declared its will 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 transactions / agreements with related parties entered into as part of ongoing operations, in particular those related to liquidity management; and

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

The Bank did not apply rules II.3 and III.9 of the Best Practices for WSE Listed Companies only with respect to agreements with related parties entered into as part of ongoing operations, in particular those related to liquidity management.

Considering the nature and the number of transactions entered into as part of ongoing operations, it is not possible from the operational perspective to obtain the Supervisory Board's approval for their conclusion. At the same time, it should be emphasized that reports on the ongoing monitoring of the Bank's operations are submitted to the Supervisory Board on a monthly basis and include among others information on related party transactions exceeding PLN 100 thousand.

The resolution of the Supervisory Board of the Warsaw Stock Exchange of 19 May 2010 repealed rule IV.8 of the Best Practices for WSE Listed Companies. Since 2010, pursuant to the amended corporate governance rules, the Bank has published on its website information about the content of the rule followed by the company ensuring a change of the entity authorized to audit the financial statements.

The Bank did not apply the recommendation to allow the shareholders to participate in a General Meeting using electronic communication means but the Bank did allow an online broadcast of the General Meeting in 2012, recorded the proceedings and published them on its website. Otherwise, the Bank complied with all the recommendations of the Best Practices for WSE Listed Companies.

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 is a separate organizational unit in the Financial Division in the Management and Support Sector, reporting directly to the Chief Financial Officer and Vice-President of the Management Board of the Bank.

The process of drawing up the financial statements is covered by the Bank's internal control system aimed at ensuring accuracy and fairness of the data shown in the Bank's financial statements. The internal control system includes identification and control of risks related to the process of drawing up the financial statements, monitoring of 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 of ensuring compliance of such activities with the Bank's control procedures and mechanisms. Risk management is performed by means of internal mechanisms of risk identification, control, monitoring and reporting, executed and supervised by specialized organizational units. The internal control functions include a separate financial control function performed by a separate unit of the Financial Division. The Bank's financial control applies to the accounting policy and financial reporting. The quarterly Risk and Control Self-Assessment (RCSA) ensures an evaluation of control processes and represents 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 operational risk levels and changes in the financial reporting environment, identification of new threats, verification of the effectiveness of control mechanisms, and implementation of corrective action plans. The Bank's operational risk monitoring process includes 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 Department. The Audit Department is responsible for independent and objective assessment of the adequacy and effectiveness of the internal control system and assessment of the Bank's management system including effectiveness of the management of risks related to the activities of the Bank. The Audit Department performs internal controls, undertakes the assessment of activities executed by organizational units of the Bank, and performs audits in subsidiaries of the Bank as part of the Bank's supervision of risks related to the activity of the subsidiaries in terms of their compliance with internal regulations, applicable legal provisions and regulatory requirements, as well as effective and rational control mechanisms. The Audit Department is a separate organizational unit of the Bank, reporting directly to the President of the Management Board.

The Supervisory Board of the Bank exercises supervision over the internal control system and the operations of the Audit Department. The Supervisory Board performs its functions with the support of the Audit Committee, which, as part of the supervisory function and in cooperation with the Bank's Management Board and the statutory auditor, verifies the fairness of the financial statements as well as proper execution 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 Audit Department provides the Management Board and the Audit Committee of the Supervisory Board with audit findings and, on a periodic basis at least once per year, provides the Supervisory Board with collective information on irregularities identified and conclusions drawn in the course of the internal audits performed as well as measures undertaken to eliminate the irregularities. The Head of the Audit Department has the right to participate in meetings of the Management Board and the Supervisory Boards at 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., which holds 97,994,700 shares, representing 75% of the Bank's share capital. The number of votes corresponding to COIC's shareholding is 97,994,700, representing 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 confer any special control privileges with respect to the Bank.

There are restrictions resulting 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 of the share capital, respectively, is obliged to notify at each time the Polish Financial Supervision Authority of such intention to purchase of acquire. 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 at each time the Polish Financial Supervision Authority of such 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 the 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 way of resolutions, on the Company's matters not reserved by the applicable laws and the Articles of Association as a responsibility of another governing body, and in particular:

1) determines the strategy of the Company;
2) establishes and liquidates the Company's committees and determines their competences;
3) drafts the Regulations of the Management Board and submits them to the Supervisory Board for approval;
4) drafts 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, a Vice-President or a member of the Management Board;
9) takes independent decisions regarding acquisition and disposal of real properties, perpetual usufruct or interest in property;
10) adopts the Company's draft 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 have responsibility, such decisions are made upon consultation with the competent Committee;
20) determines the organizational structure and the scope of responsibilities of the Audit Department, including mechanisms ensuring audit independence.

The Management Board is in charge of designing, implementing and ensuring proper functioning of the Company's management system. It develops, implements, approves and updates written strategies, procedures, plans and analyses, undertakes other measures in respect of the risk management, internal control and internal capital assessment system and reviews of the internal capital assessment and maintenance process. Members of the Management Board and 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.

The President of the Management Board:

1) manages the activities of the Management Board, including designation from among the Management Board members of a person performing the role of Deputy President in his/her absence, and determines the method of deputizing other Management 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 audit 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.

