citi handlowy

ANNUAL REPORT 2008

THE BANK FOR ALL TIMES

Ladies and Gentlemen,

I have the honor to place in your hands the Annual Report of the Capital Group of Bank Handlowy w Warszawie S.A. for the year 2008. It was indisputably a year full of challenges, which, despite all the difficulties, we can describe as successful thanks to our consistent and well-executed strategy. We strengthened our position in both corporate and retail banking segments by offering innovative solutions and taking a responsible approach to business.

Last year was a time of turmoil in global financial markets, which led to an economic slowdown both in the U.S. and Europe. In Poland, too, we observed a decline in GDP growth. The changes were accompanied by unprecedented volatility in the exchange rate of the Polish zloty. The year 2008 was also extremely difficult for the Warsaw Stock Exchange. The Polish banking sector remained stable, posting record earnings – for the first three quarters of the year. In the fourth quarter the sector showed a significant decline in profits as a result of a noticeable slowdown in the economy.

In 2008 the Group's operating profit amounted to PLN 2,402.2 million. Revenues were accompanied by continued cost discipline (a 1.7% decline in expenses). The net income of the Capital Group of Bank Handlowy w Warszawie S.A. for 2008 amounted to PLN 600.4 million.

Thanks to its groundbreaking solutions, Citi Handlowy strengthened its leading position in many market segments, setting new directions for the development of innovative products. In the corporate banking segment we implemented an integrated service platform and a standardized product offer for small and medium-sized companies. We also further developed our innovative transaction banking products, such as micropayments, i.e. a special cash management offer for courts and public prosecutors. Thanks to closer cooperation with the public sector, the Bank reported a 252% increase in term deposits of budgetary units.

The number of credit cards in Citi Handlowy's portfolio exceeded 1 million as at the end of the year. In 2008 the Bank sold more than 296 thousand new cards and it was the best result in the Bank's history in terms of the number of newly acquired credit cards, up by 25% as compared to the result seen in 2007.

We also dynamically developed our pre-paid cards offer. Last year we issued more than 200 thousand pre-paid cards, which positioned our Bank as the unquestionable leader in this segment, with a 70% market share. Last year total pre-paid card turnover grew by more than 42% as compared to 2007. Our OnLine Trading platform, which allows customers to execute FX transactions online, also showed a significant increase.

The volume of transactions performed through the platform more than doubled, and the number of its users grew by 37% as compared to 2007.

In the consumer banking sector we continued to expand our offer by adding innovative solutions that make our customers' lives easier. In 2008 the Bank launched, among others, a Mobile Branch and ATM Locator, allowing customers to quickly and easily locate the nearest branches and ATMs offering fee-free cash withdrawals from a personal account. The Bank also introduced a Cash Back service, allowing customers to conveniently withdraw cash when paying with their Maestro cards at points of sale, as well as an innovative 'Send Cash' service, enabling customers to send cash by postal order to any recipient in Poland (postal money transfers can also be ordered via the Internet). Citi Handlowy was also the first bank in Poland to allow its customers to use their mobile phones to pay for goods and services directly from their bank accounts (the 'Pay With Your Mobile' service).

In 2008 Handlowy-Leasing Sp. z o.o. implemented a strategy aimed at diversifying its portfolio and increasing market share. As at the end of 2008 the net value of assets leased amounted to PLN 682 million. As regards the structure of leased assets, means of transport still represented the largest share – 64.8%. The share of machinery and equipment in total net assets leased in 2008 was 35.2%, amounting to PLN 239.8 million as at the end of 2008, up by 6.2% as compared to 2007.
On the other hand, the market share of Dom Maklerski Banku Handlowego S.A. measured with the value of equity turnover on the Warsaw Stock Exchange increased from 9.5% in 2007 to 12.2% in 2008. Thanks to this, Dom Maklerski Banku Handlowego climbed up to the second position in the market, while maintaining its leadership position in servicing institutional clients. As at the end of 2008 DMBH was a market maker for 38 companies, which accounts for 10.2% of total shares listed on the Warsaw Stock Exchange.

