REPORT ON ACTIVITIES
OF BANK HANDLOWY W WARSZAWIE S.A.
IN 2009

MARCH 2010

CONTENTS

I. Poland's Economy in 2009

1. Main macroeconomic trends

In the initial tree quarters of the year 2009 the growth of the Polish economy slowed down to 1.2% YOY as compared to 5.0% YOY in the equivalent period of 2008. The key contributors to this economic downturn included the declining rate of investment, the sluggish private consumption and the deep adjustments in inventory levels. Industrial production declined between January and November of 2009 by an average of 4.6% YOY. This was partly offset by weakening Polish złoty exchange rate, a development that helped to improve competitiveness of Polish goods on the international markets and to rein in the import growth rate.

As the economic downturn continued the Labour market conditions deteriorated and the pay raise pressures eased. Average pay in the enterprise sector between January and November of 2009 rose by 4.0% YOY as compared to 10.4% YOY in 2008. Unemployment rate in the same period rose to 11.4%.

In the period of January to December of 2009 inflation remained in the upper range of the target set by the Monetary Policy Council reaching an average of 3.4% YOY as compared to 4.2% YOY in 2008. This higher inflation was fuelled, among others, by the high prices of goods under administrative price control and the weak złoty, which inflated the prices of imported goods. Base inflation (net of food and energy prices) over the same period rose by an average of 2.7% YOY.

Poland's continuing economic downturn combined with the depressed interest rates in the Euro zone and the United States induced the Monetary Policy Council to adopt loose monetary policy. It increased the reference rate in the first half of 2009 by a total of 150 basis points, to 3.50%, and maintained it at that level until the end of 2009.

2. Money and forex markets

Throughout the year 2009 the financial markets remained volatile, a result of the global credit crunch. The retreat of international investors from emerging markets combined with the downturn in the Polish economy contributed to clear weakening of the złoty in the first quarter of 2009. Over the period the EUR/PLN exchange rate edged close to its historical maximum exceeding 4.90.

The arrangement of the International Monetary Fund for Poland under its flexible credit Line – reducing the country's external financing risks and rapidly improving the country's trade balance in the subsequent months – enabled the Polish currency to gradually regain the lost ground. The improving global investment sentiment in the second half of 2009 also helped the złoty to appreciate. By the end of 2009 the currency traded at PLN 2.85 against the U.S. dollar and PLN 4.11against the euro.

In the year 2009 the prime factors affecting the domestic bond market included the continuing economic downturn and the loose monetary policy the Monetary Policy Council continued to pursue. However, investor concerns over the condition of Poland's public finances limited the scope for lower government bond yields. In 2009 the 3-month WIBOR rate declined from 5.88% to 4.27% as yield of the Polish 2-year bond went down from 5.33% to 5.19% while the 5-year and 10-year bonds yields rose from 5.34% to 5.91% and from 5.46% to 6.26% respectively.

3. Capital market

The year 2009 brought about clear improvement in the sentiment prevailing in the equities market. In the course of that year the Warsaw Stock Exchange (WSE) registered some impressive growth stories in all of its major indices. The WIG index gained 46.9% while the small cap segment sWIG80 index registered the most substantial growth (+61.8%) in the year. The blue chips completed the year gaining 33.5% compared to the end of 2008. Worth noting among the sector-specific sub-indices are the developers and the food sector companies. The companies of these sub-sectors achieved in 2009 gains of over 100%: 124.8% and 126.2% respectively. The sub-sector index which came out with the lowest rate of return was WIG-

Telecommunications (+1.9% YOY), primarily because of the relatively weak track record of the Telekomunikacja Polska shares.

A factor that contributed to the conditions in the financial markets was the inflow of capital driven by implementation of numerous stimulation packages. Developments in the domestic equities market were also shaped by Poland's microeconomic performance; much stronger than of many other countries. Noteworthy was the subsidence of redemptions in the investment funds segment, a clearly negative phenomenon (according to the estimates of DMBH, after the initial 11 months of the year the balance of investment unit acquisitions and redemptions stood at +PLN 2.3 billion). The Open Pension Funds also increased their activity on WSE markedly. According to the estimates of Dom Maklerski Banku Handlowego S.A. (DMBH), net value of equity trades executed by the pension funds on the same market exceeded PLN 12 billion, which in YOY terms represented a 35% growth. In the near term, implementation of the broad-based privatisation programme will have impact the Polish equities market in a significant way. Based on the available data, DMBH estimates total value of the primary and secondary public offerings planned for the year 2010 at approximately PLN 20 billion.

The main floor of WSE expanded by 13 new stocks while eight were withdrawn from market trading in 2009. As a result, total number of companies listed and thus traded on WSE rose to 379. Total value of initial public offerings reached nearly PLN 7.0 billion (as compared to PLN 9.3 billion a year earlier), however, 85% of that total was the IPO of Polska Grupa Energetyczna.

Market capitalisation of WSE at the end of 2009 increased to PLN 715.8 billion (+54% YOY), of which securities of domestic provenance represented 59%.

Warsaw Stock Exchange (WSE) Equity Indices, as at 31 December 2009

Indeks	2009	Percentage Change	2008	Percentage Change	2007
WIG	39,985.99	46.9%	27,228.64	(51.1%)	55,648.54
WIG-PL	39,372.61	44.9%	27,167.25	(50.6%)	55,011.93
WIG20	2,388.72	33.5%	1,789.73	(48.2%)	3,456.05
mWIG40	2,346.14	55.2%	1,511.27	(62.5%)	4,028.37
sWIG80	11,090.93	61.8%	6,852.79	(56.9%)	15,917.92
Sector specific sub-indices					
WIG-Banks	5,869.10	33.7%	4,390.90	(44.8%)	7,949.94
WIG-Construction	5,026.32	16.1%	4,329.98	(50.1%)	8,673.57
WIG-Chemicals*	3,201.34	75.5%	1,823.63	-	-
WIG-Developers	2,897.23	124.8%	1,288.65	(73.1%)	4,788.89
WIG-IT	1,281.06	36.5%	938.77	(46.8%)	1,764.67
WIG-Media	3,012.68	16.7%	2,580.80	(47.4%)	4,911.01
WIG-Fuel industry	2,435.46	28.9%	1,889.46	(46.8%)	3,548.44
WIG-Food industry	3,063.84	126.2%	1,354.52	(59.2%)	3,317.96
WIG-Telecommunications	1,128.79	1.9%	1,107.33	(12.8%)	1,270.21

** sub-index registered since 19 September 2008*
Source: WSE, Dom Maklerski Banku Handlowego S.A.

Volumes of trade in shares, bonds and derivative instruments on WSE as at 31 December 2009

	2009	Percentage Change	2008	Percentage Change	2007
Shares* (PLN m)	333,391	3.9%	320,712	(30.6%)	461,917
Bonds (PLN m)	2,862	(39.0%)	4,691	43.7%	3,264
Futures contracts ('000 units)	13,425	9.7%	12,235	29.1%	9,478
Options contracts ('000 units)	421.6	29.1%	326.6	(18.2%)	399.1

Source: WSE, Dom Maklerski Banku Handlowego S.A.
*Block transactions excluded

In terms of investor activity, the equity markets experienced limited improvement in 2009. Trading in stocks in that period rose by 3.9% to reach PLN 333.4 billion.

Debt securities had met with substantially lesser interest of the investors on WSE. The bourse mediated bond trading shrunk by 39.0% compared to the year 2008.

Trading volume in futures in the year 2009 increased by 9.7% to 13.4 million units. Options trading turned out to be the highest growth segment in annual terms: trading volume rose by 29.1% YOY.

4. Banking sector

In the year 2009 Polish banking market remained under strong influence of unfavourable macroeconomic conditions prevailing in the global economy. The depressed growth of the economy caused serious strain and added risk to banking activities. Additionally, the drastic reduction of liquidity in the interbank market increased the cost of capital.

Net profit for the year 2009 of the Polish banking sector was nearly PLN 9 billion and was over 35% lower than that for the year 2008. The main factors that impeded earnings of the sector included: the over twofold raise in impairment losses, the highest to date in the sector; and the increase in depreciation. These neutralised the positive impact of the sector's growing revenue line, driven primarily by the robust enlargement in net commission and fee income and the significant growth in net financial gains. The sector's net interest income was 5% smaller as interest rates fell significantly and as the banks offered high customer deposit interest rates; a move driven by the material reduction in the liquidity available in the financial markets.

Balance sheet total of the sector did not change in any meaningful way, because of, among others: the restricted lending – particularly to the corporate segment; and strengthening of the Polish złoty compared to its rates of exchange at the end of 2008. In annual terms złoty edged up: by 3.8% against the U.S. dollar; by 1.5% against the euro; and by 1,3% against the Swiss franc, which particularly impacted the currency denominated mortgage loans that represent over 30% of loans the sector extended to households. Throughout the year 2009 value of loans to enterprises shrunk by 4% YOY. Over the same period the loans granted to households increased by 12% YOY. The liabilities side of the banking sector registered a 11% YOY raise in corporate deposits and a 15% YOY raise in household deposits.

II. Selected Financial Date of the Bank

1. Summary financial data of the Bank

PLN m	**2009**	**2008**
Total assets	36,455.4	41,245.4
Equity	6,134.6	5,539.5
Loans*	10,896.9	12,486.2
Deposits*	20,547.4	19,910.2
Net profit	525.2	645.7
Earnings per ordinary share (in PLN)	4.02	4.94
Dividend per ordinary share (in PLN)**	-	-
Capital adequacy ratio	16.8%	11.7%

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

*** At execution of these financial statements, the Bank Management Board did not adopt a decision proposing a dividend payment amount out of the year 2009 net profit*

2. Financial result of the Bank for the year ended 31 December 2009

2.1 Income Statement

The Bank's net profit for the year 2009 reached PLN 525.2 million and was PLN 120.5 million or 18.7% lower than a year earlier. Its gross profit for the year 2009 reached PLN 675.5 million, which means a decline of PLN 122.5 million or 15.3% compared to 2008.

Operating income – which includes net interest and commission income, dividend income, net gains/losses on financial instruments held for trading and on their revaluation, net gains/losses on investment debt securities, net gains/losses on equities and net other operating gains/losses – was PLN 2,521.2 million or 5.3% (increase of PLN 127,0 million YOY).

At the same time expenses of Bank operating activity, overheads and general administrative expenses and depreciation were brought down by PLN 115.0 million or 7.9% YOY.
Net impairment losses amounted PLN to 507.7 million in 2009 as against PLN 143.7 million in 2008 had negative impact on net profit (the increase by PLN 364.0 million),

Selected income statement items

PLN '000	2009	2008	Change PLN '000	Change %
Net interest income	1,460,612	1,314,963	145,649	11.1%
Net commission income	523,509	591,807	(68,298)	(11.5%)
Dividend income	17,848	66,216	(48,368)	(73.0%)
Net gains on financial instruments held for trading and on revaluation	275,615	278,191	(2,576)	(0.9%)
Net gains on investment debt securities	77,845	57,184	20,661	36.1%
Net gains on investment equity securities	3,437	-	3,437	-
Net other operating income	162,338	85,893	76,445	89.0%
Total income	**2,521,204**	**2,394,254**	**126,950**	**5.3%**
Overheads and general administrative expenses and depreciation	(1,340,713)	(1,455,760)	115,047	7.9%
Overheads and general administrative expenses	(1,266,240)	(1,361,042)	94,802	7.0%
Depreciation/amortisation of tangible and intangible fixed assets	(74,473)	(94,718)	20,245	21.4%
Net gains on sale of fixed assets	2,705	3,173	(468)	(14.7%)
Net change in impairment losses	(507,695)	(143,713)	(363,982)	(253.3%)
Profit before taxation	**675,501**	**797,954**	**(122,453)**	**(15.3%)**
Income tax expense	(150,349)	(152,290)	1,941	1.3%
Net profit for the year	**525,152**	**645,664**	**(120,512)**	**(18.7%)**

2.1.1 Revenue

Operating income in 2009 reached PLN 2,521.2 million, a 5.3% increase YOY (in 2008 operataing income amounted to PLN 2,394.3 million) which represented a combined effect of the following primary factors:

- PLN 145.6 million or 11.1% net interest income growth, primarily resulting from an increase in income on debt securities (primarily on AFS portfolio), which was driven by higher portfolio of securities and decrease of nonfinancial deposits cost (primarily corporate), which was driven by decline of interest rates and lower deposits balance;
- PLN 76.4 million or 89.0% increase in net other operating income; primarily the effect of income on tax settlement of value added tax (VAT) for the previous years.
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- PLN 20.7 million or 36.1% growth in net gains on investment debt securities: the effect of active portfolio management strategy and of successful exploitation of the favorable bond markets conditions;
- PLN 68.3 million or 11.5% net commission income contraction, primarily in the Consumer Bank's commissions on insurance and investment products and in commissions on custody and depositary services;
- PLN 48.4 million or 73.0% decrease in dividend income: the effect of the high level income achieved in 2008 (higher dividends received from subsidiaries and Visa Inc.);

2.1.2 Expense

			Change	
PLN '000	**2009**	**2008**	**PLN '000**	**%**
Personnel costs	**622,096**	**673,210**	**(51,114)**	**(7.6%)**
General administrative expenses, among others:	**644,144**	**687,832**	**(43,688)**	**(6.4%)**
Telecommunication fees and IT hardware	161,802	158,814	2,988	1.9%
Building maintenance and rent	127,616	109,081	18,535	17.0%
Advisory, audit, consulting and other external services	148,096	146,610	1,486	1.0%
Total overheads	**1,266,240**	**1,361,042**	**(94,802)**	**(7.0%)**
Depreciation	74,473	94,718	(20,245)	(21.4%)
Total expenses	**1,340,713**	**1,455,760**	**(115,047)**	**(7.9%)**

Throughout the year 2009 the Bank continued to pursue its cost discipline policy. Compared to 2008 expenses were reduced by 7.9% or PLN 115.0 million. Depreciation, transactional costs and personnel costs in the Commercial Bank fell. The decrease of costs in the Consumer Bank was driven by rationalisation of marketing expenses, optimisation of the sale bonus system and optimisation and consolidation between corporate and retail branch network.

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

Net Impairment Losses

			Change	
PLN '000	**2009**	**2008**	**PLN '000**	**%**
Net impairment losses incurred but not reported (IBNR)	(68,871)	(16,022)	(52,849)	(329.9%)
Net impairment losses on loans and off-balance sheet liabilities	(440,017)	(124,850)	(315,167)	(252.4%)
accounted for individually	(249,259)	(54,385)	(194,874)	(358.3%)
accounted for collectively, on a portfolio basis	(190,758)	(70,465)	(120,293)	(170.7%)
Impairment of investments	1,193	(2,841)	4,034	(142.0%)
Total change in impairment losses	**(507,695)**	**(143,713)**	**(363,982)**	**253.3%**

Total impairment losses amounted to PLN 507.7 million in 2009 – compared to PLN 143.7 million impairment losses in 2008 – was mainly a result of increased lending risk driven by general slowdown in the economy, worsening of market conditions and as a consequence financial losses of the Bank's clients in the Commercial Bank (additional negative factor was provisioning on FX options). In the Consumer Bank the increased impairment loss charges were caused by higher provisions on incurred but not reported losses (IBNR) as a consequence of worsening market conditions and growing loan and credit cards portfolios as well as the growing share of irregularly performing receivables.

2.1.4 Ratio analysis

Profitability and cost efficiency ratios

	2009	2008
Return on equity (ROE)*	9.3%	12.9%
Return on assets (ROA)**	1.3%	1.7%
Net interest margin (NIM)***	3.7%	3.5%
Earnings per share in PLN	4.02	4.94
Cost/Income****	53.2%	60.8%

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

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

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

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

In the cost efficiency scope, the Bank achieved significant improvement, cost/income ratio decreased by 7.6 p.p to the level of 53,2%. The increase of net interest margin by 0.2 p.p. to the level if 3.7% is worth noted.

At the same time, there was a deterioration of return on equity (ROE), by 3.6 p.p. and return on assets (ROA) by 0,4 p.p. It was a results of lower net income, and in case of ROE, additionally, increase of capital due to 2008 net income retention.

2.2 Balance Sheet

As at 31 December 2009, total assets of the Bank reached PLN 36,455.4 million and were 11.6% lower than at the end of 2008.