The 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 of the Bank is authorized to introduce amendments to the Bank's Articles of Association. Any changes to the Articles of Associations must be entered in the court register. Pursuant to Article 34.2 of the Banking Act of 29 August 1997, any amendments to the Bank's Articles of Association require approval 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, the Articles of Association as well as applicable laws. The Bank's General Meeting ("General Meeting") follows 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 is convened by the Management Board of the Bank. It should 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. The Supervisory Board has the right to convene an ordinary General Meeting if the Management Board fails to convene such meeting within the timeframe set in the Articles of Association and to convene an extraordinary General Meeting if the Supervisory Board considers it necessary. An 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 of the share capital. A request for convening an extraordinary General Meeting should be submitted to the Management Board in writing or in an electronic form. If an extraordinary General Meeting is not convened within two weeks from submission of a request to the Management Board, the registration court may, by way of a decision, authorize the shareholder or shareholders who have made such request to convene the extraordinary General Meeting. The shareholder or shareholders authorized by the registration court should refer to the decision of the registration court mentioned in the previous sentence in the notice convening the extraordinary General Meeting. The chairman of such an extraordinary General Meeting is appointed by the registration court. An extraordinary General Meeting 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 in the Bank. The chairman of such a General Meeting is appointed by the shareholders. The General Meeting is convened by way of an 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 scheduled date of the General Meeting. Shareholders who have the right to demand that a certain issue be included on the agenda of a General Meeting should, in order to exercise such right, submit a motion to the Bank's 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. The Management Board will place the issue on the agenda of the next General Meeting immediately, no later than eighteen days before the scheduled date of the General Meeting. A General Meeting may be cancelled only if it has become expressly irrelevant or there are 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 change of date of a General Meeting must be made in a manner minimizing the adverse effects for the Bank and the shareholders. The General Meeting 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 an issue from the agenda or resolve not to consider an issue included on the agenda at shareholders' request, prior consent is required of all present shareholders who have made such a request supported by 80% of votes at the General Meeting. Motions concerning such matters should be justified in a detailed way.

A full text of the documentation to be presented at a General Meeting along with the draft resolutions (and, if a given case does not require passing of a resolution, along with comments of the Management Board) and other information with respect to a General Meeting is placed on 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 Bank's registered office at the time specified in the Bank's announcement convening the General Meeting. Notwithstanding the foregoing, the Bank fulfills all disclosure requirements related to convening of 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 of the Supervisory Board 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 Board and Supervisory Board as well as the statutory auditor of the Bank should participate in the General Meeting if it discusses 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.

The Bank may organize the General Meeting in a manner allowing the shareholders to participate in the General Meeting using electronic communication means, in particular by way of:

1) real-time broadcast of the General Meeting;
2) two-way real-time communication enabling shareholders who use electronic communication means to speak during the General Meeting from a remote location;
3) exercising the voting right in person or through an attorney before or during the General Meeting.

The rules of shareholders' participation in the General Meeting and the procedures followed during the General Meeting, as well as the mode of communication between the shareholders and the Bank through electronic communication means, are set out in the Regulations of the General Meeting. The Regulations of the General Meeting may authorize the Bank to define means of communication between the shareholders and the Bank through electronic communication means other than those set out in the Regulations.

The Management Board will announce other means of communication in the announcement convening the General Meeting. Notwithstanding the foregoing, the Bank may broadcast the General Meeting online, record the Meeting and publish the record of the Meeting on the website of the Bank after the Meeting.

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

The Chairman of the General Meeting should 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, the 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 reports 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:

4) disposing of and leasing the enterprise or its organized part and establishing a limited property right on the enterprise or its part;
5) amending the Articles of Association;
6) increasing or reducing the Company's' share capital;
7) determining the date of exercising the pre-emptive right with respect to new issue shares;
8) determining the date of dividend payment for the previous financial year as well as dividend payment deadlines;
9) creating and liquidating special funds from profit;
10) appointing and dismissing members of the Supervisory Board;
11) determining the amount of remuneration paid to members of the Supervisory Board;
12) business combination or liquidation of the Company;
13) appointing and dismissing liquidators;
14) redeeming the Company's shares;
15) 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 the general risk fund.

The General Meeting decides upon profit distribution by determining the amount of allocations for:

1) supplementary capital created on an annual basis with allocations 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 make further allocations;

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 methods

The Company's shares are disposable bearer shares. The shareholders have the right to a share of the profit disclosed in the financial statements audited by the 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 persons who are the Bank's shareholders at least sixteen days prior to the date of the General Meeting (Date 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 should 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 Chairman of the General Meeting, as well as propose one candidate for the Chairman of the General Meeting to the minutes.

Under every point of the agenda, the shareholder is entitled to make a statement and a response.

On a shareholder's request, the Management Board is obliged 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 should 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 criminal, 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 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 and on 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 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 should 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 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 that 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 should 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 limits imposed 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 of the Bank always take place in the Bank's registered office in Warsaw;
- Presence of representatives of the media at the General Meetings is allowed;
- In accordance with the Bank's practice, all important materials prepared for the General Meeting, including draft resolutions with justifications and opinions of the Supervisory Board, are made available to the shareholders no later than 14 days before the date of the General Meeting, at the Bank's registered office and on the Bank's website;
- The General Meeting has stable Regulations setting forth detailed principles for conducting meetings and adoption of resolutions;
- Members of the Supervisory Board and the Management 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 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 Board and the Supervisory Board of the Bank, 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 the 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 this 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. In 1990-1994, he served in the Polish Ministry of Finance as the Head of the Banking System and Financial Institutions Department. In 1994-2001, he worked for Powszechny Bank Kredytowy S.A. (PBK) as Vice-President of the Management Board of PBK responsible for Corporate and Investment

Member of the Management Board	Professional experience
	Banking. In 2001-2003, 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. 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. He is also a member of the Supervisory Board of the Polish Bank Association and the Management Board of the Polish Confederation of Private Employers Leviathan.
Brendan Carney *Vice-President of the Management Board*	Brendan Carney was born in the USA. He is a graduate of Economics at the University of Michigan and Wharton School at the University of Pennsylvania. Brendan Carney joined Citi Belgium in March 2010, where he was Head of Consumer Banking. In February 2011, he also took the position of Chief Country Officer for Belgium. In his new role, he was responsible for all Citi operations in Belgium, including Consumer and Institutional Banking. He began his career in Citi in 2002, in Portugal, when he was managing the consumer banking area. Brendan Carney serves as Vice-President of the Management Board of Bank Handlowy w Warszawie SA as of May 21, 2012. He is the Head of the Consumer Bank.
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 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. Robert Daniel Massey Jr. was appointed Vice-President of the Management Board of Bank Handlowy w Warszawie S.A. on 26 May 2010. He has been the Head of the Risk Management Sector at Bank Handlowy since May 2010.
Misbah Ur-Rahman-Shah *Vice-President of the Management Board*	Misbah Ur-Rahman-Shah holds a degree in Commerce from Government 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. In 1996-1998, he was the Head of Strategy & Management Processes for CEECA. His main responsibilities included strategy implementation in the Corporate Bank. In 1998-2002, as Member of the Management Board of Saudi American Bank (SAMBA), U.K., he was responsible for the treasury business. In 2002-2004, he managed the Sales & Trading Business in 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, the Chairman of the Supervisory Board. Since 2004, he has been the Head of the Treasury Division of Bank Handlowy w Warszawie S.A. and currently also the Head of Market Business for Central and 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.
Witold Zieliński *Vice-President of the Management Board*	Witold Zieliński holds a master's degree and completed 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. In 1986-1990, he worked for the Polish Commercial Office in New York. In 1991, Witold Zieliński joined Citibank (Poland) S.A. In 1992-1995, he was a Member of the Management Board, then he worked for Citibank N.A. London Branch,