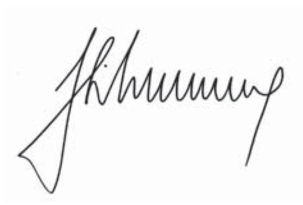
For many years the efforts of the Capital Group of Bank Handlowy w Warszawie S.A. have been recognized with prestigious awards, and the year 2008 was not an exception. Thanks to the votes of satisfied customers the Bank received the title of High Reputation Brand in the Premium Brand ranking and the Polish Chamber of Commerce together with the Polish-American Consulting Foundation for Small Enterprises honored Citi Handlowy with the Entrepreneur-Friendly Bank Emblem. Our Bank also won awards in last year's national Europrodukt contest for its innovative solutions, such as co-branded credit cards, 'Save Your Change' savings plan and mobile banking services. In 2008 the Bank was also recognized with the 'SEPA Leader in Poland' award by the Polish Bank Association for its pioneering implementation of the transfer order system for payments in euros in the Polish market. The Kronenberg Foundation of Citi Handlowy was honored with the award made by the Association for Financial Security of the Citizens of the Polish Republic (Stowarzyszenie na Rzecz Bezpieczeństwa Finansowego Obywateli RP, STOB) for outstanding commitment and efforts aimed at promoting financial education.

For me, of great significance is the fact that in our everyday work we do not forget about the ones who need our support. We run the largest in Poland employee volunteer program, sharing our knowledge, skills and experience with local communities in which we live and work. Through the Kronenberg Foundation of Citi Handlowy we implement financial education programs which attract hundreds of thousand young people each year. Such initiatives as 'My Finances', 'Week For Saving' and the ZrozumFinanse.pl internet portal are the most important educational projects in the field of economics and finance.

I am especially proud of our employees' active participation in the 2008 Citi Global Community Day – an initiative being a culmination of the employee volunteer program in Citigroup. Last year on that day our employees together with their family and friends helped 15,000 people in need, by implementing dozens of projects addressed to local communities.

In 2009 the goal of the Capital Group of Bank Handlowy w Warszawie S.A. is to obtain optimal financial results during the economic downturn and increase value for shareholders. The Group will continue its efforts aimed at acquiring new customers. We will take a number of initiatives aimed at increasing satisfaction of our customers, through, among others, simplification of our operational processes or a joint branch network, as well as through the launch of new innovative financial products and services. At the same time we will continue to focus on cost discipline, which is of great importance for the Bank's future results. The goal of Dom Maklerski Banku Handlowego will be to increase its share in the institutional customers market. On the other hand, Handlowy-Leasing will focus on maintaining its current position in the lease of machinery and small vehicles.

While presenting this report to you, I would like to thank all our customers and shareholders for the trust they placed in us. I would also like to thank all employees for their commitment and contribution to strengthening the market position of our Group. On behalf of the Management Board, I wish to thank the Supervisory Board, whose members have substantially contributed to our organization's growth and prosperity.



Sławomir S. Sikora,
President of the Management Board

AWARDS WON IN 2008

The 'Entrepreneur-Friendly Bank' Promotional Emblem in the 9th competition organized by the Polish Chamber of Commerce and the Polish-American Advisory Foundation.

The title of High Reputation Brand in the Premium Brand ranking.

'Europrodukt' title for Escrow Account (12th Europrodukt competition) and for Direct Debit 'Comfort', mobile banking services and the Citibank Credit Card Installment Payment Plan for e-card online purchases (13th Europrodukt competition).

The Galeon 2008 award by the National Depository for Securities for creative co-operation with financial market institutions.

The 'Sponsor of the Year 2008' title awarded by the National Philharmonic in Warsaw.

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Bank Handlowy w Warszawie S.A. Group

Opinion and Report of the Independent Auditor

Financial Year ended 31 December 2008

This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation.

OPINION OF THE INDEPENDENT AUDITOR

To the General Meeting of Bank Handlowy w Warszawie S.A.