Balance Sheet

	As at		Change	
PLN '000	**31.12.2009**	**31.12.2008**	**PLN '000**	**%**
AKTYWA				
Cash and balances with central bank	4,113,355	3,530,977	582,378	16.5%
Financial assets held for trading	5,372,618	7,884,536	(2,511,918)	(31.9%)
Debt securities available-for-sale	8,290,225	10,814,828	(2,524,603)	(23.3%)
Equity investments	305,016	291,385	13,631	4.7%
Loans and advances	15,940,293	16,322,214	(381,921)	(2.3%)
to financial sector	5,043,395	3,836,034	1,207,361	31.5%
to non-financial sector	10,896,898	12,486,180	(1,589,282)	(12.7%)
Property and equipment	471,103	540,200	(69,097)	(12.8%)
land, buildings and equipment	452,795	521,892	(69,097)	(13.2%)
investment property	18,308	18,308	-	0.0%
Intangible assets	1,278,793	1,279,547	(754)	(0.1%)
Deferred income tax assets	459,413	325,563	133,850	41.1%
Other assets	205,077	220,854	(15,777)	(7.1%)
Non-current assets available-for-sale	19,546	35,267	(15,721)	(44.6%)
Total assets	**36,455,439**	**41,245,371**	**(4,789,932)**	**(11.6%)**
LIABILITIES				
Liabilities towards the central bank	980,446	-	980,446	-
Financial liabilities held for trading	3,108,493	6,888,344	(3,779,851)	(54.9%)

	As at		Change	
PLN '000	**31.12.2009**	**31.12.2008**	**PLN '000**	**%**
	25,761,339	28,292,118	(2,530,779)	(8.9%)
Financial liabilities valued at amortized cost				
Deposits from	25,408,506	27,904,792	(2,496,286)	(8.9%)
financial sector	4,861,146	7,994,592	(3,133,446)	(39.2%)
non-financial sector	20,547,360	19,910,200	637,160	3.2%
other liabilities	352,833	387,326	(34,493)	(8.9%)
Provisions	49,527	24,552	24,975	101.7%
Other liabilities	421,011	500,907	(79,896)	(16.0%)
Total liabilities	**30,320,816**	**35,705,921**	**(5,385,105)**	**(15.1%)**
EQUITY				
Issued capital	522,638	522,638	-	0.0%
Share premium	2,944,585	2,944,585	-	0.0%
Revaluation reserve	(81,026)	(144,110)	63,084	43.8%
Other reserves	2,223,274	1,570,673	652,601	41.5%
Retained earnings	525,152	645,664	(120,512)	(18.7%)
Total equity	**6,134,623**	**5,539,450**	**595,173**	**10.7%**
Total liabilities and equity	**36,455,439**	**41,245,371**	**(4,789,932)**	**(11.6%)**

2.2.1 Assets

Gross loan receivables*

	As at		Change	
PLN '000	**31.12.2009**	**31.12.2008**	**PLN '000**	**%**
Banks and other monetary financial institutions	3,478,493	3,021,723	456,770	15.1%
Non-banking financial institutions	1,587,326	891,935	695,391	78.0%
Non-financial sector entities	5,993,186	7,970,941	(1,977,755)	(24.8%)
Individuals	6,177,093	5,774,280	402,813	7.0%
Government units	86,947	71,597	15,350	21.4%
Other receivables	5,509	10,771	(5,262)	(48.9%)
Total	**17,328,554**	**17,741,247**	**(412,693)**	**(2.3%)**

** Receivables with payable interest*

In 2009 loan receivables portfolio decreased by 2.3% YOY and reached PLN 17,328.6 million. Receivables of non-financial sector corporate entities amounted to PLN 5,993.2 million and fell by 24.8% YOY, whereas receivables of individuals amounted to PLN 6,177.1 million (increase by 7.0%).Receivables from non-banking financial institutions increased by 78.0%, as well as receivables from banks and other monetary financial institutions (increase by 15.1%)

Debt securities portfolio decreased by PLN 1,497.1 million or 12.4% remaining the second largest constituent of the Bank's assets.

Debt securities portfolio

	As at		Change	
PLN '000	**31.12.2009**	**31.12.2008**	**PLN '000**	**%**
Treasury bonds	10,471,216	7,802,405	2,668,811	34.2%
NBP bonds	-	383,665	(383,665)	-
Municipal bonds	19,016	-	19,016	-
Treasury bills	827	1,826,120	(1,825,293)	(100.0%)
Certificates of deposit and banks' bonds	40,729	26,065	14,664	56.3%

Debt securities portfolio

	As at		Change	
PLN '000	**31.12.2009**	**31.12.2008**	**PLN '000**	**%**
Issued by non-financial entities	34,230	21,929	12,301	56.1%
Issued by financial entities	-	3,185	(3,185)	-
NBP bills	-	1,999,722	(1,999,722)	-
Total	**10,566,018**	**12,063,091**	**(1,497,073)**	**(12.4%)**

2.2.2 Liabilities

Financial liabilities valued at amortised cost

	As at		Change	
PLN '000	**31.12.2009**	**31.12.2008**	**PLN '000**	**%**
Due to financial sector	**4,857,242**	**7,990,337**	**(3,133,095)**	**(39.2%)**
- banks and other monetary financial institutions	1,631,167	3,334,428	(1,703,261)	(51.1%)
- due to non-banking financial sector	3,226,075	4,655,909	(1,429,834)	(30.7%)
Due to non-financial sector including:	**20,526,652**	**19,883,284**	**643,368**	**3.2%**
- corporate clients	10,566,133	11,784,740	(1,218,607)	(10.3%)
- individuals	6,322,309	5,457,307	865,002	15.9%
Other liabilities including accrued interest:	**377,445**	**418,497**	**(41,052)**	**(9.8%)**
Total	**25,761,339**	**28,292,118**	**(2,530,779)**	**(8.9%)**

The key item funding the Bank's assets are liabilities due to non-financial sector clients. The most significant decreases were recorded on banks and other monetary financial institutions accounts (decrease by PLN 1,703.3 million or 51.1%), as well as on non-banking financial sector entities deposits (decrease by PLN 1,429.8 million or 30.7%).

2.2.3 Sources and uses of funds

PLN '000

Source of funds	**31.12.2009**	**31.12.2008**
Funds of banks and other monetary financial institutions	1,773,772	3,493,587
Funds of customers and government units	23,987,567	24,798,532
Own funds with net income	6,134,623	5,539,450
Other external funds	4,559,477	7,413,802
Total source of funds	**36,455,439**	**41,245,371**
Use of funds		
Receivables from banks and other monetary financial institutions	3,477,728	3,017,686
Receivables from customers and government units	12,462,565	13,304,529
Securities, shares and other financial assets	13,967,859	18,990,749
Other uses of funds	6,547,287	5,932,407
Total use of funds	**36,455,439**	**41,245,371**

2.3 Equity and capital adequacy ratio

Compared to 2008 equity of the Bank at the end of 2009 increased by PLN 715.7 million or 14.6%. Supplementary capital rose by PLN 570.7 million, which included allocation of net profit for 2008 and general risk reserve rose as well (PLN 75.0 million increase) – allocation of net profit for 2008.

Equity*

PLN '000	As at 31.12.2009	As at 31.12.2008	Change PLN '000	Change %
Issued capital	522,638	522,638	-	-
Share premium	2,944,585	2,944,585	-	-
Supplementary capital	1,751,337	1,180,673	570,664	48.3%
Revaluation reserve	(81,026)	(144,110)	63,084	43.8%
General risk reserve	465,000	390,000	75,000	19.2%
Other equity	6,937	-	6,937	-
Total equity	**5,609,471**	**4,893,786**	**715,685**	**14.6%**

** 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 its financial growth.

The table below presents financial data needed for calculation of the Bank's capital adequacy ratio.

Capital adequacy ratio

	PLN '000	31.12.2009*	31.12.2008**
I	**Own funds for the calculation of capital adequacy ratio, including:**	**4,052,236**	**3,339,326**
	Less in core and supplementary funds		
	- interests in subordinated financial entities	271,444	270,857
	- intangible assets, including:	1,278,793	1,279,547
	goodwill	*1,245,976*	*1,245,976*
II	**Risk-weighted assets and off-balance sheet liabilities (bank portfolio)**	**15,922,938**	**18,144,125**
III	**Total capital requirements, of which:**	**1,934,112**	**2,285,022**
	- credit risk capital requirements (II*8%)	1,273,835	1,451,530
	- counterparty risk capital requirements	131,142	272,222
	- excess concentration and large exposures risks capital requirements	58,819	88,214
	- total market risk capital requirements	105,615	133,640
	- operational risk capital requirements	333,493	327,882
	- other capital requirements	31,208	11,534
	Capital adequacy ratio (I/III*12,5)	**16.76%**	**11.69%**

**Capital Adequacy Ratio calculated according to the rules stated in Resolution No 380/2008 of the Commission for Banking Supervision dated 17 December 2008 regarding the extent and detailed rules of calculation of capital requirements in respect of particular risks (…) (KNF Official Journal No. 8, item 34).*

***Capital Adequacy Ratio calculated according to the rules stated in Resolution No 1/2007 of the Commission for Banking Supervision dated 13 March 2007 regarding the extent and detailed rules of calculation of capital requirements in respect of particular risks (…) (NBP Official Journal No. 2, item 3).*

As at 31 December 2009 the Bank's capital adequacy ratio stood at 16.76%, up 5.07 percentage points YOY. This resulted mainly from an increase of the Bank's own funds by PLN 712.9 million which was primarily a consequence of whole net profit for 2008 allocation to this purpose, as well as a decline of total capital requirement (primarily lower requirement to cover credit risk and lower requirement to cover counterparty risk).

III. Activities of Bank Handlowy w Warszawie S.A. in 2009

1. *Lending and other risk exposures*

1.1 Lending

The Bank's lending policy is based on active portfolio management and precisely specified target markets, designed to facilitate exposure and credit risk analysis within a given industry of each client. In addition, individual borrowers are continuously monitored so that any signs of deterioration in creditworthiness can be detected promptly and appropriate corrective measures untaken as needed. In the year 2009 the Bank continued to optimise its lending process and to adjust its loan offer to the needs of its clients and customers and to the current market conditions. The portfolio of receivables from individual customers is managed with support of financial models, which provide for risk and profitability of the respective loans category groups in the portfolio. The credit risk and scorecard assessment process draws on information of the Credit Information Bureau. Between 2006 and 2009 the Bank implemented scorecard assessment models for portfolios of cash loans and unsecured credit lines.

Lending to non-bank customers, gross

	As at		Change	
PLN '000	**31.12.2009**	**31.12.2008**	**PLN '000**	**%**
Loans in PLN	11,535,716	12,721,708	(1,185,992)	(9.3%)
Loans in foreign currency	1,333,516	1,900,943	(567,427)	(29.8%)
Total	**12,869,232**	**14,622,651**	**(1,753,419)**	**(12.0%)**
Loans to non-financial sector	12,175,788	13,755,993	(1,580,205)	(11.5%)
Loans to financial sector	606,497	795,061	(188,564)	(23.7%)
Loans to public sector	86,947	71,597	15,350	21.4%
Total	**12,869,232**	**14,622,651**	**(1,753,419)**	**(12.0%)**
Non-financial corporates	5,993,186	7,970,942	(1,977,756)	(24.8%)
Individuals	6,177,093	5,774,280	402,813	7.0%
Non-bank financial entities	606,497	795,061	(188,564)	(23.7%)
Public entities	86,947	71,597	15,350	21.4%
Other non-financial receivables	5,509	10,771	(5,262)	(48.9%)
Total	**12,869,232**	**14,622,651**	**(1,753,419)**	**(12.0%)**

As at 31 December 2009 gross credit exposure to the non-bank customers sector amounted to PLN 12,869 million, representing an decrease of 12.0% compared to 31 December 2008. The largest part of that credit portfolio in 2009, being loans to individuals increased by 7.0% YOY to the level of PLN 6,177 million. Their share in total gross loan receivables increased by 9 p.p. The growth of the loans to individual's portfolio came from development of the offer addressed to retail customers and intensified promotional and sales activity.

As at the end of December 2009 the currency structure of loans outstanding changed slightly as compared with the end of 2008. The share of foreign currency loans, which in December 2008 stood at 13,0%, fell to 10,4% by December 2009. Worth underscoring is the fact that the Bank grants foreign currency loans to clients and customers who have foreign currency cash flows or to the entities which, in the Bank's opinion, are able to predict or absorb the currency risk without significant threat to their financial position.

The Bank monitors the concentration of its exposures on a regular basis, seeking to avoid a situation where the portfolio is exposed to a limited group of clients. As at 31 December 2009, the Bank's portfolio exposure to non-bank entities did not exceed the exposure concentration limits required by the law.

Concentration of exposures to non-financial borrowers

PLN '000	31.12.2009 Balance sheet outstanding*	31.12.2009 Off-balance sheet outstanding	31.12.2009 Total outstanding	31.12.2008 Balance sheet outstanding*	31.12.2008 Off-Balance sheet outstanding	31.12.2008 Total outstanding
GROUP 1	70,536	657,004	727,539	187,916	311,341	499,257
GROUP 2	284,984	351,906	636,890	344,592	408,274	752,866
GROUP 3	251,321	312,657	563,978	267,359	179,323	446,682
GROUP 4	252,989	226,951	479,940	245,000	5,000	250,000
CLIENT 5	7,512	469,583	477,095	135,195	327,636	462,831
CLIENT 6	266,339	125,780	392,119	220,094	364,942	585,036
CLIENT 7	1	319,519	319,520	6	312,102	312,108
GROUP 8	211,117	102,983	314,100	86,728	235,094	321,822
GROUP 9	4	275,972	275,976	113,757	188,303	302,060
GROUP 10	116,575	139,182	255,757	111,534	164,381	275,915
Total 10	**1,461,377**	**2,981,537**	**4,442,914**	**1,712,181**	**2,496,396**	**4,208,577**

* *Excluding equity and other securities exposures*

1.2 Loan portfolio quality

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

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

As at 31 December 2009 the impairment of the portfolio was PLN 1,387.5 million, which represented slight decrease from PLN 1,414.9 million at the end of December 2008. The highest decrease in impairment was recorded on portfolio accounted for individually (PLN 237.3 million decrease). The highest increase in impairment of PLN 145.2 million or 39.7% YOY, occurred in the portfolio accounted for collectivelly. The provision coverage index grew from 9,7% in December 2008 to 10,8% in December 2009, as a result of a slight decrease in total impairment losses and decrease in loan receivables by nearly PLN 1.8 billion over the same period.

Impairment of the non-bank loan portfolio

PLN '000	As at 31.12.2009	As at 31.12.2008	Change PLN '000	Change %
Impairment due to incurred but not reported (IBNR) losses	133,746	69,116	64,630	93.5%
Impairment of receivables	1,253,747	1,345,877	(92,130)	(6.8%)
accounted for individually	742,976	980,323	(237,347)	(24.2%)
accounted for collectively, on a portfolio basis	510,771	365,554	145,217	39.7%
Total impairment	**1,387,493**	**1,414,993**	**(27,500)**	**(1.9%)**
Total provision coverage index	10.8%	9.7%		
Provision coverage index for receivables at risk	71.2%	82.2%		

1.3 Off-balance sheet exposures

As at 31 December 2009 off-balance sheet exposures of the Bank amounted to PLN 13,943.8 million, which means similar level to 31 December 2008. The largest change related to guarantees (decrease by PLN 447.6 million or 19.0%), on the other hand committed loans and underwriting. Committed loans with the largest share (83.2%) in off-balance sheet exposures, represent committed, but currently unutilised credit lines and current account overdraft facilities.

Off-balance sheet exposures

	As at		**Change**	
PLN '000	**31.12.2009**	**31.12.2008**	**PLN '000**	**%**
Guarantees	1,902,396	2,349,972	(447,576)	(19.0%)
Letters of credit issued	128,453	189,236	(60,783)	(32.1%)
Third-party confirmed letters of credit	8,023	10,141	(2,118)	(20.9%)
Committed loans	11,604,890	11,363,091	241,799	2.1%
Underwriting	300,000	29,500	270,500	916.9%
Total	**13,943,762**	**13,941,940**	**1,822**	**0.0%**
Provisions for off-balance sheet liabilities	37,563	8,520	29,043	340.9%
Provision coverage index	0.27%	0,06%		

As at 31 December 2009 total amount of collateral established on assets or held on accounts of the Bank's borrowers amounted to PLN 2,482 million whereas as at 31 December 2008 this stood at PLN 4,597 million.

In the year 2009 the Bank issued 27,343 enforcement titles amounting to total of PLN 378.5 million while in 2008 the enforcement titles numbered 10,703 and stood at PLN 154.8 million.

2. External funding

As at 31 December 2009 overall external funds held by the Bank reached PLN 25,761.3 million, which was PLN 2,530.8 million or 8.9% lower than at the end of the year 2008. The highest share in external funding changes had liabilities towards financial sector, which decreased by PLN 3,133.4 million or 39.2%, resulted from deposits decrease.

External funding

	As at		**Change**	
PLN '000	**31.12.2009**	**31.12.2008**	**PLN '000**	**%**
Due to financial sector	**4,861,146**	**7,994,592**	**(3,133,446)**	**(39.2%)**
Funds on current accounts, including:	2,211,344	2,039,931	171,413	8.4%
- funds on current accounts of banks and other monetary financial institutions	*1,473,433*	*1,212,270*	*261,163*	*21.5%*
Deposits, including:	2,645,898	5,950,406	(3,304,508)	(55.5%)
- deposits of banks and other monetary financial institutions	*157,734*	*2,122,158*	*(1,964,424)*	*(92.6%)*
Accrued interest	3,904	4,255	(351)	(8.2%)
Due to non-financial sector	**20,547,360**	**19,910,200**	**637,160**	**3.2%**
Funds on current accounts, including:	10,590,802	7,454,498	3,136,304	42.1%
- corporate clients	*3,515,976*	*3,329,289*	*186,687*	*5.6%*
- individuals	*4,532,587*	*3,166,196*	*1,366,391*	*43.2%*
- budgetary units	*1,957,516*	*611,348*	*1,346,168*	*220.2%*
Deposits, including:	9,935,850	12,428,786	(2,492,936)	(20.1%)
- corporate clients	*7,050,157*	*8,455,451*	*(1,405,294)*	*(16.6%)*

- individuals	*1,789,722*	*2,291,111*	*(501,389)*	*(21.9%)*
- budgetary units	*690,391*	*1,171,453*	*(481,062)*	*(41.1%)*
Accrued interest	20,708	26,916	(6,208)	(23.1%)
Other liabilities, including:	**352,833**	**387,326**	**(34,493)**	**(8.9%)**
Loans received	128,962	153,466	(24,504)	(16.0%)
Other liabilities	221,452	229,928	(8,476)	(3.7%)
Accrued interest	2,419	3,932	(1,513)	(38.5%)
Total external funding	**25,761,339**	**28,292,118**	**(2,530,779)**	**(8.9%)**

Within the liabilities towards non-financial sector category the increase occurred on current accounts (increase by PLN 3,136.3 million or 42.1%), whereas term deposits fell (decrease by PLN 2,492.9 million or 20.1%).