Member of the Management Board	Professional experience
	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. In 2004-2005, 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.
Iwona Dudzińska *Member of the Management Board*	Iwona Dudzińska holds an MA in Economics and is a senior executive with 15 years' 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 clearing, money market operations and the bank's administrative functions. She was also in charge of the Corporate Clients Department. In 2001-2004, she managed the Centralized Operations Division of the Corporate and Investment Bank. From April 2004 to July 2008, as the Managing Director, she was the Head of Operations and Technology of the Corporate and Investment Bank. As the Head of Operations and Technology Sub-Sector, she was responsible for all operation and technology activities in the 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 2012, the Management Board also included Sonia Wędrychowicz-Horbatowska, Vice-President of the Management Board, who resigned as Vice-President of the Management Board of the Bank as of 13 May 2012.

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

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.

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

The Corporate Services Office in the Corporate Communication and Marketing Department ("Corporate Services Office") provides 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 Head of the Audit Department may participate in meetings of the Management Board at 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. Resolutions by the Management Board are adopted by 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 in a circular procedure pursuant to a decision of the President of the Management Board or the Deputy President. A resolution may be adopted in a circular procedure provided that all members of the Management Board are notified of its adoption. A resolution adopted in a circular procedure constitutes an appendix to the minutes from the first meeting of the Management Board following its adoption.

Minutes are taken from Management Board meetings, which is a responsibility of the Corporate Services Office. Minutes of Management Board meetings should include:

1) the agenda;
2) the 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) the number of votes cast for a particular resolution and dissenting opinions;
6) the name of the entity or organizational unit or the first and last name of the person in charge of implementation of the resolution; and
7) resolution implementation deadline.

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 financial 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 financial position as well as the operations and the financial position of the Company's subsidiaries, which may be reasonably requested by a member of the Supervisory Board.

8.2 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, the Extraordinary General Meeting of the Bank determined in Resolution No. 6 of 5 December 2006 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. The Supervisory Board includes independent members.

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

Member of the Supervisory Board	Professional experience
Andrzej Olechowski *Chairman of the Supervisory Board*	Andrzej Olechowski holds a Ph.D. in Economics. Andrzej Olechowski is a member of the Board of Directors of Euronet and of Advisory Committees of 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 the President of the Republic of Poland. He is a member of a number of non-governmental organizations, among others, the Chairman of the Polish Group of the Trilateral Commission. He is the author of numerous publications on international trade and foreign policy. Dr. Olechowski is a Professor at the Vistula University. In the years 1991-1996 and 1998-2000 Andrzej Olechowski served as Chairman of the Supervisory Board of Bank Handlowy w Warszawie S.A.

Member of the Supervisory Board	Professional experience
	He was reappointed to the Supervisory Board on 25 June 2003. He serves as Chairman of the Supervisory Board since 23 July 2012.
Shirish Apte *Vice-Chairman of the Supervisory Board*	Shirish Apte is Chairman, Banking for Citi Asia Pacific. He is a member of Citi Business Development Committee and the Senior Advisory Group. Mr. Apte took on his current role in January 2012 after serving as CEO for Citi Asia Pacific. Previously, Mr. Apte was CEO of Citi's Central & Eastern Europe Region and, prior to that he was CEO for Central & Eastern Europe, Middle East and Africa (CEEMEA), Citi Markets and Banking. Mr. Apte has more than 30 years' experience with Citi, starting as Relationship Manager with Citibank India. He held various assignments in Corporate Banking, Risk Management and Corporate Finance Investment Banking before becoming Markets & Banking Head in India. Mr. Apte moved to London in 1993 as senior Risk Manager for the group before becoming Corporate Finance Head for CEEMEA, including India. In 1997, he moved to Poland as Country Manager for Citibank Poland and Vice-President of the Management Board of Bank Handlowy w Warszawie S.A. Shirish Apte played a key role in the acquisition of Bank Handlowy by Citigroup in 2000. Shirish Apte is a Chartered Accountant from the Institute of Chartered Accountants in England and has an MBA from London Business School. He is Citi's Senior Statesman at the London Business School. Shirish Apte has been the Vice-Chairman of the Supervisory Board of Bank Handlowy w Warszawie SA. since 25 June 2003.
Adnan Omar Ahmed *Member of the Supervisory Board*	Adnan O. Ahmed is a Managing Director, Head of Human Resources for Europe, Middle East and Africa (EMEA), and Global Head of Citi Shared Services in Citi Employee Services. Adnan Ahmed joined Citi in July 2010 and is based in London. Prior to joining Citi, he spent a seventeen year career at Morgan Stanley. After the first two years in New York, Adnan spent the rest of his career in Asia, holding various senior positions including Head of Human Resources / Chief Talent Officer, and Chief Administrative Officer. In the latter role, he had responsibility for the development and execution of cross-divisional strategy and direct accountability for regional infrastructure and support functions, including Finance, Human Resources, Information Technology, Operations, Shared Services, Marketing and Communications, Corporate Services, and Operational Risk. His experiences include Start-Ups, Joint Ventures (China and India) and advising clients, including Corporates and Sovereign Wealth Funds, on their infrastructure, platform, and growth strategies. Before joining Morgan Stanley, Adnan Ahmed worked at Mitsubishi UFJ Financial group in New York in Corporate Finance, Operations, Credit and Human Resources. Adnan has taught international management courses and lectured at educational institutions including INSEAD and the Hong Kong University. He has also been active in various non-profit organizations, including as a Board Member of the American Chamber of Commerce in Hong Kong, where he co-led a key initiative on Board Governance, and the English Schools Foundation (Hong Kong). He currently serves as a Board member of Temasek Management Services, a wholly owned subsidiary of Temasek Holdings. Adnan received his MBA degree from the A.B. Freeman School of Business at Tulane University (1990), and holds degrees in BSc Computer Science (Magna Cum Laude, 1988) and BA International Relations (Cum Laude, 1988), also from Tulane. He has been a Member of the Supervisory Board of Bank Handlowy w Warszawie SA since 21 June 2012.
Igor Chalupec *Member of the Supervisory Board*	Igor Chalupec is 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. Graduate of the Faculty of Foreign Trade at the Warsaw School of Economics (formerly the Main School of Planning and Statistics) and the Faculty of Law and Administration at the Warsaw University. Licensed broker of securities. In 1991-1995, he was a founder and then manager of Centralne Biuro Maklerskie Banku Pekao SA, currently CDM Pekao SA. In 1995-2000, a Member and then, until 2003, Vice-President of the Management Board of Pekao SA (UniCredit Group) responsible for corporate and investment banking, treasury and custody services as well as asset management. In 2003-2004, Under-Secretary of State in the Ministry