We have audited the accompanying consolidated financial statements of Bank Handlowy w Warszawie S.A. Group seated in Warsaw, 16 Senatorska Street ('Group'), which comprise the consolidated balance sheet as at 31 December 2008, with total assets and total liabilities and equity of PLN 42 550 345 thousand, the consolidated profit and loss account for the year then ended with a net profit of PLN 600 434 thousand, the consolidated statement of changes in equity for the year then ended with an increase in equity of PLN 22 725 thousand, the consolidated cash flow statement for the year then ended with a decrease in cash amounting to PLN 138 793 thousand and notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management of the parent entity is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by European Union and with other applicable regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility, based on our audit, is to express an opinion on these consolidated financial statements. We conducted our audit in accordance with section 7 of the Accounting Act dated 29 September 1994 (Official Journal from 2002, No. 76, item 694 with amendments) ('the Accounting Act'), the professional standards established by the Polish National Council of Certified Auditors and International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the accompanying consolidated financial statements of Bank Handlowy w Warszawie S.A. Group have been prepared and present fairly in all material respects the financial position of the Group as at 31 December 2008 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, and are in compliance with the respective regulations that apply to the consolidated financial statements, applicable to the Group.

Other Matters

As required under the Accounting Act we also report that the Report of the Management Board on the Group's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2009, No. 33, item 259) and the information is consistent with the consolidated financial statements.

Signed on the Polish original

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Certified Auditor No. 90121/8144
Paweł Ryba
Director

Signed on the Polish original

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For KPMG Audyt Sp. z o.o.
ul. Chłodna 51; 00-867 Warsaw
Certified Auditor No. 9941/7390
Bożena Graczyk,
Member of the Management Board

Signed on the Polish original

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For KPMG Audyt Sp. z o.o.
ul. Chłodna 51; 00-867 Warsaw
Richard Cysarz,
Member of the Management Board

Warsaw, 12 March 2009

Bank Handlowy w Warszawie S.A. Group

Report Supplementing the Auditor's Opinion on the Consolidated Financial Statements

Financial Year ended 31 December 2008

This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation.

Contents

1 General

1.1 Identification of the Group

1.1.1 Name of the Group

Bank Handlowy w Warszawie S.A. Group

1.1.2 Registered office of the Parent Company of the Group

16 Senatorska Street
00-923 Warszawa
Poland

1.1.3 Registration of the Parent Company in the National Court Register

Registration court	District Court in Warszawa, XII Commercial Department of the National Court Register
Date:	22 February 2001
Registration number:	KRS 0000001538

1.1.4 Registration of the Parent Company in the Tax Office and Statistical Office

NIP number:	526-030-02-91
REGON:	000013037

1.2 Information about companies comprising the Group

1.2.1 Companies included in the consolidated financial statements

As at 31 December 2008, the following companies were consolidated by the Group:
Parent Company:
- Bank Handlowy w Warszawie S.A.

Subsidiaries consolidated on the full consolidation basis:
- Dom Maklerski Banku Handlowego S.A.,
- Handlowy-Leasing Sp. z o.o.,
- Handlowy Investments S.A.,
- PPH Spomasz Sp. z o.o. in liquidation.

1.2.2 Entities excluded from consolidation

As at 31 December 2008, the following subsidiaries of the Group were not consolidated:
- Bank Rozwoju Cukrownictwa S.A.,
- Handlowy Investments II S.a.r.l.,
- Handlowy Inwestycje Sp. z o.o.

The entities are immaterial in relation to the consolidated financial statement taken as a whole and represent 0.2% of the Group's total assets and 0.1% of the Group's net profit without elimination of intercompany transactions.

1.3 Auditor information

Name:	KPMG Audyt Sp. z o.o.
Registered office:	Warsaw,
Address:	ul. Chłodna 51, 00-867 Warsaw
Registration number:	KRS 0000104753
Registration court:	District Court for the Capital City Warsaw in Warsaw, XII Commercial Department of the National Court Register;
Share capital:	PLN 125,000
NIP number:	526-10-24-841

KPMG Audyt Sp. z o.o. is entered in the register of entities authorised to audit financial statements under number 458.