Liabilities to non-bank customers and clients

	As at		**Change**	
PLN '000	**31.12.2009**	**31.12.2008**	**PLN '000**	**%**
Liabilities towards:				
Individuals	6,376,765	5,513,704	863,061	15.7%
Non-financial economic entities	11,291,905	12,288,910	(997,005)	(8.1%)
Non-profit institutions	359,135	451,278	(92,143)	(20.4%)
Non-bank financial institutions	3,215,138	4,654,258	(1,439,120)	(30.9%)
Public sector	2,649,389	1,784,507	864,882	48.5%
Other liabilities	70,627	73,070	(2,443)	(3.3%)
Total	**23,962,959**	**24,765,727**	**(802,768)**	**(3.2%)**
PLN	19,943,617	20,623,467	(679,850)	(3.3%)
Foreign currency	4,019,342	4,142,260	(122,918)	(3.0%)
Total	**23,962,959**	**24,765,727**	**(802,768)**	**(3.2%)**

3. *Corporate and Investment Banking*

3.1 *Transaction services*

The Bank offers comprehensive, differentiated and modern products in the area of trade and transaction services to corporate customers. In parallel with traditional banking services, such as current bank accounts, domestic and international money transfers or accepting deposits, it delivers modern liquidity management solutions (Consolidated Account, Cash Pool) as well as mass payments and receivables management products (Speedcollect, Direct Debit, Unikasa).

In transaction handling services the Bank has pursued a strategy which incorporates the priorities of:
- high customer satisfaction
- innovation and
- continued efficiency gains

The actions aimed at achieving these strategic objective include streamlining of product documentation processing procedures; to ensure customer satisfaction. The Bank aims to continually improve satisfaction of all its clients representative of respective customer segments and product areas. Even now the customer satisfaction indicator relating to the telephone line services rendered by Customer Service Department has reached 88% and is one of the best in the market. The newly adopted technological solutions enable the Bank to continue implementing innovative services to its product offer. The new technological platforms provide improved comfort for the clients and enable automation of processes. Product support process optimisation and promotion of automated solutions ensure further gains in effective use of the Bank's resources.

3.1.1 Transaction servicing

a) Cash management products

- *Deposits and current accounts*

Current account is the basis for full use of the services the Bank offers. It enables hoarding of cash assets and execution of settlements, both domestic as well as international. The Bank offers opening and operation of zloty and currency denominated accounts.

The Bank can also offer individualised account structures, including opening of accounts subsidiary to the current account, in a number that depends on the needs arising from organisation structure of the client an the type of business they engage in. The Bank provides clients with the choice of receiving their bank statements in the electronic form; these can fully replace their paper based equivalents and substantially facilitate and speed up work.

By offering higher interest rates on time deposits the Bank secures for its clients higher effectiveness in management of free cash.

W Bank's offer incorporates the following types deposits:
- automatic deposit, which is established automatically for one business day (O/N) at filing of relevant application and setting of the rate of interest rate. One clear benefit of this solution is that the Bank executes transactions on behalf of the company and thus relieves its staff from the daily bank service related tasks; and
- negotiated deposit – the possibility of investing funds into longer and overnight deposits by placement of orders over the telephone.

Bank manages deposit balances effectively in order to ensure high level of liquidity and low interest expense. Deposit balances are monitored on daily basis. The procedures the Bank follows and its high liquidity are a guarantee of stability of balances in the Bank.

- *Reserved Account*

One incontestable merit of Reserved Account is that it reduces transaction risk. In a Reserved Account structure the Bank protects the interests of the respective transaction parties. A Reserved Account agreement, which involves three parties – the supplier, the buyer and the Bank – forms the basis for settlement of transactions on terms established by the same while the Bank actually executes the agreements. The solution is applicable under specific circumstances, in which funds designated for execution of the transaction need to remain under strict control and be used consistently with their contractual allocation agreed between the parties. Reserved Account secured multiple transactions, including some of the largest ones in the market, involving company takeovers, property acquisitions and FX transactions.

b) Liquidity management products

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

- virtual cash pooling;
- actual cash pooling; and
- actual cash pooling without reverse bookings.

By using these cash pooling structures, clients with multiple locations manage their cash funds more effectively as they reduce liquidity risk within their capital groups. The benefits accruing from the use of cash pooling structures are of particular importance in the context of the conditions now travailing in the financial markets.

The list of clients using the Bank's liquidity management solutions includes over 50 group companies. In 2009 this list expanded further to include a number of capital groups.

c) Electronic banking

CitiDirect is the primary electronic banking system the Bank offers its corporate clients. In 2009 total of 950 new corporate clients activating CitiDirect. As a standard, activation in the system takes 48 hours from the client signing a relevant agreement. Top quality of service and of customer satisfaction is the Bank's priority. Rapid activation of the electronic banking systems is an important element of achieving those objectives.

The number of corporate clients actively using the CitiDirect electronic banking system stood at over 5,000 at the end of the year 2009. CitiDirect processed a total of over 23.5 million transactions in 2009, which was about equivalent to the scale reached in 2008. The share bank statements delivered to clients in the electronic form only rose from 86% at the end of 2008 to 90% at the end of 2009.

d) Payments and receivables

- *Unikasa*

Unikasa is a brand that enjoys high rates of recognition in the mass payments market. It is a modern product that facilitates servicing of the Bank clients' receivables while allowing payers settlement of their bills for products and services in the most frequently visited locations, such as hyper- and supermarket chains throughout the country. In 2009 the Bank continued to work towards optimising operating costs of the Unikasa Payment Processing Network and implementation of additional agency model customer service points. The newly implemented business model of this activity gives the Bank's counterparties the choice of running the payment processing system as their own branded network or as partners under the Unikasa brand. Unikasa is now present in over 250 cities throughout Poland. In parallel to the processes of establishing new service outlets and acquisition of new invoice issuers, the Bank continues to optimise the network's fixed cost base as it winds down any unprofitable distribution channels.

The moment of crucial importance to development of this product was the commencement in 2009 of co-operation with a new supplier of technological solutions. Collaboration with this new business partner allows the Bank to adjust its service to expectations of its clients in a flexible way and to build out the required service network at a even more dynamic pace. In 2010 we aim to contribute to further improvement in satisfaction of the clients at the quality of services we provided in this area. The main tasks here include modernisation of the key elements of the system and activation of new vendor outlets.

- *Direct Debit*

The Bank provides its clients with comprehensive debt management service. One of the segments of that service market, in which the Bank holds a dominant position, is the Direct Debit market.

In 2009 the Bank executed over 9 million Direct Debit transactions as the creditor's bank and thus strengthened its position of market leadership in terms of the number of processed Direct Debit orders, with market share reaching 38%. The number of transactions executed in 2009 was 6% greater than a year earlier.

- *SpeedCollect*

SpeedCollect is a service that allows automatic booking of receivables. It is an excellent solution for companies with large bases of customers making frequent payments, which wish to bring the entire process of recognition and registration of receivables to another level of effectiveness. The Bank amassed over fifteen years of experience in servicing SpeedCollect. It was the first entity in the Polish market to include a product of this type to its offer. In 2009 the Bank executed nearly 140 million SpeedCollect type transactions, which puts it at the very forefront of Polish market service provider in this field.

- *Electronic Postal Cash Transfers*

Electronic Postal Cash Transfer is a product addressed to corporate clients who transfer cash funds to individuals. In 2009 the Bank registered approximately 10% YOY raise in the number of effected postal cash transfer transactions while the value of such transfers rose by more than 11% over the same period.

- *MicroPayments*

In 2009 the Bank continued to strengthen its position of leadership 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 have the obligation of returning these together with accrued interest. Courts and prosecution administrations are the clients which use that product.

At the end of 2009 the number of active clients using MicroPayments rose by 25% compared to equivalent period a year earlier. The Bank is looking to increase the number of clients using that service.

In order to ensure comprehensive servicing of deposits and to enable management of payments, the Bank implemented a new interest calculating module within its MicroPayments product. This module supports calculation of historical interest value, in other words, allocated interest amounts to respective payer deposits. This service is offered to new potential clients as well as the institutions already using MicroPayments.

The Bank continues to work on new solutions and new functionalities as it modifies the banking services offered within the MicroPayments product.

- *Loro Accounts*

In 2009 the Bank collaborated with KIR S.A. (national clearing house) and a number other banks in implementation of a payments processing that does not rely on account numbers in the NRB format; through the ELIXIR clearing system. Implementation of this solution has since substantially improved effectiveness of clearing interbank payments. In addition, The Bank has offered a select group of its client a extension of the cut-off time; by which the clients may place transactions in the clearing system.

- *Foreign Bank Transfers*

In 2009 the Bank implemented a number of initiatives and improvements in the field of foreign bank transfer payments. The introduced changes are expected to ultimately increase customer satisfaction with the service. Automation of the order booking process yielded further improvements in efficiency, quality and speed of servicing international payments. The changes to the ‘express’ and ‘urgent’ international order acceptance and execution times offer the clients greater freedom of co-operation with their overseas financial counterparties. The achieved optimisation and further automation of processes have led to more productive use of the Bank’s assets and had a positive impact on the Bank’s financial results.

The Bank has continued to prepare for implementation of the 2007/64/EC Directive of the European Parliament and of the Council of 13 November 2007 on payment services in the internal market, otherwise known as the Payments Services Directive (PSD) and to that effect it has taken part in various work groups organised within the Polish Bank Association. Moreover, the Bank has participated in the work undertaken in this field by expert groups within the European Commission. Another strand of its work on the subject were the analytical studies and actions relating to implementation of PSD, both in terms of identifying the necessary systemic and operational changes as well as at those needed in the product documentation.

The main aims of the PSD Directive can be characterised as relating to three aspects:

- Increasing competitiveness

By expanding the list of economic agents entitled to provide payment service, PSD will contribute to: increasing competition between payment systems; increasing their efficiency; and substantial reduction of their costs.

- Increasing market transparency

PSD introduces the concept of the maximum time within which a payment order needs to be completed; ultimately the rule of D+1 will become the norm. What that means is that the beneficiary's bank account needs to be credited with the paid amount no later than by the end of the business day following the day on which the order is placed.

PSD introduces the requirements of: transferring the entire amount of the payment transactions; and of refraining from charging fees against the transferred amount. The amount specified in the payment order should be passed on to the recipient without any deductions.

PSD also limits banks in their freedom to fix of the exchange value date and the date of by which funds are made available to the beneficiary's account on discretionary basis, and thus contributes to doing away with float related income.

- Standardisation of rights and obligations

PSD details the rights and obligations of the supplier of the payment services and the client in the process of rendering the payment services. These incorporate the principle of liability for default of a payment transaction.

The proposed draft regulation transposing provisions of the PSD Directive is of strategic importance to the Bank. Based on the groundwork it has completed to date, the Bank will be ready to serve its clients with its entire product offer fully adjusted to the requirements of the act of law that will implement the PSD Directive in Poland.

e) Card products

The Bank occupies the position of indisputable leadership in the pre-paid payment cards market in Poland. At the end of the year 2009 its estimated share in that market stood at 60%. The product is most frequently used under loyalty, promotional and incentive programs as it also serves as an excellent instrument of social benefit distribution. In 2009 the Bank continued to actively promote its pre-paid cards among its corporate clients.

At the end of December 2009 the number of actively used pre-paid cards exceeded 382,000, which represents over 3% growth as compared to the number of these cards active at the end of 2008.

The Bank has also sought to strengthen its position in the business cards segment. In 2009 it launched a nation-wide business card discounts program, which offer users of business cards and pre-paid payment cards the opportunity of taking advantage of discounts of as much as 50% available through over 1,500 vendor outlets throughout the country.

Since the beginning of 2009 the Bank intensified its efforts in the field of electronic customer service. As a result, our clients can receive account statements relating to their corporate credit cards in the PDF format, both emailed to them and available via the CitiDirect electronic banking system. The new service cuts down considerably the document delivery times and the archiving costs.

f) Cash products

Many transactions continue to be settled in cash in the Polish market. The Bank provides its clients with comprehensive cash management services and seeks to meets their expectations through development of new solutions. Owing to its strong market position in the field of cash products, the Bank has frequently been the partner of choice of companies and enterprises handling large volumes of cash.

The Bank has sought to streamline the documentation its clients need to generate while using the transaction banking products. By implementing in 2009 the electronic Bank Payment Receipts (eBDW), it simplified its clients' job of preparing packages with sealed deposit payments. The Bank also benefits as the solution eliminates the risk of error at manual booking of cash payments. Automation of that process also contributed to improving effectiveness in the use of the Bank's resource base.

The cash product which has grown most rapidly is the exchange of domestic and foreign legal tender with other banks. The year 2009 was a period in which volumes of handled cash rose at dynamic rates while income from legal tender buy and sell transactions rose over 10-fold compared to a year earlier.

In 2009 the Bank continued to optimise its cash handling costs. This took the form of a number of projects aimed at restructuring and optimisation of the cash handling processes. These initiatives resulted in some substantial reduction of the Bank's total cash handling costs.

g) EU Office

The EU Office elaborated a strategy and action plan for its EU advisory services. The strategy is based on assessment of the expected flows of EU grant funds set aside for Poland under the 2007-2013 EU programming period. The strategy provides for acquisition of new clients and mobilising of the Bank's existing clients.

In order to reach out to both the new and the inactive existing clients, the Bank commenced a campaign, which used a variety of information channels. Representatives of the Bank organised direct meetings with clients. The communication media included the internet. The EU Office staff organised many meetings with clients through the Gdańsk, Katowice and Poznań branches.

The clients were presented with the possibilities of obtaining co-financing for their projects out of the grant funds of the European Union. The clients also learned the details of obtaining co-financing for innovative projects. Open Day formula was used to primarily reach out to companies of the small and medium enterprise segment. The campaign resulted in acquisition of new clients. The EU Office provided these with its advisory services and prepared for them the relevant application documentation.

Representatives of the EU Office conducted training sessions on various aspects of EU sourced funding for clients representing the state administration sector. These sessions met with very positive reception of the public sector representatives. The study topics concentrated on the EU fund application possibilities and on subsequent allocation of such funds to investment projects executed by local self-government.

EU Office also implemented the new Technological Loan product. Technological Loan is a novel financial instrument aimed at supporting innovative projects undertaken by clients of the small and medium enterprise segment. The Technological Loan concept is that it enables partial repayment of an EU grant provided the obtained funding is used for implementation of new technologies.

3.1.2 Trade finance products

The Bank offers a wide range of trade finance products, the key one being its factoring product offer. In 2009 the Bank conducted a marketing campaign promoting factoring, with the promotional message of "Surf and Do Not Lose Liquidity". The campaign emphasised the benefits of factoring as a liquidity management tool. These are of particular significance in the face of credit market restrictions. The high cost of credit and its limited accessibility are the factors that enhance attractiveness of factoring

as an alternative source of funding. The campaign also aimed to bring out the Bank's competitive advantage in the field of factoring:
- Debt financing of up to 100%;
- Simple handling procedures;
- Electronic data transmission;
- No requirement for turnover declaration.

In 2009 the Bank added new solutions to its existing range of factoring products: Citi Factoring and Factoring Plus. The features characteristic of these new services is that the Bank can monitor and issue receivables repayment reminders on behalf of its clients.

The Bank endeavours to ensure continued improvement in customer satisfaction ensuing from quality of the rendered services. Actions aimed at cutting down on 'red tape' and streamlining of communication between the client and the Bank have been an important aspect of this; achieved primarily through implementation of improved technical solutions in that area. The eTrade platform is such a tool, which enables the Bank's clients to exchange documents relating to trade finance products. In 2009 the Bank introduced modifications in that application, which permit faster and more effective transfer of documents. Clients can now combine and send entire document packages. The process of implementing new eTrade platform users was also substantially shortened.

In addition to the traditional solutions in this area, the Bank also executed superior quality structured trade finance services. The most noteworthy achievements which took place in that discrete field in 2009 included:
- combining factoring with distributor financing for one of world's largest fertiliser producers;
- combining factoring with distributor financing for one of world's largest auto makers;
- structured factoring transaction for one of Poland's largest fuel producers;
- financing of future accounts receivable for one of Poland's largest manufacturers of mining machinery.

In 2009 the Bank was active in conducting training sessions and meetings for its clients, which were aimed at elucidating various aspects of trade finance and servicing. The Bank organised:
- a conference for its global clients at which it presented its solutions within the field of loyalty programs for suppliers and distributors;
- Trade and Commerce Academy, a cycle of meetings with clients of the small and medium enterprise segment, which discussed the trade finance and servicing product offer;
- the Bank participated in the first CFO Forum organised by Cooper Conferences as a partner expert in the field of factoring.

3.1.3 Custody and depositary services

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

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

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

In 2009 the Bank established further is position of a market leader in settlement of securities transactions executed for the benefit of remote members of WSE and of BondSpot S.A. (formerly MTS-CeTO S.A.). The Bank's share in the trades of the remote equities market members rose to 43%. Also, the Bank participated in settlement of transactions executed by institutional clients on the electronic debt securities trading platform operating under the trade name of Treasury BondSpot Poland (formerly MTS-Poland); organised by BondSpot S.A.