Member of the Supervisory Board	Professional experience
	of Finance responsible for European affairs, financial markets and financial information. Vice-Chairperson of the Commission for Insurance and Bank Supervision (2003-2004). Author of the Warsaw City 2010 Agenda, the government's capital market development strategy. From October 2004 to January 2007, President of the Management Board and CEO of Polski Koncern Naftowy ORLEN, the biggest Polish company and, after the acquisition of the Lithuanian refinery Mazeikui Nafta in 2006, the biggest fuel company in Central Europe. Member of many Supervisory Boards, including the Warsaw Stock Exchange (1995-2003), Unipetrol, a.s. (2005-2007). Currently a member of the Supervisory Boards of PZU Życie SA and Budimex SA. Member of the Program Council of the Economic Forum in Krynica. Winner of many rewards and distinctions, including the Lesław A. Paga Award for setting modern standards in the Polish economy, the Hermes Award for outstanding contribution to the reconstruction of the Polish capital market and the Vector Award made by the Confederation of Polish Employers. 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 the 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 SA since 30 June 2000.
Marc Luet *Member of the Supervisory Board*	Marc Luet is the Chief Executive Officer of Consumer for Europe, Middle East and Africa (EMEA). He assumed this role in June 2010, and he is responsible for expanding the bank's leading presence in EMEA's developing markets. He oversees Citi's retail banking, wealth management and credit cards businesses and the strategy to offer high value products, superior service and cutting edge mobile and internet banking solutions to urban customers across the region. In 2008-2010, Marc Luet was VISA President for CEMEA, where he was responsible for Strategy, Marketing, Sales, Finance, Legal, Corporate Communications, and Regulatory Affairs for the region. He was also a member of the Operating Committee of Visa Inc. Before joining Visa, Marc Luet was CEO of Consumer Finance & Retail International at Fortis Group (2005-2008), CEO at Egg France (2002-2005) and Consumer Business Manager for Hungary and Belgium at Citigroup (1990-2002). Marc Luet is a graduate of the Institut d'Etudes Politiques de Paris, holds BSc in Economics from the Panthéon Sorbonne University and MBA from the Tuck School of Business Administration at Dartmouth College. 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*	Mr. Frank Mannion is the Citi Chief Financial Officer for Europe, the Middle East and Africa (EMEA), with responsibility for over 1,000 staff across the Region. He assumed this position in January 2011. Mr. Mannion began his career in Ireland before moving to join PricewaterhouseCoopers in London. Mr. Mannion joined Citi in the UK in 1989 in the Planning and Analysis team. He has held various Finance roles, including Technology Finance Manager and Head of CMB EMEA Product Control. He served as CMB EMEA Regional Controller, responsible for Product Control, Controllers and Regulatory Reporting and subsequently in March 2008 he was appointed the Citi Regional Franchise Controller for EMEA with responsibility for over 800 people covering all the businesses. Mr. Frank Mannion has a Commerce Degree from the National University of Ireland - Galway and is a Chartered Accountant. He lives in London with his family. 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*	Chief Executive Officer and President of the Management Board of Kulczyk Investments S.A. and Kulczyk Holding S.A., an international investment group, focused on the creation of deals and investment opportunities in global emerging markets, particularly in the areas of energy, mineral resources and infrastructure. He has extensive transactional and regulatory