In 2009 the Bank also continued activities aimed at honing the effective legislation regulating the securities market. The Bank's representative chaired: the Council of Depositary Banks at the Polish Bank Association; the Advisory Committee to Krajowy Depozyt Papierów Wartościowych S.A. (National Depository for Securities or NDS); and the Steering Committee for Standards of General Shareholders Meetings. The Bank continues to invest its human and technical resources, experience and expertise into cooperation with the Polish Financial Supervision Authority, NDS and WSE with the aim of implementing new systemic solutions; specifically through the working teams established at the Polish Bank Association, including in particular the the Group for Information and the Group for Implementation of Electronic Tools at General Shareholders Meetings. One success of note was the successful implementation as of 1 August 2009 of the new deposit and settlement system (NSDR), which was worked out within the framework of a project sponsored by NDS.

As a result of implementation of the outcomes of the projects executed in the past year, capital market practices in Poland were further aligned with the international standards.

The custody and depositary services the Bank provides received the Top Rated status in the Leading Clients category, which formed part of a survey conducted in the year 2009 among professional clients by Global Custodian, a specialist trade periodical. This specific survey is the most prestigious and comprehensive study of the customer satisfaction with custody services and is conducted annually in over 50 countries. The Top Rated status is the highest possible score that a custodian bank can be awarded within that survey. The award is the more precious because it was granted in the Leading Clients category, meaning by the biggest and the most demanding clients, which confirms the highest quality of the services we offer.

As at 31 December 2009 the Bank serviced 13 M securities accounts.

At the same time, the Bank was the depositary for seven Open Pension Funds:
- AIG OFE
- Aviva OFE Aviva BZ WBK
- Generali OFE
- ING OFE
- OFE Pocztylion
- Pekao OFE
- Nordea OFE

and two Employee Pension Funds:
- Employee Pension Fund "Sunny Autumn",
- Employee Pension Fund of Telekomunikacja Polska S.A.

The Bank also acted as the depositary of 45 investment funds and sub-funds managed by the following Investment Fund Companies:
- BZ WBK AIB TFI S.A.
- PKO TFI S.A.
- OPERA TFI S.A.
- PIONEER PEKAO TFI S.A.
- LEGG MASON TFI S.A.

- AVIVA INVESTORS POLAND TFI S.A.

3.2 Treasury

In 2009 the Bank offered a wide range of products and services addressed to non-bank clients active in the foreign exchange market with the aim of managing their currency position and investment of currency surpluses. In the period the Bank retained its position of a reliable partner of corporate clients in the FX market.

Particularly noteworthy here is the fact of implementation of the CitiFX Pulse internet platform, a new and more advanced version of the previously used Online Trading platform. It allows the Bank's clients to execute FX transactions via the internet at going market prices. The clients using the platform can execute transactions at their convenience; in a rapid and secure way.

The CitiFX Pulse platform has gain a continually growing number of users. In 2009 the number of its active users increased by approximately 25% compared to 2008. At the same time, the Bank registered growth in income from the FX transactions executed via the platform which exceeded 20% YOY.

The government securities trading market registered relatively robust results. The volume of transactions executed in 2009 with institutional counterparties rose by approximately 13% YOY.

Year 2009 was also a period in which the Bank generated solid results from trading in complex derivative instruments, primarily interest rate linked. It registered 70% raise in trading volumes here compared to the year 2008.

3.3 Commercial Bank

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

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

Through its commercial banking franchise the Bank channels comprehensive financial services to the largest Polish companies, strategic companies with strong growth fundamentals as well as the largest financial institutions and public sector companies.

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

In 2009 the Bank has continued to pursue the strategy of optimising efficient fund allocation, with particular attention to liquidity management. It aimed to maximise operational efficiency.

Assets

PLN m	31.12. 2009	31.12. 2008	Change	
			Amount	%
Total Commercial Bank	**7,148**	**9,773**	**(2,625)**	**(27%)**
Including:				

PLN m	31.12. 2009	31.12. 2008	Change	
			Amount	%
SMEs*	691	944	(253)	(27%)
MMEs*	938	1,405	(467)	(33%)
Public Sector	104	97	7	7%
Global Clients	2,332	3,682	(1,350)	(37%)
Strategic Clients	2,000	2,461	(461)	(19%)

** The MSP segment includes companies with annual turnover of up to PLN 75 million while the MME segment incorporates economic agents with turnover exceeding that amount*

As at the end of 2009 the Bank registered 27% YOY decrease in the Commercial Bank assets. With the exception for the Public Sector, all the other segments registered declines, with 37% decline in the Clients segment being the highest of these.

Liabilities

PLN m	31.12. 2009	31.12. 2008*	Change	
			Amount	%
Total Commercial Bank	**16,515**	**17,235**	**(720)**	**(4%)**
Including:				
SMEs	1,892	2,198	(306)	(14%)
MMEs	1,113	1,361	(248)	(18%)
Public Sector	2,989	2,053	936	46%
Global Clients	8,129	7,872	257	3%
Strategic Clients	2,272	3,705	(1,433)	(39%)

** The comparable data as at the end of 2008 differ from that presented in the Report on Activities of Bank Handlowy w Warszawie S.A. in 2008 due to a change in the clients segmentation*

As at the end of 2009 the Bank registered 4% YOY contraction in the Commercial Bank liabilities. With the exception for the Public Sector companies segment and Global Clients, all the other segments registered declines, with 39% decline in the Strategic Clients segment being the deepest of these.

3.3.1 Key initiatives in the Small and Medium Enterprises Segment (SMEs)

The year 2009 was a period of stable operation in the SME segment, which allowed the Bank to verify the effectiveness of the changes it introduced in mid-2008 in the same segment.

The changes in the product offer and the service model of the segment implemented a year ago can be assessed positively, particularly in the light of the solid results in acquisition of new clients, both through the branch network, i.e. the 30% YOY growth, and through the Bank relationship managers.

Irrespective of these good results, the Bank has proceeded to implement additional solutions aimed at tailoring its offer to the needs of its clients. For the benefit of the smallest microenterprises it launched the Capital White and the Dynamic Red packages, which offer waver of the monthly fees for the package in exchange for active use of non-cash payments with a debit card. In a similar way, the larger SME segment clients were offered the option of reducing their monthly fee in exchange for maintaining sufficient balances on their current accounts. Both of these developments are an outworking of the Bank's strategy of consistently promoting the clients who actively collaborate with it.

Of major significance for the larger companies were the changes in the offer addressed to all corporate clients of the Bank, .e.g. implementation of the new release of the CitiFX Pulse FX trading platform and the greater emphasis on the leasing offer available in collaboration with Handlowy Leasing.

The changes which the Bank introduced in its servicing of the SME segment met with praise of the honorary chapter of the 10th edition of the Bank Friendly to Entrepreneurs competition, which awarded the Bank the Honorary Mention and the Promotional Emblem.

3.3.2 Key initiatives in the Middle Market Enterprises Segment (MMEs)

In 2009 the Bank expanded its product offer as it closed an agreement with a consultancy on M&A cooperation for the benefit of the MME clients. In addition, the Bank executed a number of key transactions for working capital finance, contract financing and a municipal bond issue program for the city of Białystok, and it established a number of new accounts for courts within the MicroPayments product package.

The year 2009 was a period of positive business developments for the MME segment as well. The Bank launched a campaign for build up the liabilities side of corporate balance sheets; it advertised its transaction achievements of the first half of the year in the leading domestic press titles (Forbes and Rzeczpospolita). Moreover, the Bank organised the municipal bond issues of Warsaw and Białystok; achieved a 20% market share in servicing the bonded deposits held by courts and prosecution administrations; and originated a number of long term investment loans for local self-governments receiving co-financing in the form of EU grant funding.

3.3.3 Key initiatives in the Global Clients Segment

The Global Clients Segment developed 25 new business relations, with the expectation of their fruitful development in the coming years. We won a number of significant tenders for comprehensive provision of banking services to major international corporations, which has certainly reinforced the Bank’s strong position of a strategic partner of multinational corporations co-operating with Citi’s global network. Aiming to meet the expectations of multinationals, the Bank has rolled out specific global cash management solutions, which in these times of economic slowdown have been meeting with positive response as enhancing effectiveness of group liquidity management. These solutions have proven closely responsive to the liquidity requirements of our Global Clients.

The year 2009 was also a period in which our clients took very active interest in factoring and leasing services, which provide large multinationals with systemic support for their suppliers and buyers, primarily representatives of the SME sector. Such solutions have operated successfully in companies representing the FMCG sector and the chemical sector.

The Commercial Bank also implemented a number of structures enhancing liquidity management in its client groups and one innovative trade finance project, which introduced a supplier financing program.

A number of new international clients joined the group of companies which took formal steps in order to implement global solutions in liquidity and foreign exchange flows management.

3.3.4 Key initiatives in the Strategic Clients Segment

The Commercial Bank engineered a series of interesting transactions in 2009. In January 2009 it implemented actual cash pooling structures for a fuel sector client (20 entities) and a risk hedging transaction in the context of an intergroup loan. In February 2009 it executed a transaction hedging the commodity price risk for a metals and mining sector client. In April 2009 the Bank restructured a long term financing for an important fuel sector client.

The Commercial Bank also managed and took up part of the final tranche of a long term bond issued to co-finance the building of an ultramodern power unit in Poland.

In September 2009 the Bank fully underwrote and executed a road construction bond issue of Bank Gospodarstwa Krajowego in an amount of PLN 600 million. Also, it took an exposure in an amount of PLN 300 million in a bond issue program of one of the largest power sector companies and executed FX risk hedging transactions for its key gas sector client.

At the end of 2009 the Bank acted as the co-arranger of a high yield bond issue in an amount of approximately USD 900 million, with the redemption date falling in 2016. Moreover, the Bank executed the market's largest to date structured transaction involving financing dividend payout for a financial sector client.

4. Retail banking

4.1 Credit cards

In the year 2009 the Bank acquired over 185,000 new credit cards while total number of issued credit cards at the end of the year reached 1,031,000, which was a 1.5% growth compared to the portfolio size in 2008. This growth rate is lower than in the past chiefly because in mid-year the Bank adopted certain changes in its acquisition and retention strategy in relation to high risk customers. The limiting measure is informed by the lower than average returns on that segment achieved as a result of: the continued reductions of the Lombard reference rate; the increased macroeconomic uncertainty; and the related market expectations of increased loan losses. The new retention strategy is based on limiting the reimbursement of charges only to the active and profitable customers.

In 2009 the Bank also continued to develop innovative methods of acquiring credit cards. One of these involves an internet-based credit application processing facility, which provided a customer filing for a credit card with a return information on the preliminary credit decision in a matter of seconds. Another novel approach involves distribution of credit cards by employees of the Polkomtel S.A. operator's franchise outlets.

Co-branded credit cards represented a significant part of the cards acquired in 2009. These represented 88% of all new acquisitions, with co-branded cards representing 57% of the entire credit cards portfolio. Citibank–Plus Card gained greatest popularity in the year 2009. Its portfolio reached 172,000 cards. As a result of its brisk take-up rate, the number of Citibank-Plus Cards in the total cards portfolio is now close to that of the current leader among the co-branded cards: Citibank–BP Card. The number of Citibank–BP Cards reached 266,000. The portfolio of Citibank-Elle Credit Cards, which are addressed to women, at the end of the year reached 83,000 cards.

The Bank also continued its successful co-operation with PLL LOT and the Miles & More Program involving issuance of Citibank-LOT Credit Cards. Right behind Citibank–BP Cards and Citibank-Plus Cards, acquisition of Citibank–LOT Credit Cards grew at a dynamic rate and exceeded by the end the year total of 47,000. This result was achieved with support campaigns promoting this specific card.

In mid-2009 the Bank held AMIGOS Lottery, with three four-member tours to Barcelona as its grand prizes. In December 2009 it conduced Double Miles promotional campaign promising to double the bonus miles within the Miles&More frequent flyer program for the customers who would exceed a specified credit card funds expenditure amount.

In 2009 the Bank took active part in the promotional campaigns organised by VISA and MasterCard card issuers. Our customers were informed of the summer and the winter promotional offer of VISA, as of the Gold of Africa promotion Złoto Afryki" organised by MasterCard.

The Bank has actively promoted the use of credit cards. In the winter holiday season it organised a campaign with the following promotional slogan: Actually, during the Holiday Season it doesn't count that you were good". The campaign offered the possibility of taking advantage of very attractive discounts in selected shops.

The Citibank Credit Cards Discount Program continues to develop rapidly. The number of outlets offering rebates for customers using Citibank Credit Cards increased through the year by over 700 and the Discount Program currently covers a network of over 3,900 vendor outlets throughout Poland. The participating customers can take advantage of discounts of up to 70%. The Discount Program and is the largest program of its kind in the Polish market.

Since the beginning of May 2009 all the credit cards issued to individual customers have embedded microprocessors. Together with the holder's signature and picture, and the 72-protective period in case of loss, Citibank Credit Cards are some of the most secure products of their category in the market. This has been confirmed, among others, through the special mention awarded to Citibank Silver Credit Card by the Consumers' Federation for its high security features, the free-of-charge card barring option and its immediate replacement.

4.2 Consumer Bank

4.2.1 Bank Accounts

In 2009 the Bank concentrated its efforts on acquiring active customers and increasing activity of the existing customers. The customers who replenished their accounts with pay transfers or who regularly executed non-cash transactions with their account linked card were able to take advantage of account handling fee discounts; this pursuant to the Bank's table of fees and commissions, which changed in mid-year 2009. Lower fees were also introduced in the 'self-service' channels, among others, the internet channel, while fees in other channels were simultaneously increased. The Bank rewarded the customers who channelled their pay to their accounts as it offered them opportunities for using other products at reduced rates (the *Konto SuperOszczędnościowe* savings account, the *Pakiet Medyczny* medical coverage, the *Pożyczka Gotówkowa* cash loan, Credit Card or Mortgage Loan).

The Bank consistently added new solutions to its deposit offer. The approach it pursued in this area was two-pronged in 2009: new solutions were introduced within the framework of the existing product offer as the offer was complimented with certain non-financial privileges. The first approach is well represented by: the *Lokata TurboProcent* deposit product, which can yield up to 18% for customers who executed large ticket non-cash transactions on regular basis with their account linked cards; the *Tanie Franki* offer, which provides holders of accounts with Citi Handlowy with opportunities for purchasing CHF with a commission of only 1.5%; of the possibility for linking a payment card to a euro denominated account for the purpose of making Eurozone transfer payments, which in that case are charged directly to the euro account, without the need for any currency translation.

The offer of non-financial privileges or benefits were a novelty in the market and thus differentiated the Bank's offer. The Bank added to its offer the Medical Package (*Pakiet Medyczny*) product, which enables holders of personal accounts and their relations to take advantage at preferential rates of private medical care provided by chains of private health care clinics such as LUX MED, Medycyna Rodzinna or Promedis. Another innovative solution was to offer holders of personal accounts with the Bank with good record in settlement of their Citibank – Plus Credit Card payables the possibility of acquiring bonus points within the 5 Plus Program.

In these times of waning trust of customers towards the banking sector, we placed great emphasis on retention of deposit balances through provision of attractive offers. The objective was achieved through numerous high interest rate yield deposit offers while in the second half of the year through offering above market rates on funds held on interest bearing Citibank Savings Account and the *Konto SuperOszczędnościowe Citibank* savings account. The Citibank Savings Account promotion was further bolstered through the accompanying competition entitled Win a Year's Salary and a billboard and radio communicated campaign. Within the competition ten customers who proposed the most interesting messages promoting saving with Citi Handlowy were awarded annual salary equivalents paid at PLN 3,000 per month.

4.2.2 Credit Products

Cash Loan

In the first half of 2009 the Bank pursued the strategy of being present in the safer market segments, which it achieved through introduction of special offers and marketing materials addressed to a limited number of the main market segments, such as persons with work contract based income, representatives of preselected professional groups and persons receiving retirement or disability benefits.

Individual cash loan offers were available on line to users of other products of the Bank who also actively use the internet platform. The loan was also promoted among customers via the alternative access channels, mainly in the form of text messages sent to mobile phones.

In March and May of 2009 the Consumer Bank managed subsequent releases of the highly successful campaign of The More You Consolidate The More You Gain (*Im więcej konsolidujesz, tym więcej zyskujesz*), which supported the sales of the Bank's consolidation loan through all the distribution channels. The offer involved granting customers reduced interest of up to 1 percentage point to the standard rate, this depending on the consolidated debt amount. The campaign received marketing support, mainly on the local level, in the form of dedicated posters and leaflets, and marketing materials distributed in areas with high concentrations of the target groups.

In April the Bank conducted a campaign addressed to customers interested in reducing their monthly household budget obligations in view of increased seasonal spending. Every customer taking out Cash Loan in April could have their nominal interest reduced by as much as 5% for a period of up to 3 months. The campaign was supported with local marketing activities.

In the second half of the year 2009 the Bank introduced to the market a number of special offers addressed to the customers interested in Cash Loan. We continued to pursue our strategy of targeting our product acquisition at the less risky customer segments, among others, through promotion of a special offer addressed to budgetary sector employees. Every customer of at least 27 years of age and minimum two years' employment in public administration was given the opportunity of taking out a loan on preferential terms, including a 50% discount on the origination fee, with the customers who also elect to open an account from which to service the loan with the Bank provided with further 1% discount in the nominal interest rate of the facility.

In response to seasonal needs of its of its customers, the Bank came out with Post-Holiday Loan promotional campaign that included interest reductions of 0.5% to 2% – depending on the loan amount. The campaign received strong media support in the national press and the Internet. Customers were able to take advantage of the promotional offer terms between August and September 2009.

In September 2009 the Bank increased its product distribution capabilities as it put into operation its fully computerised loan sales process; previously offered only through the telephone banking channel.

In November of 2009 the Bank launched a special Benefits Program addressing itself to the non-financial needs of customers using cash loans; with the aim of stimulating this group of customers to undertake long term co-operation with the Bank. The program differentiated between three customer profiles with differing service ranges: the professionals, those employed on work contract basis; and the pensioners, including persons with disabilities and senior citizens. Each customer closing a loan agreement with the Bank is entitled to a service package for a period of 6 months. Participation in this program offers representatives of respective customer groups the benefit of using free of charge home and medical assistance services and toll free access to call in lines that specialise in legal, job market, health and even garden care advise.

The Bank completed the year 2009 with a marketing campaign entitled Shine Over the Holiday Season (*Zabłyśnij na święta*). The product offer was targeted at active existing customers and new customers interested in expanding their relationship with the Bank. Each customers who between 9 November and 31 December took out a cash loan and at the same time held or opened a personal account in Citi Handlowy received a gift in the form of 1% of their loan amount transferred to their account. In the case of a loan of PLN 120,000, value of such a bonus was as high as 1,200. The offer received strong support in the nation-wide media through a television campaign (an outstanding commercial presentation) and through in-house and external advertising displays. The same campaign was also accompanied by a highly popular competition for the best season's animation feature, which could be assembled through a specially established internet site www.zablysnijnaswieta.pl.

Credit Line

The Bank perceives its Credit Line product as an important part of its offer, which assists in cultivation of a long term relationship with the customer. In 2009 the Bank continued to market Credit Line to customers regular pay receipts to their personal account with the Bank and remain one of the few banks in the market which did not charge interest on withdrawn credit line funds for every 7 days of each calendar month. Throughout the year we offered Credit Line on promotional terms to customers opening a personal account with us. The discount included reduced interest on the drawn amount of the Credit Line and waver of the annual fee in the first year of use of the Credit Line. In November 2009 the Bank began selling Credit Line through its remote distribution channels; meaning that the customer can file an Credit Line application by telephone. The Bank continued promotional sales of the product in a cross-selling offer addressed to existing customers; with the aim of developing comprehensive relationship with them.

Mortgage Products

In 2009 the Bank developed it loan products portfolio, among others, by expanding its offer of mortgage products. In October 2009 we introduced significant changes to the policy of lending Housing Loans and Mortgage Loans offered through the branch network. The refreshed offer relies on lending in PLN against completed housing properties with the maximum tenors of: 30 years in the case of Housing Loans; and 20 years in the case of Mortgage Loans. This new offer will help the Bank to differentiate itself in the mortgage product market.

In the area of mortgage products the Bank continued to pursue its Open Architecture strategy, within which it offered products developed by Dombank and Lukas Bank, its specialist partner banks. These products included housing purchase and construction finance, and loans secured on real property granted for debt consolidation or any other purposes. The strategy of offering own mortgage products in combination with products of partner banks in the Open Architecture approach is geared toward providing for the customers' declared and anticipated needs in the best possible way. In effect customers can receive products that best met their expectations.

4.2.3 Investment and Insurance Products

a) Investment Products

Investment Funds

In January 2009 our customers were provided with the opportunity of placing orders for BlackRock investment funds via the 24-hour CitiPhone Gold customer service line. As a result, from any place on the globe and at any time of day or night our customer can place an order to buy, convert or redeem such international fund units.

In March 2009 the Bank organised investor meetings for its Citigold customers at which leading economists and analysts invited by Franklin Templeton Investments discussed the macroeconomic trends in the world's key economies and presented their views on the capital market outlook.

In April 2009 the Bank added to its offer new international EUR and USD bond funds managed by Schroders. Customers can place orders for corporate, U.S. government and convertible bonds. These fixed income funds denominated in foreign currencies constitute an element of portfolio diversification and are addressed to investors with rather low risk tolerance who, at the same time, have liabilities in foreign exchange.

In June 2009 the Bank coordinated a subscription for Legg Mason Concentrated Equities – Closed Investment Fund investment certificates, a product with selective investment strategy. This pubic offer was conducted via the investment accounts of DMBH. Compared to the other members of the selling syndicate (PEKAO S.A., Deutsche Bank, BRE Bank), the Bank achieved the highest sales.

In July 2009 the Bank made possible the placement of orders in respect of the Schroders and Franklin Templeton investment fund units via its CitiPhone Gold.

In September 2009 the Bank organised a seminar for 250 of its customers on the topic of Investing in the Financial Markets. The meeting included: a presentation on the current conditions and prospects of the commodities market; and a panel discussion, which concentrated on forecasts for the economy, inflation and commodity prices.

In November and December of 2009 the Bank organised seminars with participation of an equity funds specialist of BGF Emerging Europe, Global Emerging Markets from London. These were devoted the conditions prevailing in the emerging markets, and particularly in the CEE region.

Throughout the year 2009 the Bank organised numerous seminars and training sessions for both its customers and account managers.

Structured Products

In 2009 the Bank continued to develop its offer of structured products, which the customers found perennially interesting. The respective offers were addressed to both the customers seeking products with a fixed coupon (with annual yield of 6-7% in PLN or of 4-6% in USD and EUR) and those ready to invest in the equities, FX and commodities markets provided they retained 100% capital protection. Over the year the Bank was able to offer more than 50 different structured bonds issued by Citigroup Funding Inc. The bonds were issued in all of the key currencies, including PLN, USD, EUR and GBP. Their tenors ranged between 6 months and 5 years, and they were linked to: various indices most popular with the customers /investors (WIG20 S&P500, DJEurotStoxx50, Citi Comet Index, MSCI Emerging Market Index); commodity process indices (of gold, copper, crude); currencies (BRIC – including the Indian rupee, the Brazilian real, the Russian rouble, and the Chinese yuan) and the interest rate market (USD LIBOR, PLN WIBOR, EURIBOR). However, structured bonds that paid a fixed coupon met with the highest reception. In addition to products offered on subscription basis, the Bank offered three that were structured in response to specific orders of certain Citigold Select customers, who took up the entire issue of such products.

Additionally, in February 2009 the Bank re-launched its Investment Deposit offer. The product is a combination of a conventional bank deposit (guaranteed by the Bank Guarantee Fund) and a structured product. In the first half of 2009 we organised 9 subscriptions of Investment Deposit, each with a different tenor (of between 6 months and 3 years), linked to different instruments: currencies, indices, commodities.

In September of 2009, i.e. after a break of some months, the Bank reintroduced three-year investments linked to a life insurance policy, which represent an innovative combination of insurance and the possibility of achieving rates of return higher than through plain bank deposits. Gains on such investments are not taxable with the capital gains tax and the product provides insurance coverage without the need for medical checkups.

Customers can also generate substantial returns linked to performance of the WIG20 index and take advantage of a capital protection clause and insurance delivered by MetLife Towarzystwo Ubezpieczeń na Życie S.A. In November 2009 the Bank offered a product of that type once again in a subscription. Specifically, the investing customers were able to achieve gains dependant on performance the exchange rate of PLN against EUR and take advantage of capital protection facility and insurance delivered by MetLife TUnŻ.

Securities Brokerage Services

In 2009 the Bank developed securities brokerage services, which it added to its offer only a year earlier. In collaboration with Dom Maklerski Banku Handlowego S.A. (DMBH) where the customers orders are passed on and which operates customers' investment accounts – it prepared and special offer addressed to new customers. Over a 3-month promotional period the Bank offered a reduced commission fee on orders placed via the internet platform operated by DMBH. in addition, the customers deciding to transfer their securities investment to an account opened via the Bank were paid back the cost incurred in connection with such an operation; this in the form of paid back commission fees on the orders placed through the new account. This offer was advertised to the customers between July and September of 2009 via the Bank's website and banners posted on external internet portals.

Customers had the choice of the CitiPhone and the order acceptance points through which to subscribe for two products offered in the public market: the Legg Mason Concentrated Equities – Closed Investment Fund investment certificates and the new issue shares of PGE Polska Grupa Energetyczna (IPO).

The second year of presence of this product in the Bank's offer brought about a marked growth in the number of new customers. In 2009 we acquired over 12 times greater number of customers than in in the preceding year. At present over 2,000 of the Bank' customers are able to place orders via the mentioned channels of CitiPhone and the order acceptance point network). The number of securities trading orders placed via the Bank also increased in a significant way: they grew by over 90% in YOY terms. This represents robust growth, particularly when we consider the fact that internet banking is the main channel the customers transact in.

b) Insurance Products

In the first quarter of 2009 the Bank actively promoted its funded life insurance product, with the Investment Program Plus capital fund and a time-deposit component. Customers closing Investment Program Plus agreements had the choice of opening term-deposits bearing preferential rates of interest:

- 15% in the case of 3-month deposits;
- 12% in the case of 6-month deposits; and
- 9% or 11% in the case of 12-month deposits.

In the first half of the year the Bank registered record sales of the Insurance Policy for Good Life, a life and retirement insurance product that represents an attractive and beneficial combination of insurance coverage and a safe regular long term savings plan. the number executed insurance policies of this type grew systematically; reaching a rate of close to 1,000 new policies per month.

In March 2009 the Bank launched a modified version of its Guaranteed Payout Plan – Life and Retirement Insurance. The legal form of the agreement changed from group to individual policy. The Guaranteed Policy is offered in conjunction with a one-off contribution deposit of a one-, three- or a five-year tenor, with yields competitively exceeding those of bank deposits. The insurance product delivers a guaranteed rate of return and a tax benefit; as the benefits paid at completion of the insurance period are not taxable.

In April 2009 the Bank added two new insurance products to its offer:

- life insurance policy for the customers with Credit Lines in their personal account. The insurance policy incorporates a guaranteed benefit payment in case of the holder's death or permanent work disability and pays down any outstanding Credit Line debt. The insurance premium here is paid monthly and calculated on the amount of outstanding Credit Line debt; and
- the insurance package structured for employees of SMEs. This is a group insurance product, which employers can contract for the benefit of their employees..

In May 2009 the Bank introduced a promotional term deposit offer addressed to the customers executing any of the following funded life insurance policy products:

- the Plus Investment Program
- the Global Investment Portfolio
- the Foreign Funds Portfolio Euro
- the Foreign Funds Portfolio Dollar; or
- the Orchid Guaranteed Withdrawals Plan

The promotion period ran from the end of May 2009 to the end of December 2009. Within it, every customer taking out the offered insurance policy was able to place with the Bank a deposit on promotional terms, with fixed deposit interest of:

- 10% in the case of 3-month deposits;
- 8% in the case of 6-month deposits; and
- 7% in the case of 12-month deposits.

In October 2009 the Bank added to its offer the ING Open Pension Fund product and added to the Safe Instalments insurance plus cash loan product a new variant insurance, which includes coverage against job loss and/or temporary incapacitation.

The Bank also worked on a number of new insurance projects with planned launch in 2010.

5. Achievements of respective distribution channels

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

5.1 Branch network

At the end of the year 2009 the Bank's branch network consisted of 184 outlets, including outlets of the L type (former Commercial Bank and CitiGold Wealth Management outlets and the Investment Centre), the M type (former multifunctional outlets) and the S type (former CitiFinancial branches).

In 2009 the Bank proceeded with implementation of network optimisation measures and thus: increased its operational efficiency; expanded its sales activities; optimised productivity of its human resource base and of its infrastructure; and curbed its property management costs.

The changes currently initiated in the branch network were a response to the continually changing market conditions. The Bank undertook specific actions aimed at developing the capability for offering its customers and clients an expanded range of banking services and products and upgrading its service quality.

The network optimisation project tasks implemented in 2009 included:

- expansion of retail deposit taking services in 21 former S type - currently M type outlets. This was achieve through implementation of new technological solutions. Installation of new equipment contributed, among others, to expansion of the basket of available currencies, increased operational efficiency and limitation of operational risk relating to handling of cash;
- consolidation of 24 branches, which previously operated mainly under the CitiFinancial brand. Actions here involved the transfer of these outlets' operations to existing multifunctional branches, which offer a complete range of products;
- transfer of the L type outlet in Opole at 3 1-go Maja street to a new location at 7/9 Koraszewskiego street;
- merger of outlets (L and S type) in Rzeszów at 3 Cieplińskiego street and transfer of their operations to a new L type branch in Rzeszów at 23 Rejtana street;
- transfer of the L type outlet in Bielsko Biała at 4 Pl. Ratuszowy to a new location at 22 Cechowa 22 street;
- reasons beyond the Bank's control led to closing of the M type outlet in Gdynia at 7 10-go Lutego street, with the customer/client services transferred to the other branches in Gdynia;
- closing of the M type outlet in Gdańsk at 12/14 Targ Drzewny street, with the customer/client services transferred to the other branches in Gdańsk;

- a decision to sell the property led to closing of the L type outlet in Oborniki Wielkopolskie at 64 Piłsudskiego street, with the customer/client services transferred to other branches in Poznań;
- closing of the M type outlet in Warsaw at 27 Mickiewicza street, with transfer of its operations to a new location at 10 Krasińskiego street;
- a decision to sell the property led to closing of the L type outlet in Lublin at 5 Kowalska street, which was merged with another L type outlet in Lublin at 55 Krakowskie Przedmieście street;
- closing of the M type outlet in Szczecin at 14 Wyzwolenia street, with transfer of its operations to a new location at 8 Pl. Rodła;
- pursuant to the strategy adopted by the Bank, the L type outlet in Warsaw at 9 Czerniowiecka street was closed, with the customer/client services transferred to an outlet at 11 Polna street in Warsaw;
- pursuant to the strategy adopted by the Bank, the L type outlet in Tarnów Podgórny at 103 Poznańska street, with the customer/client services transferred to branches in Poznań;
- pursuant to the strategy adopted by the Bank, co-operation with authorised sales outlets was terminated.

Number of branches at period end

	31.12.2009	31.01.2009*	Change
Number of outlets:	**184**	**240**	**(56)**
- L type	45	49	(4)
- M type	87	69	+18
- S type	52	96	(44)
- T type	-	26	(26)
Other sales / customer service outlets:			
Mini-branches (within “Citibank at Work”)	3	6	(3)
Number of own ATMs	161	167	(6)

* *Due to restructuring of the branch network, the available comparable data go back to 31 January 2009 only.*

5.2 Internet and telephone banking

In 2009 development of the internet banking channel focused on increasing the range of functionalities of the Citibank Online (CBOL) internet platform. The Bank launched the *Płacę z CitiHandlowy* functionality, which speeds up and facilitates payment for internet purchases. Additionally, the Bank implemented a facility for recharging mobile phone accounts directly from bank accounts and enabled cash transfers in the SEPA system.

Expansion of the unique activation code generation functionality together with implementation of various improvements in transfer execution and management of value-added services increased the security and convenience of use of the Bank’s internet-based system. The number of registered users of CBOL exceeded 550,000, representing growth of over 62% compared to a year earlier.

The Bank continued promoting the Online Account Statements service, which provides account and credit card statements in the PDF form on CBOL or delivers them to designated email accounts. At the end 2009 the number of registered users of the service exceeded 450,000, a 42% growth compared to a year earlier.

At the end of the year 2009 we introduced modifications to the internet banking service dedicated to the Bank’s retail customers: www.online.citibank.pl. The change allowed us to increase accessibility of information on the Bank’s offer via a modern service interface.

In August of 2009 the Bank added a new sales functionality CitiAlerts, which involves transfer of information on a personal account or a credit card in the form of an SMS message or an email. The customer can sign up for this service via Automatic Bankier (IVR), without the need for participation of a CitiPhone adviser.

5.3 Indirect and direct customer acquisition

In mid-March 2009 the Bank launched an innovative credit card sales channel, and is the first bank in Poland to offer credit cards through outlets (agency run POS) of Polkomtel, a mobile operator.

In the initial months of 2009 the co-operation was based on a series of bilateral contracts between the Bank and Polkomtel agents, and offered services through 68 POS. In September 2009 the Bank Management Board authorised expansion of this co-operation to include sub-agency outlets (tripartite agreements between the Bank, an agent and a sub-agent) and by the end of November 2009 this network expanded to include additional 60 mobile service POS. In December 2009 customers were able to use their Citibank-Plus Credit Cards through 130 franchise outlets. In November and December of 2009 another group of employees representing additional 18 outlets was being trained, with plans of offering the services through them in early January 2010.

The Bank also continues to use direct sales agencies. In 2009 it focused on re-engineering the sales model within that channel. Quality is now considered the key performance indicator and advisers of two of the three leading partner agents are remunerated for acquisition of customers who actively use credit cards. The card sales process is now combined with insurance product sales. In 2009 the direct sales agencies acquired for the Bank over 70,000 new credit card users.

In 2009 the Bank continued a project originally launched in December of 2008 and involving marketing of credit cards through a stand set up in the Warsaw Okęcie Airport Terminal. By mid-2009 we put into operation two additional stands of this type: in the regional airports of Kraków and Katowice. Additionally, since December the airport outlets have been using a process of transferring information on potential Citigold customers to relevant Bank branches.