Member of the Supervisory Board	Professional experience
	experience, particularly in the areas of privatizations, mergers and acquisitions and project finance in power, infrastructure, oil and gas sectors. Prior to becoming the CEO of Kulczyk Investments in 2007, Mr. Mioduski was the Executive Partner at CMS Cameron McKenna responsible for energy and infrastructure practice in Poland. He spent four years in the New York and Warsaw offices of White & Case LLP and before that was with Vinson & Elkins LLP in Houston He is a member of the Board of the Central Europe Energy Partners Association, the Vice President of the Harvard Club of Poland and the Vice President of the Polish Business Roundtable. He is also a member of the Polish Chapter of the Young Presidents' Organization. Mr. 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 holds Juris Doctor degree (1990) from Harvard Law School and Bachelor of Arts degree (1987) from the University of St. Thomas in Houston. 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*	A graduate in 1971, Krzysztof Opolski holds a degree in Pedagogy and Psychology from Warsaw University. In 1990, he received the 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. He also served as Assistant Professor at the Warsaw University and previously, in 1972-1991, he was Senior Assistant Lecturer. In 1980-1982, he was Deputy Dean at the Warsaw University's Faculty of Economic Sciences and, in 1994, he became Senior Assistant Professor (Professor Extraordinarius) at the Banking and Finance Department. Since 2006, he has been Head of Warsaw University's Strategy and Economic Politics Department. His career extends outside Warsaw University, starting with the Institute of Science Policy and Higher Education, where he served as Research Secretary in 1971-1989. In 1991-1998, he was Managing Director and President of the Management Board of OLYMPUS Centrum Edukacji i Rozwoju Biznesu S.A. In 1995-1997, he was a member of the Supervisory Board of RUCH SA and, from 1996 to 1999, he was Deputy Rector at the Higher School of Banking, Finance and Management in Warsaw. In 1997-2000, he was an expert in the Employment and Remuneration Policy Department of Powszechna Kasa Oszczędności BP. 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 the W. Orłowski Clinical Hospital. Professor Opolski was Quality Consultant in the Marshal's Office of the Mazowieckie Voivodeship. He was the Editor-in-Chief of *Ekonomia* magazine and, in 2005-2006, he was a member of the team of economic advisors to the Prime Minister of Poland. He is a member of the Consortium for Higher Education Researchers (CHER) in Kassel and a member of the Supervisory Board of Axa Polska and of the Supervisory Board of Centrum Giełdowe S.A. in Warsaw. He is a member of the team of advisors to the Commander-in-Chief of the Police, a member of the jury of the Teraz Polska contest, a member of the New Connect Advisory Committee at WSE and the WSE's Reporting Standards Council. Professor Opolski is the author of many books and scientific publications on economics and management and recently on strategy and management of financial institutions. His main publications include: *Biznesplan, jak go budować i analizować* (co-author, Warsaw 2007), *Audyt strategiczny jako szansa na poprawę pozycji rynkowej firm* (co-author, Warsaw 2009), *Wealth Management, bankowość dla bogatych* (co-author, Warsaw 2010). In 2006-2009, he was a member of the Supervisory Board of Bank Handlowy w Warszawie S.A. At present, in addition to his position at the Warsaw University, he is the Head of the Team of Advisors to the President of the National Bank of Poland (since August 2009). Krzysztof Opolski was a Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. in 2006-2009. He was reappointed to the Supervisory Board on 28 June 2010.
Stanisław Sołtysiński *Member of the Supervisory Board*	Stanisław Sołtysiński, Professor of Law. From 2000 to June 2012, Professor Sołtysiński served as Chairman of the Supervisory Board of Bank Handlowy w Warszawie S.A. At the same time, he is engaged in scientific activities as

Member of the Supervisory Board	Professional experience
	a law professor at the Adam Mickiewicz University in Poznań (where he also held the position of Dean of the Faculty of Law and Administration) and a recurring visiting professor at the University of Pennsylvania Law School in Philadelphia, the College of Europe in Bruges, the Max Planck Institute in Munich and the International Law Academy in the Hague. He is a member of many scientific associations and organizations. Among others, he is a correspondent member of the Polish Academy of Learning and a member of the Board of Directors of UNIDROIT. He is a co-author of the Commercial Companies Code. Professor Sołtysiński is also in private law practice as a partner in the law firm Sołtysiński, Kawecki i Szlęzak - Legal Advisors. Professor Sołtysiński was appointed to the Supervisory Board of Bank Handlowy w Warszawie S.A. on 26 March 1997 and was the Chairman of the Supervisory Board from 30 June 2000 to 20 June 2012. He is a member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 21 June 2012.
Zdenek Turek *Member of the Supervisory Board*	Zdenek Turek is currently responsible for the performance of all of Citi's businesses in Russia, the Czech Republic, Hungary, Romania, Slovakia, Bulgaria, Kazakhstan and Ukraine. He is based in Moscow. Citi provides a broad range of services including consumer, securities and markets and corporate and investment banking across the CEE region, one of Citi's top priority markets globally. Prior to his current role, between 2005 and 2008, Zdenek Turek was Citi Country Officer for Citibank South Africa and Division head for Africa, a region with 16 countries of Citi's presence. From 2002 to 2005, Zdenek Turek was the Citi Country Manager for Hungary, also managing the Central European cluster of 5 countries (Hungary, Czech Republic, Romania, Slovakia and Bulgaria). Zdenek Turek joined Citi in 1991 in Prague where he held a number of Corporate Bank and Corporate Finance management roles before moving to Citi Romania in 1998 as Head of Citi in Romania. Prior to joining Citi, Zdenek Turek was a member of the Foreign Exchange Department of the Czechoslovak Central Bank focusing mainly on Export/Import and Business sectors (1986-1990). He then joined A.I.C., an Austrian Management Consulting firm as Deputy Head of Representative Office, Prague responsible for corporate advisory focusing on restructuring and financial recovery of industrial companies. Zdenek Turek was born in Kolin, Czech Republic. He graduated with an MA in Finance and Banking from the University of Economics, Prague in 1986, an Advanced Management Development Program from Wharton University in 1997 and an MBA from INSEAD in 2010. Zdenek Turek is a member of the American Chamber of Commerce Board in Russia. He is a member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 21 June 2012.
Stephen R. Volk *Member of the Supervisory Board*	Stephen R. Volk holds the function of Vice Chairman of Citigroup Inc. and is responsible for Citigroup Senior Management matters as well as Investment Banking. He is also a member of the Citigroup Executive Committee. Before joining Citigroup in September 2004, Mr. Volk held the function of Chairman of Credit Suisse First Boston, where he worked together with the CEO on the company strategic management and client key matters. His professional experience with Credit Suisse First Boston began in August 2001 and before that he worked for Shearman & Sterling, a New York-based law firm, where he had been Senior Partner since 1991. During his career in Shearman & Sterling, Mr. Volk acted as legal counsel to a number of corporations including Citicorp. The firm provided advisory services for Citicorp within a wide range of fields including restructuring of the Citigroup debt portfolio in Latin America. Among some important transactions carried out with substantial participation of Mr. Volk were the following: mergers of Glaxo and SmithKlein, Viacom-Paramount, Viacom-CBS and Vivendi-Universal-NBC. He joined Shearman & Sterling in 1960 after graduating from Dartmouth College and Harvard Law School and became a Partner of this company in 1968. Mr. Volk is a Director of Continental Grain Company and a former Director of Consolidated Edison, Inc. as well as Trizec Hahn Properties. He is also a member of the Council on Foreign Relations, the Dean's Advisory Board of Harvard Law School and a fellow of the American Bar Foundation.