The Bank's Citibank at Work (CBAW) sales office has been deeply reorganised in the year 2009. This involved a series of organisational and operational changes aimed at increasing effectiveness of this acquisition channel. As a result of these the CBAW relationship managers acquired for the Bank over 7,400 new customers and clients and sold to them over 16,000 products.

In contrast with previous years, in 2009 CBAW sales were mainly driven by deposit accounts. Nearly 3,000 customers acquired through that channel now replenish their personal accounts with standing pay transfer orders. A factor that helped the CBAW sales process to achieve a quality shift in performance was the launch of highly competitive special offer of free-of-charge cash withdrawals available through all ATMs in Poland.

Other novel and important factors which contributed to improved effectiveness of CBAW included, among others, a new formula of meetings with customers, which involves a combination sales presentation and a seminar on household budget management, safe saving and on the use of credit and investment products. This form of operation helped CBAW to develop a closer cooperative relationship with the commercial bank business, which sparked of a number of new business ideas. One of these included stepping up activities targeting the SME segment. As a result of this initiative the CBAW now also offers the corporate accounts product, which it has effectively marketed to small companies and sole proprietors. To date CBAW has acquired over 200 corporate clients.

In the final quarter of the year 2009 the Bank concentrated its efforts on building out the sales structures of the CBAW office, which is expected to yield further growth in acquisition of new customers and clients in the year 2010.

6. Developments in IT

IT projects are undertaken with the aim of optimising processes while ensuring data security and continuity, and implementing new solutions reflecting: technological standards; product needs; changing regulatory requirements; and – above all – the Bank's long term strategy.

In 2009 the Bank was able to consolidate and make uniform the processes and technologies it uses as it integrated the technological units serving its corporate and retail parts. We also initiated a number projects aimed at reducing operating costs in IT.

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

The solutions contributing to rollout of modern product offer, improvement of product quality and competitiveness, and reduction of costs; as adopted in 2009:

– automation of submission of FX transactions achieved through linking of the e-Dealer system with the Systematics system;
– implementation of solutions enabling servicing and issuance of EMV standard compliant credit and debit cards with embedded microchip;
– implementation of a system which facilitates tracking and prevention of transactions performed with stolen debit cards;
– mobile banking – enabling access to bank accounts via mobile devices;
– substantial expansion of the IT systems aimed at increasing productivity of the telephone sales and collection units;
– implementation of various expansions to the Java Financial Platform (JFP) internet platform, enabling, among others, wider offering to customers of the automated account balance notification service;
– enabling retail customers (as we did the corporates) to settle electronic banking transactions in the SEPA standard;
– launch of new module for processing bank transfers and implementation of automated verification of bank transfers booked by the Bank's main transaction system (FlexCube) against the watch list of entities under international economic and trade sanctions, which further automate and are expected to increase efficiency of transaction processing by the Regional Clearing Centre in Olsztyn;
– implementation of the new ESDK system (electronic message distribution system) within the Custody Services Office serving messaging with the National Depository for Securities (NDS);
– introduction of a series of process accelerating improvements in automated generation and distribution of bank statements to corporate clients;
– consolidation of the IT systems used by the retail and corporate banking divisions, which enabled introduction of uniform business processes sharpening risk management and reducing operation and maintenance costs;
– Aspect Autodialer – a complex multidimensional project involving delivery of a new Autodialer system to our retail banking;
– Autodialer – enabled access to all the available functionalities;
– implementation of the ACD system, which supports call service quality control through the regional Command Centre. The system enables the managers to monitor the call response service and is expected to effect systematic improvements in satisfaction of the Command Centre's internal customers by cutting down on call waiting and response times;
– technological upgrade and expansion of the capacity in the international WAN data transmission lines;
– replacement of the firewall infrastructure throughout Poland;
– implementation of NICE Perform, a new voice recording technology;
– efficient execution of the Business projects, among others: Autodialer, Mutual Funds via Phone, and Branch Network Optimization;
– reduction of the O&M costs of the Bank's telecommunication infrastructure while maintaining the high quality of its telecommunication services;

- consolidation of management of the branch level Avaya PBXs (among others, for the Traugutta, the Metropolitan and the Olsztyn/Pstrowskiego branches) through the Avaya ACM central system based in Warsaw;
- implementation and rollout in Poland of NICE Perform, a novel voice recording service technology, which enabled centralised recording of calls with the uses of the IPT technology;
- GTS project – ESDK Poland - upgrade of the link to NDS and upgrade of the ESDK system for clearing transactions with NDS.

The ongoing modifications likely to impact the Bank's operations in the near term:

- implementation of a platform for institutional clients which will upgrade servicing of trade finance and documentary operation products;
- implementation of a Focus software application module which automates management of international transaction costs for corporate clients (as required by the Regional Clearing Centre in Olsztyn);
- launch of a new electronic banking system for corporate clients which will increase overall client satisfaction and improve the Bank's competitiveness in this area of banking services;
- launch of an internet based communication channel with the Bank for the e-Orders system clients, which will permit expansion of the product offer, among others, through the use of the electronic signature;
- implementation of a BPM (Business Process Management) class system which will enable modelling of business processes and upgrade processing of the related electronic documents;
- consolidation of the CRM applications with the aim of improving efficiency of customer relations;
- changes to the FCOC application enabling reduction of operating losses and automation of the process of acceptance in the outlets and transmission to Transfer Agents of the investment fund orders of the Bank's customers;
- introduction of meaningful improvements to the internet platform enabling improved retail customer service, including: superior graphics; a functionality enabling opening of deposit products on line; and improved process of cooperation with the sales support system;
- further modifications to the ECS+ (Enhanced Card System) credit cards servicing platform as driver by regulatory and business needs;
- introduction of a facility for immediate credit application review and issuance of microchip cards at branch level;
- upgrade of the business software applications to the current IT infrastructure standards (Windows XP/Vista, MS SQL, Java, HP OVCM, etc.),
- technological upgrade and capacity expansion of the international WAN data transmission lines;
- implementation of voice recording service projects;
- active participation of WTOC/Voice in the ongoing business project focusing on optimising the branch network;
- Date and Voice circuit management – implementation in Poland of the new global telecommunication expense management system and process;
- implementation of regional processes of Hardware Asset Management based on the HP Asset Center platform and optimisation of local Asset Management processes in collaboration with DRW.

Capital expenditures in the Technology Division in 2009 totalled PLN 16.3 million and included: approximately PLN 10.7 million allocated to the Consumer Bank; and approximately PLN 5.6 million allocated to the Commercial Bank.

7. Equity investments

All capital investments of the Bank are classified as part of either the strategic or the divestment exposures portfolios. In 2009 the Bank continued its previously chosen capital investment policy. In managing the strategic portfolio it sought to: maximise profits in the long term; grow the market share; stimulate development of co-operation with the Bank; and to expand of the Bank's offer. In managing its divestment portfolio the Bank aimed: to optimise transaction gains and to minimise the risk inherent in such transactions.

7.1 Strategic portfolio

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

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

7.2 Divestment portfolio

The interests held 'for sale' include entities in which the Bank's exposure is not strategic. The portfolio includes entities held directly and indirectly, e.g. Pol-Mot Holding S.A., and special purpose investment companies used by the Bank for execution of capital transactions, e.g. Handlowy Inwestycje Sp. z o.o. Some of these holdings are restructured exposures, which originate from debt-to-equity swap transactions.

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

8. Other information about the Bank

8.1 Rating

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

- On 3 March 2009 Moody's reduced its rating for the Bank's long term deposits in Polish złoty and foreign currencies from A2 to A3 and retained the rating on the watch list, with the possibility of a downgrade. The ratings of short term deposits were reduced from P-1 to P-2. These decisions did not impact the Bank's financial strength rating (BFSR), which remained at C- as it was retained on the watch list, with the possibility of a downgrade. The change described here was a consequence of the rating decisions adopted in respect of Citigroup Inc. and Citibank N.A. on 27 February 2009;

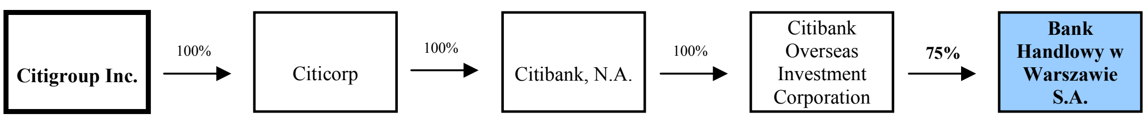
- On 18 June 2009 Moody's reduced its rating for the Bank's financial strength (BFSR) from C- to D+ with negative outlook. The rating for the Bank's deposits in Polish złoty and foreign currencies was reduced from A3 to Baa1 with negative outlook. The ratings of short term deposits remained unchanged (P-2). The change in ratings described here was a consequence of deterioration of the market environment, primarily impacting the retail and corporate portfolios. At the same time Moody's indicated that Bank’s capital position as net lender remained stable and that its solvency ratio was among the highest of the banks rated by Moody's.

At the end of the year 2009 the Bank had the following ratings awarded by Moody’s:

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

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

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 oversees investments. COIC is at the same time the strategic majority shareholder of the Bank. Throughout the year 2008 neither the number of shares held by COIC 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 organisational structure of Citigroup:

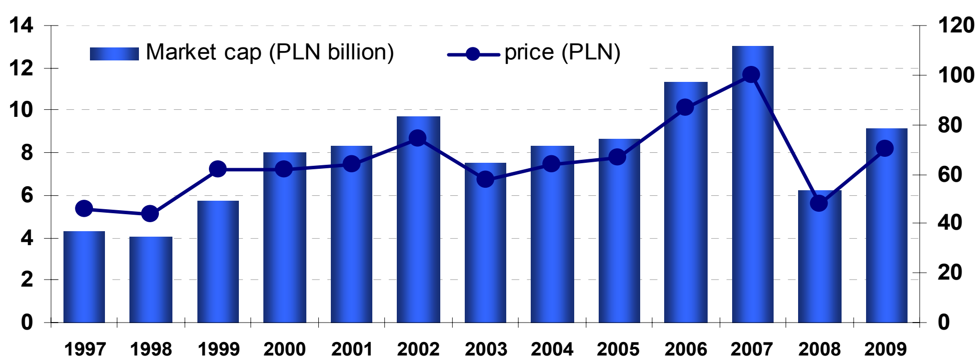


The remaining shares (32,664,900, equivalent to 25% of the share capital) constitute free float, in other words, remain in free trading and are listed on WSE.

In 2009 twelve years elapsed since floatation of Bank Handlowy w Warszawie S.A. on WSE. The year 2009 was a period in which the Bank’s share price increased; its market capitalisation at the end of 2009 stood at PLN 9.1 billion (compared to PLN 6.3 billion at the end 2008). Its market price ratios were as follows: price to earnings (P/E) at 18.1 (10.4 in 2008); price to book value (P/BV) at 1.5 (1.1 in 2008).

In 2009 Bank’s share price on WSE rose by 40%, from PLN 50 (5 January 2009) to PLN 70 (31 December 2009).

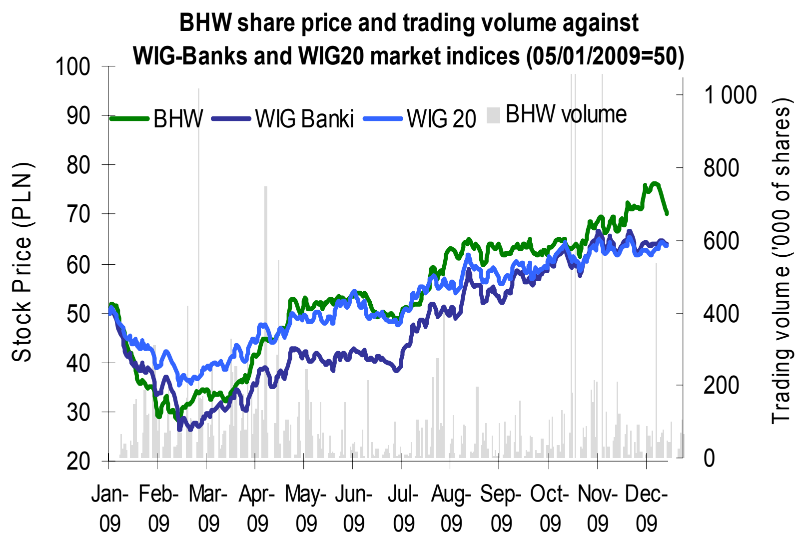
BHW market capitalisation and share price over the 12 years of trading on the WSE



In the first half of the year the share price exhibited substantial volatility (fluctuated within the range of PLN 28 and PLN 54). In the second half of the year the share price began tracing a clear upward curve, its fluctuations substantially confined (to between PLN 49 and PLN 76).

The financial crisis and the rather weary expectations vis-a-vis the financial sector were impressed on the Bank's share price in the initial months of 2009.

Tracking closely the negative trend of the market, the share price went into decline from the second week of January until mid-February, and reached its lowest point of PLN 28 on 17 February 2009. From that time on the price recovered the lost ground rapidly, and on 30 April 2009 reached PLN 52.20 thereby exceeding the year opening price level. Between that time and the end of the first half of the year the share price stabilised in the range of PLN 49 and PLN 54. It continued to grow through the second half of the year. Specifically, starting on 14 July 2009, when it stood at PLN 50.80, the Bank's share price began a consistent climb peaking on 22 December 2009; at PLN 76.25. Finally, on 31 December 2009 the market price stood at PLN 70.00 per share.



These share price achievements set the Bank apart from the sector (WIG-Banks gained 27.7% in 2009). The Bank's share price gains were also stronger than performance of the WIG20 index, which gained 27.2%.

8.3 *Interest rates*

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

As at 31 December 2009:

in %	Commercial Bank			Consumer Bank		
	PLN	**EUR**	**USD**	**PLN**	**EUR**	**USD**
ASSETS						
Receivable from financial and non-financial sector entities						
- fixed term	5.19	2.47	3.18	17.09	4.53	7.40
Debt securities	4.95	4.80	3.62	-	-	-
LIABILITIES						
Payable to financial and non-financial sector entities						
- fixed term	3.18	0.62	0.35	5.25	0.78	0.62

As at 31 December 2008:

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

8.4 Awards and honours

In 2009 Bank Handlowy w Warszawie S.A. and the Leopold Kronenberg Foundation received a number of prestigious awards and honorary titles:

- The Bank was honoured with a honorary mention and the emblem of the Entrepreneur Friendly Bank in the 10th edition of a competition organised by the Polish Chamber of Commerce and the Polish-American Small Business Advisory Foundation;
- The Bank received twofold international certification of note: the ISO 27001 security certificate and the BS 25999 business continuity certificate. The respective Independent Auditors assessed our procedures as compliant with the highest international industry standards;
- The Bank participated in the RESPECT Index and was voted a member of the narrow circle of the 16 most socially responsible public companies in Poland. It was awarded the high A rating, as a company that pursues the highest business standards in all its operations. Introduced on WSE, the RESPECT Index singles out the companies for which responsible approach to business forms permanent part of their management approach. The RESPECT Index was developed through collaboration of the Forbes monthly with WSE and the Deloitte consultancy;
- The Bank came out at the top of the ranking of the best institutions providing cash management services: the Best Cash Management Bank. The title is awarded by the prestigious UK Euromoney magazine to financial institutions based on the votes of their clients. Once again the solutions the Bank offers its clients were recognised for their innovative approach, flexibility and uniqueness;
- The Bank was the top ranked entity within the Banking and Insurance category of the Responsible Companies Ranking published by Gazeta Prawna. The Bank achieved the highest scores in such areas as Basic Social Responsibility and Social Action;
- The Bank's investor relations team was recognised as on of the ten best such teams operating on WSE, as established through a ranking run by the Puls Biznesu daily and Pentor Research International, a research institute. Investor Relations was one of the categories in the Public Company of the Year ranking commissioned by Puls Biznesu;
- The Bank's offer addressed to the Small and Medium Enterprises received the Thornless Rose award; this based on a ranking prepared by the Economic Research Institute for the Home&Market monthly;

- The foundation was honoured with the Strong Through Image 2009 (*Mocni Wizerunkiem*) award granted for the strategic engagement in a DNA research project, which led to identification of the remains of Nicolaus Copernicus. The Strong Through Image title is granted annually by the Public Relations Congress to entities which actively support promotion of charity causes and social projects. In the current year the foundation was awarded this title for the second time.

8.5 Engagement in cultural patronage and social responsibility projects

8.5.1 Social responsibility projects

The Bank has pursued its mission of social responsibility via the Leopold Kronenberg Foundation, a charitable institution which supports on the Bank's behalf various public benefit activities. In 2009 the Foundation focused its efforts primarily on such areas of interest as: economic and financial education, promotion of entrepreneurship and innovation, and coordination of the Bank's employee volunteer projects addressed to the socially disadvantaged as well as those aiming at preservation of cultural heritage.

Descriptions of the programs pursued in the period follow.

From a Grosz to a Złoty (*Od grosika do złotówki*) – the first Polish financial education programme for pupils of primary schools executed in the context of integrated learning in collaboration with the Foundation of Entrepreneurship of Young People. It is being run jointly by teachers and volunteers from the Bank with collaboration of the parents. The programme is intended to help children develop habits of saving money, developing their awareness of the value of work, learning what money can be used for and preparing children for the task of rational shopping decisions. The program is comprised of two parts: the second form primary school children are involved in a week-long educational module, which takes the form of a journey through the Finance Galaxy, while the third form primary school children are involved in a day-long workshop devoted to the topic of saving, which is entitled Grosz Journeys. In the course of the school year of 2009-2010 the program engaged 450 teachers and approximately 17,000 parents who opened up the world of finances before 11,340 pupils of 208 schools.