Member of the Supervisory Board	Professional experience
	Stephen R. Volk has been a Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 20 November 2009.

In 2012, the Supervisory Board also included Stephen Simcock (whose term of office expired on 20 June 2012) and Alberto J. Verme (who resigned as of 19 June 2012).

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

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 relationships between members of the Management Board and the Company;
4) granting consent to opening or closing of foreign branches;
5) adoption of the Regulations of the Supervisory Board as well as the approval of:
   a) 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 whose value exceeds 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 Department upon the motion of the Management Board and supervision over operations of the Audit Department;
9) any benefits provided by the Company and its related parties to 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 the 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 compliance risk management, as well as evaluation, at least once a year, of the adequacy and effectiveness of this system;
11) approval of the Bank's operational strategy and the principles of 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 compliance risk policy;
15) approval of the Bank's internal procedures concerning internal capital assessment, capital management and capital planning processes;
16) approval of the Bank's information policy;
17) approval of the internal control procedure;
18) approval of the general rules of the policy governing the variable components of remuneration for persons in managerial positions and performing periodic reviews of those rules;
19) approval of the policy governing the variable components of remuneration for persons in managerial positions in the Bank;
20) approval of the list of managerial positions in the Bank which have a significant impact on the risk profile in the Bank.

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 Supervisory Board, presenting the Supervisory Board's evaluation of the Company's position, evaluation of the Supervisory Board's activities, evaluation of the internal control system and the 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 adoption of resolutions by casting their vote in writing or through another member of the Supervisory Board. The Supervisory Board may adopt resolutions in a circular procedure or via telecommunication means.

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. Resolutions of the Supervisory Board are adopted by the absolute majority of votes. Without the consent of the majority of independent members of the Supervisory Board, no resolutions should be adopted with respect to:

1) any benefits provided by the Company or its related parties to 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 the Management Board or their related parties;
3) appointment of the 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 of the Company in a secret ballot as well as the 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. 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 later effective date is specified therein.

Minutes are taken from the meetings of the Supervisory Board and should include the agenda, the 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, dissenting opinions, 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 meetings concerning directly the Management Board. Upon the motion of the Chairman of the Supervisory Board or upon the motion of the Management Board of the Company, meetings may be attended by the Company's employees or third parties competent with regard to a particular matter. The Head of the Audit Department may participate in meetings of the Supervisory Board at which issues related to the Company's internal control are considered. In specially justified circumstances, the 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 of their functioning. The Committee is composed of: Shirish Apte acting as the Chairman, Stanisław Sołtysiński acting as the Vice-Chairman, and Igor Chalupec, Mirosław Gryszka, Marc Luet, Andrzej Olechowski, Zdenek Turek and Stephen R. Volk acting as Committee members. Alberto J. Verme was a member of the Committee until 19 June 2012 and Stephen Simcock until 20 June 2012.

Audit Committee

The Audit Committee is composed of:

1) Mirosław Gryszka – Chairman of the Committee,
2) Frank Mannion – Vice-Chairman of the Committee,
3) Shirish Apte - Member of the Committee,
4) Marc Luet – Member of the Committee,
5) Krzysztof Opolski - Member of the Committee,

Stephen Simcock was a member of the Committee until 20 June 2012.

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

The roles and responsibilities of the Audit Committee include monitoring of financial reporting, monitoring of the effectiveness of the internal control and internal audit systems, monitoring of risk management, monitoring of audit performance and monitoring of 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 on the Bank's website. During the first subsequent meeting of the Supervisory Board, the Committee provides the Supervisory Board with a report on every meeting of the Committee as well as recommendations of the Committee 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 on Public Supervision, as well as hold qualifications within the field of accounting or financial auditing.

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 Vice-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 year on dates determined by the Chairman upon consultation with the Vice-Chairman of the Committee.

At least once every year, the Audit Committee meets:

1) with the Head of the Audit Department, 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 list of standing items considered at the Committee's meetings is determined in a resolution adopted by the Committee. The Supervisory Board, individual Committee members as well as the remaining members of the Supervisory Board have the right to propose issues to be considered at the Committee's meetings.

Based on materials received, the Secretary of the Audit Committee prepares a draft agenda, including a list of invitees, and submits it to the Committee Chairman and Vice-Chairman for approval. The draft agenda approved by the Committee Chairman and Vice-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 third parties to its meetings to discuss or examine the issues considered by the Committee. Parties invited by the Committee Chairman or Vice-Chairman may participate in the meeting or its relevant part.

Meetings of the Committee are chaired by the Chairman of the Audit Committee. In the Chairman's absence, meetings are chaired by the Vice-Chairman. Upon consultation with the Vice-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 Vice-Chairman of the Committee, the Chairman may decide on considering a matter by circular procedure.

Remuneration Committee

The Remuneration Committee is composed of:

1) Andrzej Olechowski – Chairman of the Committee,
2) Adnan Omar Ahmed – Vice-Chairman of the Committee,
3) Shirish Apte – Member of the Committee,
4) Stanisław Sołtysiński –- Member of the Committee.

Alberto J. Verme was a member of the Committee until 19 June 2012.

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 on the Bank's website. During the first subsequent meeting of the Supervisory Board, the Committee provides the Supervisory Board with a report on every meeting of the Committee as well as recommendations of the Committee 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 market criteria;
2) evaluating the remuneration paid to members of the Company's Management Board with respect to the scope of duties of members of the Company's Management Board and their performance;
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;
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;
5) issuing opinions on the policy governing the variable components of remuneration for persons in managerial positions in the Bank;
6) issuing opinions on and monitoring of the variable components of remuneration for persons in managerial positions in the Bank related to risk management and compliance of the Bank with legal provisions and internal regulations.