The Grosz Journeys workshops were run in the context of Citi's Global Community Day 2009 and involved 1,488 pupils and 1,310 parents. We also held two school art competitions, with saving and operation of a bank as their respective themes; over 700 pupils participated.

My Finances (*Moje Finanse*) – the largest Polish economic education programme addressed to pupils of higher secondary level schools conducted in cooperation with the National Bank of Poland and the Foundation of Entrepreneurship of Young People. Since November 2007 the programme commenced its second edition, with the educational curriculum expanded to also include the parents.

In 2009 the program was refreshed, its original three modules of Come to Like Banks, My Investments and Investment Into the Future updated and adjusted to reflect the latest issues; and two additional modules added: Safe Finances and The World of Finance. In the fourth quarter of 2009 we conducted 80 workshops preparing teachers for execution of the Safe Finances module. 1,650 educators took part in them. We also conducted the second edition of the Becoming an Investor workshops for pupils, which involved 15 economics students on pilot basis. Each of these students conducted the workshops with pupils of six forms in the schools running the My Finances program in the Łódź region and Silesia. 2,700 pupils took part in that series of workshops. In the school year of 2009-2010 the program involved 156,992 pupils, or 8,492 more than the expected 148,500. This testifies of: attractiveness of the program, both for the pupils and the teachers; the conviction that is needed; and the desire for acquisition of financial knowledge, particularly at the time of an economic downturn.

Banks in Action (*Banki w Akcji*) – an economic education program addressed to higher secondary school students interested in a financial sector career. The program aims to promote among this student group knowledge of the principles of functioning of financial markets, and particularly of commercial banks.

Implemented by the Leopold Kronenberg Foundation and the Foundation of Entrepreneurship of Young People, the program proceeded with the following modules in 2009:

- **Banks in Action** – Enterprise Day – one day in the year on which higher secondary school students are invited to the Bank so that they can see what the work of bankers involves. This project is executed in the context of nationwide Enterprise Day programme. In 2009 the Enterprise Day was held on 2 April, on which the Bank hosted 257 student trainees;
- **The Banks in Action Competition** – organised with the National Bank of Poland, the Foundation of Entrepreneurship of Young People and a group of eight university schools of banking. The 'Olympic' competition fits within a larger framework of subject 'Olympiads' authorised by the Polish Ministry of National Education and addressed to students of upper secondary schools seriously interested in economy. The 2nd edition of the 'Olympic' competition – held in autumn of 2009 – brought together 10,288 pupils and 648 teachers; and
- **Promoting the use of the Banks in Action simulation model in regular educational work** – the Banks in Action is an interactive simulation model of a commercial bank. Respective students can play the role of a bank board president and – in competition with the computer or other student – take financial and marketing decisions, which translated into the bank's financial standing. In the course of 2009 total of 16 workshops were held, with participation of 325 teachers. The teachers who took part in the same workshops conducted classes with the use of the simulation engine for the benefit of 15,000 pupils throughout the country.

Week for Savings (*Tydzień dla Oszczędzania*) – a nationwide awareness campaign, which seeks to promote the need for planning financial future. This media campaign is conducted through multiple information channels. In 2009 the Newsweek weekly published an occasional supplement devoted to personal savings while various radio stations broadcast educational spots on the subject. The effort received additional support from a multimedia educational portal http://tdo.edu.pl, which published topical articles, advice, multimedia presentations, film and video blogs on the subject of saving. The campaign also included a short film competition – run via the multimedia social portal – and a mini e-learning competition. The campaign drew on an opinion poll looking into attitudes of Poles to savings. The campaign met with great interest of the press and the opinion makers. We estimate – based on the available research tools – that around 7.6 million people came in contact with the educational and promotional materials relating to saving via various media.

Innovation in Banking (*Innowacje w bankowości*) – a nationwide competition announced by the Leopold Kronenberg Foundation and the Bank and addressed to second- to fifth-year university students at large. The initiative aims to inspire the young people to develop innovative business solutions. It seeks to tap into the knowledge and creativity of young people, and to strengthen their confidence in the possibilities for personal career development. The main prize of the first edition of PLN 10,000 and a 3-month internship with the Bank went to Paweł Tatomir of the Warsaw University. Additionally, five honourable mentions were awarded with prizes of PLN 2,000 each. In the second, the third and the fourth quarter of 2009 we continued preparations for the second edition of the program, which will start in January 2010.

Micro-entrepreneur of the Year 2009 – a unique competition addressed to owners-operators of small businesses. Through organisation of the event the Foundation seeks to promote active stance toward entrepreneurship, stimulate establishment of small businesses and to present the best of them as effective business models. The prestigious Micro-entrepreneur of the Year 2009 title went to Nexwell Engineering of Wrocław established by Michał Kowalczyk. The winning companies is a designer and producer of modern home automation systems. It leading product is the NEXO system, which provides a flexible and easy to use control platform for various elements of the typical home infrastructure. The title winner was granted the prize of PLN 30,000. The award ceremony was preceded by presentation of results of a survey study entitled Barriers to Development of Micro-business in Poland, which was executed by the Leopold Kronenberg Foundation in substantive collaboration with the Microfinance Centre. The study was carried out on a sample of 500 micro-businesses by Pentor Research International. The award ceremony of the 5th edition of the competition was held on 25 June on the New Connect floor of WSE.

Competition for the Award of Bank Handlowy w Warszawie S.A. *for outstanding contribution to development of economics and finance* – this annually held competition aims to promote the most valuable publications on theory of economics and finance. The award is perceived as one of the most prestigious ones in Poland in the field of economics. The 15th edition of the competition had 19 submissions. These were assessed and the winner was selected by a jury, composed of: Prof. Leszek Zienkowski (†), the chairman, Prof. Marek Belka, Prof. Stanisław Gomułka, Prof. Urszula Grzelońska, Prof. Witold Koziński, Prof. Adam Noga, Prof. Zdzisław Sadowski and Prof. Andrzej Sławiński. The winner of the competition was Dr Anna Moździerz of the Economic University of Kraków for her "Imbalance of public finances". The official award ceremony was held on 15 October 2009. The award proceedings were followed by the prize winner's lecture and an economic conference on The Challenges of the Polish Fiscal Policy at the Time of Crisis. This was moderated by Piotr Kalisz, the Bank's senior economist, and the invited panellists included: Ludwik Kotecki, Under-secretary of State at the Ministry of Finance, Prof. Stanisław Gomułka, the Chief Economist of the Business Centre Club, Rafał Antczak, Vice-president of Deloitte Business Consulting and Dr Anna Moździerz, the current competition winner.

The Time for the Young competition – We developed the agenda for the Time for the Young competition with the aim of disseminating the messages of this year's winner of the Award of Bank Handlowy w Warszawie S.A. The competition offered students an opportunity to put forward solutions in the domain of the state macroeconomic policy. The task involved writing a piece entitled "I became the Minister of Finance – How we will handle the budget deficit". A qualifying work will have incorporated in its discussion at least one of the five quotations from the work of this year's winner of the Award of Bank Handlowy w Warszawie S.A., Dr Anna Moździerz. The competition will have been completed on 21 January 2010.

Employee Volunteer Program – a program that aims to assist the Bank employees in developing their social responsibility and involvement. Its main pillars include employee engagement in: dissemination of financial education; Citi's Global Community Day; and innovative voluntary work projects executed in the course of corporate integration trips. Additionally, the Bank employees can: choose from among numerous individual voluntary work offers; get involved in the Become Santa's Assistant campaign or the Enchanted Songs Festival, which supports persons with disabilities. The employee can provide their services on individual or organised group basis. In 2009 the volunteer program encompassed 126 individual projects, with nearly 2,500 Bank volunteers engaged in them. The largest of them, Citi's Global Community Day, mobilised 1,500 Bank volunteers, working together with their families and friends on 97 projects, including 65 projects they themselves set up within the Dependable Volunteer (*Wolontariusz na Bank!*) competition. The assistance the Project extended reached approximately 17,000 needy beneficiaries.

Subsidy Programme – a grant competition through which the Leopold Kronenberg Foundation supports the most valuable projects implemented by non-profit institutions operating in the spheres of education and local development. In 2009 the Foundation granted subsidies toward 54 local initiatives in a total amount of PLN 854,177. The grants were awarded, among others, towards: a vocational redeployment project addressed to middle-aged persons ("50+ Wager on Entrepreneurship") of the "Leonardo" Social Development Foundation; training courses organised for outstanding economics majors within the Capital Market Leaders' Academy run by the Lesław A. Paga Foundation; funding of prizes within the Jan, Edward and Józefina Reszke Vocal Competition organised by the Częstochowa Philharmonic; the economy modelling game offered by Jagiellonian University's Institute of Psychology; a competition devoted to the Wielkopolska region organised by the Association of Gminas and Poviats of Wielkopolska; and an educational program entitled the "Little-known heritage of Kraków" organised by the Historical Museum of the City of Kraków.

New initiatives for education in finance

The Leopold Kronenberg Foundation enlisted the collaboration of Maison and Pentor research houses to conduct a broad-based study of the state of financial knowledge of the Polish population. The research indicated that Poles lack rudimentary economic knowledge needed for efficient operation in the world of finance. The results also revealed that the method which can best help Poles to engage more efficiently with the financial system is provision of financial education. The study results were presented and discussed at the 19th Economic Forum in Krynica, at the panel discussion entitled "The educated are more affluent. The impact of the financial knowledge of Poles on the economic development". In September 2009 the Rzeczpospolita daily carried an article on the state of financial understanding of Poles. The published research results and assessments of the experts confirmed the low awareness of the Polish society of the rudiments of economic knowledge and need for education in that field. In the context of the Week for Savings campaign sponsored by the Leopold Kronenberg Foundation, the Newsweek weekly published an occasional supplement devoted to personal savings. A broad-based study conducted by Pentor took stock of the Polish population's economic knowledge and its attitudes to saving at the time of crisis. The Foundation also collaborated with the Polish Bank Association as it took active part in the work of the association's Financial Education Forum.

ZrozumFinanse.pl (or Understand Your Finances)– the Bank's educational portal launched in November 2007 has to date registered over 600,000 users. Its innovative segmentation allocates users into three groups: Singles, Couples and Families. Website content that has enjoyed unfading popularity is the Strategic Game, a financial management simulation game. The player's task over the game's 30 rounds (each symbolising one month in their life) is to manage their personal finances in such a way as to maximise their financial resources by the game's end, including: cash, savings (deposits, investment trust funds), personal property (e.g. a vehicle), real property (e.g. a flat), and relevant financial security instruments (pension fund, a life insurance policy). To facilitate navigation and access to its content, the portal has been structured into respective sections where content is grouped thematically. The visitor is provided with the choice of the following: Step By Step, Financial World, What Do You Do When, Know the Consequences, Topic of the Day and Glossary. The varied selection of multimedia solutions includes presentations, films and a survey presenting the practical aspects of respective banking products.

8.5.2 Cultural patronage

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

- museum, restoration, archive and library work;
- commemoration and preservation of the Polish cultural heritage abroad;
- initiatives aimed at collection and preservation of traces and mementos of cultural heritage;
- dissemination of knowledge on the needs and methods of preservation of cultural heritage in Poland.

This year's jubilee 10th edition Gieysztor Award went to professor Jan K. Ostrowski for his work of documenting monuments of sacred art in the lands which formerly formed part of the Republic of Poland and presently remain outside its borders. The research program the Laureate has pursued has the objective of taking complete stock of the monuments of sacred art in these regions, including the objects destroyed or scattered in the aftermath of the Second World War.

The Bank sponsored an exhibition entitled **Lux In Tenebris** presenting sculptures of Igor Mitoraj together with a concert given by Włodzimierz Pawlik. The exhibit was organised in commemoration of the 400 years of existence of the Sanctuary of the Merciful Mother of God, Patron of Warsaw. The exhibit presented 22 sculptures, among them Alfeo, Angelo, Angelo II, Vulcano, Testa San Giovanni

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

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

1.1 Economy

In spite of the signals of recovery in the global economy, GDP growth of Poland's main trade partners is likely to be relatively low in the year 2010. Weak external demand growth constitutes an potential risk, which can contribute to weaker than expected economic growth in Poland.

The deteriorating condition of Poland's public finances exacerbates the risk of public debt exceeding the second prudential threshold set at 55% of GDP. Fulfilment of such a scenario could spell the need for rapid cutbacks in public expenditure accompanied by raising of taxes, which would lead to profound slowdown in GDP creation. As a result the labour market conditions would deterioration as would the financial condition of the Bank's clients and customers.

The uncertainties as to the condition of Poland's public finances and her prospects for economic growth exacerbate the risk of potential turbulences in the financial markets. Another factor which can contribute to the problem would be substantial deterioration of certain Euro zone economies, sparking off one again risk averse behaviour of the markets.

1.2 Regulatory risk

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

The most relevant of these regulations include and cover:

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

Because of the failure to implement in the Polish law within the required timescales, i.e. by 1 November 2007, of the Commission Directive 2004/39/EC of 21 April 2004 on markets in financial instruments (MiFID Directive) and of relevant executive legislation, including the Commission Regulation (EC) 1287/2006 and the Commission Directive 2006/73/EC (both dated 10 August 2006), the process of adjustment of the institutions MiFID Directive applies to (investment firms and lending institutions conducting investing activities) has not been conducted in compliance with the provisions specified by the European Union. In the fourth quarter of 2009 the legislative process proceeded with the aim of transposing the European on to the national regulations.

Also, because of the failure to implement in the Polish law within the required timescales, i.e. by 1 November 2007, of the Commission Directive 2004/39/EC of 21 April 2004 on markets in financial instruments (MiFID Directive) and of relevant executive legislation, including the Commission Regulation (EC) 1287/2006 and the Commission Directive 2006/73/EC (both dated 10 August 2006), the process of adjustment of the institutions MiFID Directive applies to (investment firms and lending institutions conducting investing activities) has not been conducted in compliance with the provisions specified by the European Union. Legislative process proceeded in the year 2008 with the aim of transposing European on to national regulations, and in particular to the Trading in Financial Instruments Act and the ordinances issued by the Minister of Finance on the basis of the act. The implementation process was however completed at the end of 2009, at incorporation in the relevant regulations of the amendments informed by the ruling of the Constitutional Tribunal, which had examined the regulations at the motion of the President of Poland. The Act on Amendment of the Trading in Financial Instruments Act was published on 6 October 2009 and came into force as of 14 days of its publication while the relevant executive regulations were published on 2 December 2009 and came into force as of 16 December 2009. As of the day of the relevant regulations coming into force runs the six-month period within which the Bank needs to adjust its operations to the new requirements of the law. As the deadline for adjustment to the regulations of the legal act is not the same as the deadline for adjustment to the provisions of the aforementioned executive regulations, this may be a source of certain risks in the period between 21 April 2010 (the adjustment date specified by the parliamentary act) and 16 June 2010 (the adjustment date specified by the executive regulations) considering the fact that the legal act only introduces general requirements, which, in turn, the executive regulations specify in detail.

The legislative changes we refer to above will also apply to the business of DMBH S.A., a subsidiary of the Bank.

1.3 Competition within the banking sector

The strenuous economic conditions had a detrimental impact on the results of the banks operating in Poland, though in comparison to the financial institutions operating in other European states, Polish banking sector had not been seriously hurt by the continuing economic crisis. Securing stable funding sources that would enable them to continue lending (visibly curtailed in 2009) remains the priority for the banks. In order to achieve that objecting, the banks will continue competing for deposits, though the scale of that competition will be decidedly smaller than in 2009, when some of them were ready to offer their customers deposits rates below the market cost of money.

The increased credit risk caused by the strained condition of the enterprise sector and the deteriorating position of the retail customers (as driven by growing unemployment) led the banks to adopt a substantially more prudential view of creditworthiness of their clients and customers. Because of that, the banks will focus more on expanding relationships with their existing customers than on acquiring new ones. Over the long term the policy should yield positive results in the form of lower cost of risk and improved results of the banking sector.

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

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

2.1 Liquidity risk

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

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

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

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

2.2 Foreign exchange risk

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

2.3 Interest rate risk

Along with the other Polish banks, the Bank is exposed to a risk arising from mismatch in timing of changes in interest rates on its assets and the underlying liabilities (revaluation mismatch gap risk), and the sensitivity of the value of debt securities and of interest rate based derivative instruments to changes in the market rates (pricing risk). In respect of the revaluation mismatch gap risk, interest rate risk can arise when a fall in income caused by lower rates of interest on loans proves impossible to offset through a corresponding reduction in the rates of interest paid to depositors. This risk also applies to situations where a rise in deposit rates cannot be offset by a corresponding rise in lending rates.

In respect of the pricing risk, interest rate risk can arise when changes in market rates have a negative impact: on valuation of the trading portfolio and thus directly on the bank's financial result; or on valuation of the portfolio of securities available for sale and thus directly on the value of its equity capital funds. The management of interest rate risk is one of the functions of the Bank's Asset and Liability Committee, which, among others, determines the Bank's pricing policy in the context of interest rate risk. In the year 2009 the level of interest rate risk ranged between low and moderate in the case of the trading portfolios and between moderate and high in the case of the bank portfolios.

2.4 Credit risk

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

2.5 *Equity investment risk*

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

2.6 Operating risk

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

The processes of risk identification, self-assessment and reporting, in all of their general aspects, have been brought into uniformity and generally adopted by all of the Bank's organisational units. The processes of risk limiting, monitoring and measurement are specified for each organisational unit, which can differ in those terms.