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 Vice-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 Vice-Chairman if the Committee Chairman is unable to convene a meeting for any reason 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 on dates determined by the Chairman of the Committee. The agenda of the Remuneration Committee includes standing items as well as issues considered upon motion.

Based on materials received, the Secretary of the Remuneration Committee prepares 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 Chairman of the Remuneration Committee may decide on considering a matter by circular procedure. 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 acknowledged 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) Zdenek Turek – Chairman of the Committee,
2) Igor Chalupec – Vice-Chairman of the Committee
3) Frank Mannion – Member of the Committee
4) Andrzej Olechowski – Member of the Committee,
5) Stephen R. Volk – Member of the Committee,
6) Dariusz Mioduski – Member of the Committee.

Alberto J. Verme was a member of the Committee until 19 June 2012 and Stephen Simcock was a member of the Committee until 20 June 2012.

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 on the Bank's website. During the first subsequent meeting of the Supervisory Board, the Committee provides the Supervisory Board with a report on every meeting of the Committee as well as recommendations of the Committee discussed at such meetings. The Committee's Regulations are published on the Bank's website and made available at its registered office.

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

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 Vice-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 on dates determined by the Committee Chairman upon consultation with the Vice-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 third parties to its meetings to discuss or examine the issues considered by the Committee.

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

Meetings of the Committee are chaired by the Chairman of the Audit Committee. In the Chairman's absence, meetings are chaired by the Vice-Chairman of the Committee.

Resolutions of the Committee are adopted by the absolute majority of votes cast by Committee members attending a meeting. Upon consultation with the Vice-Chairman of the Committee, the Committee Chairman may decide on considering a matter by circular procedure.

Minutes are taken from the Committee's meetings.

9. Good practices in Dom Maklerski Banku Handlowego S.A. and in Handlowy-Leasing Spółka z o.o. - companies belonging to the Bank's capital group

Dom Maklerski Banku Handlowego S.A. (DMBH) and Handlowy-Leasing Spółka z o.o. (HL) are not public companies and therefore are not obliged to comply with the "Best Practices of WSE Listed Companies" and submit declarations in this respect; however, considering the significant role played by these entities in the capital group, the following circumstances should be mentioned:

DMBH is a member of the Chamber of Brokerage Houses; as a member of the Chamber it is obliged to comply with the Code of Good Practice of Brokerage Houses, developed by the Chamber of Brokerage Houses. This Code does not regulate the corporate governance issue but concerns mainly the rules for protection of trade secret, relationships with customers and conduct of the brokerage house's employees, including the conduct in relations with other brokerage houses. DMBH is an entity regulated by the Act on Trading in Financial Instruments and therefore it adheres not only to the provisions of the Code of Commercial Companies but also to certain components of the corporate governance, arising from the provisions of this Act and executive regulations – e.g. pursuant to article 103 of the above mentioned Act the Management Board should be composed of at least 2 persons with higher education, at least 3 years of experience in financial institutions and good reputation regarding the performed functions. DMBH should notify the Polish Financial Supervision Authority of any changes to the composition of the Management Board. Additionally, DMBH has reporting obligations towards The Polish Financial Supervision Authority (including reports on changes to the composition of the Management Board and on the content of certain resolutions adopted by the General Meeting). The Act on Trading in Financial

Instruments also regulates the issues concerning the acquisition of shares of a brokerage house. It provides that the head office of a brokerage house should be in the territory of Poland.

Handlowy-Leasing Spółka z o.o. (HL) is a company operating in the leasing industry. Leasing companies organized in the Polish Leasing Association has not developed Good Practices for Leasing Companies yet.

HL operates under the Code of Commercial Companies. Despite the absence of such a requirement in the Code, a supervisory body – in the form of the Supervisory Board – has been established in HL, to exercise continuing supervision over the operations of the company.

XI. Other information about the authorities of Bank Handlowy w Warszawie S.A. and corporate governance rules

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

The total amount of salaries, awards and benefits paid to the current and former members of the Bank's Management Board in 2012:

PLN'000	Salaries, awards and short-term benefits		Capital assets granted
	Base salaries and awards	Other benefits	
Sławomir S. Sikora	3,025	233	577
Brendan Carney (1)	824	210	-
Robert Daniel Massey JR	2,361	367	39
Misbah Ur-Rahman-Shah	5,385	481	302
Witold Zieliński	1,405	104	120
Iwona Dudzińska	1,477	112	129
Former members of the Management Board:			
Sonia Wędrychowicz-Horbatowska (2)	975	2,077	197
Michał H. Mrożek (3)	-	120	55
Peter Rossiter (4)	-	-	32
Edward Wess (5)	-	-	6
Reza Ghaffari (6)	-	-	5
	15,452	**3,704**	**1,462**

(1) in employment since 21 May 2012
(2) in employment until 13 May 2012
(3) in employment until 28 February 2011
(4) in employment until 31 October 2009
(5) in employment until 30 November 2008
(6) in employment until 31 May 2006

"Base salaries and awards" include gross base salary well as awards paid in 2012.

"Other benefits" include the gross amount of paid remuneration arising from indemnification for employment contract termination, paid management options, benefits in kind, lump-sum payment for the use of company car, insurance policy premiums, holiday leave equivalent, dividends 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 2012.

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

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
Sonia Wędrychowicz-Horbatowska	1,560	120	157
Witold Zieliński	1,405	102	128
Iwona Dudzińska	1,477	110	141
Former members of the Management Board:			
Michał H. Mrożek (1)	253	4	147
Peter Rossiter (2)	-	22	22
	11,599	**1,556**	**1,561**

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

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

After the 2010 financial statements were approved, awards in respect of 2010 were paid in 2011 to Misbah Ur-Rahman-Shah in the amount of PLN 3,574 thousand and to Robert Daniel Massey Jr. in the amount of PLN 525 thousand.