The control processes implemented in the Bank serve to: limit occurrence of the consequences of negative operational events (including operational losses); reduce the probability of their occurrence; and to minimise the severity of the potential consequences. Typical control mechanisms include: allocation of responsibilities between the maker and the checker functions; monitoring of set limits; policy requirements regulating the sale and purchase of securities by employees. This set of risk limiting mechanisms includes also transfer of risks: through outsourcing or insurance.

2.7 *Contributions to the Bank Guarantee Fund*

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

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

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

1. The Bank's general development objectives

The Bank's overriding long-term objective is to systematically increase shareholder value by ensuring appropriate return on equity and such liquidity and capital adequacy as ensure security of our customers and retention of their trust.

In the near term the Bank will concentrate on expanding its collaboration with its existing customers and clients – offering them services tailored to their expectations and preferences. A new customer segmentation will be based understanding of customer behavioural patterns and assessment of previous collaboration between the customer and the Bank. The Bank wishes to retinitis leadership in terms of innovation of the solutions it proposes as it concentrates on ensuring the market's highest customer satisfaction rates. With this in mind the Bank has developed relevant quality standards for respective customer and client groups and added customer service quality parameters to its employee incentive schemes. Also, in developing its banking service network, the Bank will track closely the lifestyle choices of its customers and aim to integrate traditional banking with telephone and internet banking.

1.1 Corporate and Commercial Bank

The Bank is one of the leading service providers to the corporate banking segment in Poland.

The Bank's market share in corporate loans stood at 2.6% at the end of 2009 while its market share in corporate deposits was 6.3%. In 2010 the Bank plans to significantly expand collaboration with its existing clients as it focuses on service quality and readjustment of its service model in ways that will best fit its clients' needs. The overriding objectives here are: to significantly increase satisfaction of our clients with the products and services we offer; and to establish ourselves in the position of the leader in innovation who continues offering novel solutions. The Bank will seek to strengthen further the relations it has with its corporate clients and to reward their loyalty. With this objective in mind, it will launch a new training and incentives scheme for its account managers that promotes building of longstanding and broad-based relations with clients. This will require the account managers to invest more of their time into understanding the needs of their clients.

Significant part of the Bank's income will come from handling of trade transactions, cash management and the treasury products, including in large part from dealing in foreign exchange. Innovative highest quality products will be one of the most important elements of the Bank's competitive edge, particularly in collaboration with the demanding domestic and international clients.

As it puts into action its new strategy, the Bank will concentrate on achieving the highest possible operational efficiency.

1.2 Consumer Bank

In line with the strategy adopted for the years 2010-2012, in 2010 the Bank will concentrate its efforts on specific segments of the retail banking market in Poland. It will work to clearly differentiate its service models for the respective segments of this market and to implement the changes necessary to differentiate its offer and service quality in the competitive landscape. In the first quarter of 2010 the Bank commenced implementation of its new segmentation standards.

The Bank's strategic objective is that of strengthening the relationships it has with the customers it serves. It will achieve this by increasing the number of products the customers use. Addressing of offers to the customers whose relationship with the Bank is limited to the use of credit cards the Bank issued will be a particular area of concentrated effort. We will seek to mobilise this group of customers to doing more business with us by offering them attractive savings and investment products.

In addition to savings and investment products, the Bank has developed a portfolio of insurance products that addresses the varied needs of our customers for life, health and property (non-life) insurance coverage. Along with this product line, we have also developed new distribution channels, including telephone and internet banking.

In respect of the segment of high-net-worth individuals, the Bank's objective will be to retain its position of market leadership by promotion of a service model that ensures in-depth understanding of the individual customer's needs prior to presentation of an investment and insurance offer to them. In the first half of 2010 the Bank also plans to start offering its high-net-worth segment customers certain new, innovative value-added services, which will complement its offer of financial products.

1.3 Distribution network

The Bank's development plans for the year 2010 provide for continued activity aimed at delivering adequate customer service quality. We will also undertake actions in response current market developments.

Consistent with the newly adopted strategy, throughout the year 2010 we will continue with implementation of the Citi Grow program – aimed at standardising the sales and customer service quality – in all the branches located on our G9 markets (the country's largest urban centres, of strategic importance from the standpoint of development of the retail banking business) and Tier1 markets (major cities with strong record of commercial activity). The Bank's branch network will receive active support from the remote customer service channels (CitiPhone, the internet platform, TeleSales) providing 24-hour transaction handling capability and customer need driven banking product sales capability.

New outlets will accommodate the need for increased deposit handling capability for the benefit of retail customers. The Bank will also undertake preparations for build-out of its branch network, specifically for adding outlets in the G9 markets.

VI. Statements of Bank Handlowy w Warszawie S.A. on its application of corporate governance rules in 2009

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

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

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

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

Corporate governance rules as per the "Best Practices in Listed Companies", which were not applied by the Bank in 2009

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

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

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

The Bank did not apply rules II.3 and III.9 incorporated in the "Best Practices in Listed Companies" only with respect to related party agreements regarding ongoing operations, in particular those related to liquidity management.
Considering the nature and number of transactions entered into as part of ongoing operations, it is not possible to obtain the Supervisory Board's approval of their conclusion from the perspective of the operating activity. Simultaneously, it should be emphasized that a report on the ongoing monitoring of the Bank's operations is submitted to the Supervisory Board on a monthly basis, which includes among others information on related party transactions exceeding PLN 100,000.

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

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

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

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

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

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

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

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

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

Significant shareholdings

The Bank's shareholder holding a significant block of the Bank's shares is Citibank Overseas Investment Corporation (COIC) – a subsidiary of Citibank N.A. that holds 97,994,700 shares, which accounts for 75% of the Bank's share capital. The number of votes corresponding to COIC's shareholding is 97,994,700, which accounts for 75% of the total number of votes at the Bank's General Meeting.
All shares issued by the Bank are ordinary bearer shares which do not involve any special control privileges with respect to the Bank.

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

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

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

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

1) determines the strategy of the Company;
2) establishes and liquidates the Company's committees and determines their competences;
3) develops its regulations and submits them to the Supervisory Board for approval;
4) develops regulations regarding the management of special funds created from the net profit and submits them to the Supervisory Board for approval;
5) determines dividend payment dates within the deadlines specified by the General Meeting;
6) appoints proxies, general attorneys and general attorneys with the right of substitution;
7) decides on matters specified in the regulations of the Management Board;
8) resolves issued raised by the President, Vice-President or a member of the Management Board;
9) takes independent decisions regarding acquisition and disposal of real properties, perpetual usufruct or share in a real property;
10) adopts a draft of the Company's annual financial plan, accepts investment plans and reports on their implementation;
11) accepts reports on the activities of the Company as well as financial statements;
12) draws up motions regarding profit distribution or loss coverage methods;
13) approves the HR and credit policy as well as legal rules governing the Company's operation;
14) approves the principles governing the Company's capital management;
15) approves the employment structure;

16) determines the fundamental organizational structure of the Company, appoints and dismisses Sector Heads, appoints and dismisses Division Heads and determines the scope of their competence;

17) develops the plan of control measures undertaken in the Company and accepts reports on audits conducted;

18) resolves other issues subject to submission to the Supervisory Board or the General Meeting pursuant to the Articles of Association;

19) decides on contracting liabilities or managing assets whose total value with respect to one entity exceeds 5% of the Company's equity or grants authorizations to designated parties to take the aforementioned decisions. However, with respect to issues for which the Company's Committees bear responsibility, such decisions are made upon consultation with the competent Committee;

20) determines the organizational structure and the scope of responsibilities of the ARR Department, including mechanisms ensuring audit independence.

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

President of the Management Board:

1) manages the activities of the Management Board, including designation from among the Board members of a person performing the role of Deputy President in their absence and determines the method of deputizing other Board members in their absence;

2) convenes and chairs meetings of the Management Board;

3) presents the position of the Management Board to the Company's corporate bodies, state and local authorities as well as the general public;

4) files motions to the Supervisory Board regarding the appointment or dismissal of members of the Management Board as well as determination of their compensation;

5) issues internal regulations governing the Company's operations and has the right to authorize the remaining members of the Management Board or other employees of the Company to issue such regulations;

6) decides on the use of internal control results and notifies the audited unit of any decisions made with respect to the audit;

7) exercises other rights under the regulations adopted by the Supervisory Board.

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

Amendments to the Articles of Association

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

1) the Bank's name;
2) the Bank's registered office as well as the object and scope of its business activities;

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

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

General Meeting procedure

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

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

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

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

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

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

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

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

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

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

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

General Meetings may be attended by the media.

Fundamental powers of the General Meeting

The General Meeting should be convened to:

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

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

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

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

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

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

Shareholders' rights and their exercise method

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Shareholders who voted against a resolution at the General Meeting and after its adoption requested their objection to be recorded in the minutes, shareholders who have not been admitted to participate in the

General Meeting for no legitimate reasons and shareholders absent from the General Meeting shall have the right to file an action regarding cancellation of a resolution adopted by the General Meeting only in the event the procedure for convening the General Meeting was not executed correctly or a resolution was adopted with respect to a matter not included in the agenda.

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

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

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

- The General Meetings always take place in the Company's registered seat in Warsaw;
- Presence of representatives of the media at the General Meetings is allowed;
- In accordance with corporate practices, all important materials being prepared for the General Meeting, including draft resolutions with justifications and opinions of the Supervisory Board, are made available to Shareholders no later than within 14 days before the date of the General Meeting, at the Company's seat and via the Bank's website
- The General Meeting has stable set of regulations setting out detailed rules of procedure and adoption of resolutions;
- Members of the Management Board and Supervisory Board take part in the General Meeting in order to provide its participants with explanations and information about the Bank within the scope of their competencies;
- 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.

The Bank's information policy, the aim of which is to provide information to all persons and institutions that need information about the Company, includes as its integral part the investor relations function, which provides information to current and potential investors and capital market analysts. The methods whereby the Bank delivers its information policy through the investor relations function include:

- Regular meetings with analysts and investors in the form of briefings and conference calls, also in the Bank's headquarters, with participation of the Bank Management Board;
- Support from the Public Relations Office at quarterly media press conferences organised at publication of periodic reports;
- Publication on the Bank's website of current information about the Bank and its businesses, and all the current and periodic reports; the website facilitates contact with the Investor Relations team, which provides information about the Bank and its Capital Group;
- Enabling participation of media representatives at the General Meetings.

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

Management Board

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

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

Sławomir S. Sikora – President of the Management Board;

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

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

Witold Zieliński – Vice-President of the Management Board;

Iwona Dudzińska – Member of the Management Board.

The aforementioned persons were also members of the Management Board in 2009. In 2009, the Bank's Management Board comprised also Peter Rossiter – Vice-President of the Board.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Supervisory Board

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

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

Chairman:	Stanisław Sołtysiński,
Vice-Chairmen:	Shirish Apte, Andrzej Olechowski,
Members:	Igor Chalupec, Sanjeeb Chaudhuri, Goran Collert, Mirosław Gryszka, Stephen Simcock, Aneta Polk, Wiesław Smulski, Alberto Verme, Stephen Volk.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Supervisory Board Committees

Standing Committees of the Supervisory Board include:

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

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

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

Audit Committee

The Audit Committee is composed of:

1) Mirosław Gryszka – Chairman of the Committee;
2) Stephen Simcock – Deputy Chairman of the Committee;
3) Shirish Apte – Member of the Committee;
4) Aneta Polk – Member of the Committee;
5) Wiesław Smulski – Member of the Committee.

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

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

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

. The Audit Committee 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, clause 3, point 1, 3, 5 of the Act on auditors, their self-government and the entities authorized to audit financial statements and public supervision, as well as hold qualifications within the field of accounting or financial auditing.

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

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

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

At least on an annual basis the Audit Committee meets:

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

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

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

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

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

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

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

Remuneration Committee

The Remuneration Committee is composed of:

1) Stanisław Sołtysiński – Chairman of the Committee;
2) Alberto Verme – Deputy Chairman of the Committee;
3) Shirish Apte – Member of the Committee;

4) Andrzej Olechowski – Member of the Committee.

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

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

The competences of the Remuneration Committee include:

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

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

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

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

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

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

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

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

Risk and Capital Committee

The Risk and Capital Committee is composed of:

1) Alberto Verme – Chairman of the Committee;
2) Igor Chalupec – Deputy Chairman of the Committee;
3) Andrzej Olechowski – Member of the Committee;
4) Aneta Polk – Member of the Committee;
5) Stephen Simcock – Member of the Committee;
6) Sanjeeb Chaudhuri – Member of the Committee.

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

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

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

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

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

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

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

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

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

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

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

VII. Bank's Authorities and other corporate governance rules

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

The total amount of salaries, awards and benefits paid or payable to the current and former members of the Bank Management Board in 2009 is as follows:

PLN '000	Salaries, awards and short term benefits		Capital assets granted
	Base salaries and awards	Other benefits	
Sławomir S. Sikora	3,354	291	107
Michał H. Mrożek	1,468	45	36
Sonia Wędrychowicz-Horbatowska	1,599	118	28
Witold Zieliński	1,361	113	30
Iwona Dudzińska	1,187	29	22
Former Members of the Bank Management Board:			
Peter Rossiter (1)	1,205	165	34
Edward Wess (2)	-	479	-
Reza Ghaffari (3)	-	6	-
Sanjeeb Chaudhuri (4)	-	50	-
	10,174	**1,296**	**257**

(1) until 31 October 2009
(2) until 30 November 2008
(3) until 31 May 2006
(4) until 21 September 2006

'Base salaries and awards' include gross salary paid and payable in respect of the year 2009 as well as awards granted in respect of 2009.

According to a decision of the Supervisory Board, the remaining amount of awards granted to members of the Bank Management Board in respect of 2008 paid in 2009 amounted to a total of PLN 4,488,000.

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

'Capital assets granted' include Citigroup shares granted in the previous years and distributed in 2009 as well as value of options on Citigroup common stock for which exercise rights were granted in 2009.

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

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

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

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

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

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

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

The total amount of salaries, awards and benefits paid or payable to the current and former members of the Bank Supervisory Board in respect of the year 2009 and 2008 was as follows:

PLN '000	**2009**	**2008**
Stanisław Sołtysiński	240	240
Göran Collert	120	120
Mirosław Gryszka	168	168
Andrzej Olechowski	216	216
Wiesław Smulski	120	120
Aneta Polk	76	-
Igor Chalupec	76	-
Former Members of the Bank Supervisory Board:		
Krzysztof L. Opolski	119	216
Sabine Hansen Peck	78	-
	1,213	**1,080**

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

Information abort total number and nominal value of the Bank shares and shares in affiliated companies of the Bank held by members of the Management Board and the Supervisory Board as at 31 December 2009 is presented below in the table.

	Shares of the Bank Handlowy w Warszawie S.A.		Shares of the Citigroup Inc.	
	Shares number (units)	Nominal value (in PLN)	Shares number (units)	Nominal value (in PLN)
Management Board				
Sławomir S. Sikora	-	-	21,866	623
Sonia Wędrychowicz-Horbatowska	-	-	4,068	116
Witold Zieliński	-	-	5,355	153
Iwona Dudzińska	600	2,400	3,667	105
Supervisory Board				
Stanisław Sołtysiński	-	-	141,000	4,019
Shirish Apte	-	-	118,283	3,371
Andrzej Olechowski	1,200	4,800	-	-
Sanjeeb Chaudhuri	-	-	33,640	959
Goran Collert	-	-	10,000	285
Stephen Simcock	-	-	10,302	294
Alberto Verme	-	-	2,734,513	77,942
Stephen Volk		-	1,166,370	33,245

No member of the Management Board is a shareholder of affiliated company of the Bank

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

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

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

4. *Corporate governance rules*

The corporates governance rules are presented in an additional information to the Bank's Financial Statements. These have not undergone any change in the year 2009.

VIII. Agreements concluded with registered audit company

On 19 March 2009, the Supervisory Board of the Bank appointed a registered audit company, KPMG Audyt Sp. z o.o. (KPMG) having its registered office in Warsaw, at ul. Chłodna 51, a registered audit company No. 458, to conduct an audit and a review of financial statements of the Bank and the Capital Group of the Bank for the year ended 31 December 2009. KPMG was selected in compliance with the applicable laws and regulations.

The contractual net fees of KPMG (paid or payable) for the years ended 31 December 2009 and 2008 are presented in the table below:

PLN '000	**Applicable to year**	**2009**	**2008**
Audit fees (1)		607	607
Review fees (2)		300	300
Other assurance fees (3)		125	125
		1,032	**1,032**

(1) The contract fees for the audit include fees paid or payable to KPMG for audit of the annual stand-alone and consolidated financial statements of the Bank and its Capital Group (the agreement relating to the year 2009 signed on 30 November 2009).

(2) The contract fees for the review include fees paid or payable to KPMG for review of half-year stand-alone and consolidated financial statements of the Bank and its Capital Group (the agreement relating to the year 2009 signed on 17 June 2009).

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

Other information required by the Ordinance of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and 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) are included in the financial statements of the Bank.

Signatures of the Management Board Members

Date	Forename and surname	Position/Function	Signature
10.03.2010	Sławomir S. Sikora	President of the Management Board	
10.03.2010	Michał H. Mrożek	Vice-President of the Management Board	
10.03.2010	Sonia Wędrychowicz-Horbatowska	Vice-President of the Management Board	
10.03.2010	Witold Zieliński	Vice-President of the Management Board	
10.03.2010	Iwona Dudzińska	Member of the Management Board	