"Other benefits" include the gross amount of paid remuneration arising from indemnification for employment contract termination, paid management options, benefits in kind, lump-sum payment for the use of company car, insurance policy premiums, holiday leave equivalent, dividends 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 paid to the current and former members of the Bank's Supervisory Board in respect of the years 2012 and 2011:

PLN'000	2012	2011
Andrzej Olechowski	229	216
Igor Chalupec	160	168
Mirosław Gryszka	160	168
Dariusz Mioduski	89	16
Krzysztof L. Opolski	120	120
Stanisław Sołtysiński	200	240
Former members of the Supervisory Board:		
Wiesław Smulski	-	75
	958	**1,003**

Remuneration paid and payable in respect of the years 2012 and 2011 to the persons managing subsidiaries of the Bank amounted to PLN 7,970,000 and PLN 5,706,000 respectively.

The persons supervising subsidiaries of the Bank did not receive any remuneration in either 2012 or 2011.

2. Total number and nominal value of the Bank's 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's shares and shares in affiliated companies of the Bank held by members of the Management Board and the Supervisory Board as at 31 December 2012 is presented in the table below:

	Shares of Bank Handlowy w Warszawie S.A.		Shares of Citigroup Inc.	
	Number of shares (units)	Nominal value (PLN)	Number of shares (units)	Nominal value (PLN)
Management Board				
Sławomir S. Sikora	-	-	12,460	386
Brendan Carney	-	-	4,896	152
Robert Daniel Massey JR	-	-	1,719	53
Witold Zieliński	-	-	2,772	86
Iwona Dudzińska	600	2,400	9,611	298
Supervisory Board				
Andrzej Olechowski	1,200	4,800	-	-
Shirish Apte	-	-	73,590	2,281
Adnan Omar Ahmed	-	-	2,664	83
Marc Luet	-	-	28,513	884
Frank Mannion	-	-	16,400	508
Stanisław Sołtysiński	-	-	253,400	7,854
Stephen R. Volk	-	-	198,969	6,167

The total number and nominal value of the Bank's 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 in the table below:

	Shares of Bank Handlowy w Warszawie S.A.		Shares of Citigroup Inc.	
	Number of shares (units)	Nominal value (PLN)	Number of shares (units)	Nominal value (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	-	-	138,581	4,736

As at 31 December 2012 and 31 December 2011, no member of the Management Board and the Supervisory Board was a shareholder of a subsidiary of the Bank.

3. Agreements between the Bank and members of the Management Board that provide for compensation in case of their resignation or dismissal without reason or as a result of the Bank's takeover

There is only one employment agreement between the Bank and a Management Board Member which provides for cash compensation following termination.

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

4. Management policy

The management policy of the Bank did not change in 2012. The policy is described in a Note to the Annual Consolidated Financial Statements of the Capital Group of the Bank.

XII. Agreements concluded with the registered audit company

On 16 March 2012 the Supervisory Board of the Bank appointed the auditor: KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp.k. having its registered office in Warsaw at 51, Chłodna St., registered audit company No. 3546, to conduct an audit and a review of the annual and the interim financial statements of the Bank and the Capital Group of the Bank for 2012. KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp.k. was selected in compliance with the applicable laws and auditing standards.

KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp.k. also conducted an audit and a review of the annual and the interim financial statements of the Bank and the Capital Group of the Bank for 2011.

The auditor's net fees under the agreements (paid or payable) for the years 2012 and 2011 are presented in the table below:

For the year *PLN'000*	**2012**	**2011**
Bank (the parent company) audit fees (1)	583	607
Bank (the parent company) review fees (2)	245	255
Subsidiary companies audit fees (3)	301	383
Other assurance fees (4)	193	203
	1,322	**1 448**

(1) The audit fees include fees paid or payable for the audit of the annual stand-alone financial statements of the Bank and the annual consolidated financial statements of the Capital Group of the Bank (the agreement relating to the year 2012 signed on 30 October 2012).

(2) The review fees include fees paid or payable for the review of the semi-annual stand-alone financial statements of the Bank and the semi-annual consolidated financial statements of the Capital Group of the Bank (the agreement relating to the year 2012 signed on 31 May 2012).

(3) The audit fees include fees paid or payable for the audit of the financial statements of the Bank's subsidiaries.

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

XIII. Statement of the Bank's Management Board

Accuracy and fairness of the statements presented

To the best knowledge of the Bank's Management Board composed of: Mr. Sławomir S. Sikora, President of the Management Board; Mr. Brendan Carney, Vice-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; Mr. Witold Zieliński, Vice-President of the Management Board; and Ms. Iwona Dudzińska, Member of the Management Board, the annual financial data and the comparative data presented in the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the year ended 31 December 2012 were prepared consistently with the accounting standards in force and reflect the accurate, true and fair view of the assets and the financial position as well as the financial profit or loss of the Bank. The Annual Report on the Activities of the Capital Group of Bank Handlowy w Warszawie S.A. for 2012 contained in the annual financial statements is a true representation of the development, achievements and situation (together with a description of the main risks) of the Group in 2012.

Selection of the auditor authorized to audit the financial statements

The entity authorized to audit financial statements KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp. k. has audited the Annual Consolidated Financial Statements of the Group of Bank Handlowy w Warszawie S.A. for the year ended 31 December 2012 and was selected in compliance with legal regulations. KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp. k. and the registered auditors auditing the financial statements met the conditions necessary for issuing an impartial and independent auditor's opinion on the audited financial statements consistently with the applicable legal regulations and professional standards.

Other information required by the Regulation of the Minister of Finance of 19 February 2009 on current and periodical reporting 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 Consolidated Financial Statements of the Capital Group of the Bank.

Signatures of Management Board Members

Date	Name	Position/function	Signature
14.03.2013	Sławomir S. Sikora	President of the Management Board	
14.03.2013	Brendan Carney	Vice-President of the Management Board	
14.03.2013	Robert Daniel Massey JR	Vice-President of the Management Board	
14.03.2013	Misbah Ur-Rahman-Shah	Vice-President of the Management Board	
14.03.2013	Witold Zieliński	Vice-President of the Management Board Chief Financial Officer	
14.03.2013	Iwona Dudzińska	Member of the Management Board	