1.4 Legal status

1.4.1 Share capital

The Parent Bank was established under the Notarial Deed dated 13 April 1870.

The share capital of the Parent Company amounted to PLN 522,638,400 as at 31 December 2007 divided into 130,659,600 ordinary shares with a nominal value of PLN 4 each.

As at 31 December 2008, the shareholder structure was as follows:

Name of the Shareholder	Number of shares	Voting rights (%)	Nominal value of shares PLN '000	Percentage of share capital (%)
Citibank Overseas Investment Corporation, USA	97,994,700	75.0	391,979	75.0
Other < 5%	32,664,900	25.0	130,659	25.0
Total	130,659,600	100.0	522,638	100.0

During the year 2008 there were no significant changes in the Parent Company shareholder structure.

In 2009 Pioneer Pekao Investment Management S.A. ('PPIM') informed about an increase of the total exposure of PPIM's clients up to 5.01% of the total voting rights on Parent Company's General Meeting as of 12 February 2009.

1.4.2 Management of the Parent Company

The Management Board is responsible for management of the Parent Company.

At 31 December 2008, the Management Board of the Parent Company was comprised of the following members:

- Sławomir Sikora: President of the Management Board,
- Michał Mrożek: Vice-President of the Management Board,
- Peter Rossiter: Vice-President of the Management Board,
- Sonia Wędrychowicz-Horbatowska: Vice-President of the Management Board,
- Witold Zieliński: Vice-President of the Management Board.

Ms. Lidia Jabłonowska-Luba was Member of the Management Board till 31 March 2008. On 23 October 2008 Mr. Peter Rossiter was appointed a Vice-President of the Management Board. Till 1 October 2008 a Vice-President of the Management Board was Mr. Edward Wess.

There were no changes in the composition of the Bank's Management Board during 2009, up to the date of the audit opinion and report on the Bank's financial statements for the year ended 31 December 2008.

1.4.3 Scope of activities

The business activities listed in the Parent Company's Statute include the following:
- accepting call and term deposits as well as maintaining deposit accounts,
- maintaining other bank accounts,
- performing domestic and international cash settlements,
- granting credits and cash loans,
- accepting cheques, bills of exchange and warrants,
- granting and confirming sureties,
- issuing and confirming bank guarantees and letters of credit,
- purchasing and selling foreign currencies,
- acting as an intermediary in money transfers and foreign exchange settlements,
- issuing bank's securities,
- rendering services relating to securities issue,
- safe-keeping of valuables and securities and providing bank safes,
- issuing credit cards and performing the related operations,
- acquiring and selling receivables,
- performing term financial operations and other.

The business activities of subsidiaries of the Group include the following:
- Dom Maklerski Banku Handlowego S.A. – brokerage activities,
- Handlowy-Leasing Sp. z o.o. – leasing activities,
- Handlowy Investments S.A. – investment activities,
- PPH Spomasz Sp. z o.o. in liquidation – no activities.

1.5 Prior period consolidated financial statements

The consolidated financial statements for the financial year ended 31 December 2007 were audited by KPMG Audyt Sp. z o.o. and received an unqualified opinion.

The consolidated financial statements were approved at the General Meeting on 19 June 2008.

The closing balances as at 31 December 2007 have been properly recorded as the opening balances of the audited year.

The consolidated financial statements were submitted to the Registry Court on 24 June 2008 and were published in Monitor Polski B No. 2063 on 17 December 2008.

1.6 Audit scope and responsibilities

This report was prepared for the General Meeting of Bank Handlowy w Warszawie S.A. seated in Warsaw, 16 Senatorska Street and relates to the consolidated financial statements comprising: the consolidated balance sheet as at 31 December 2008, with total assets and total liabilities and equity of PLN 42,550,345 thousand, the consolidated profit and loss account for the year then ended with a net profit of PLN 600,434 thousand, the consolidated statement of changes in equity for the year then ended with an increase in equity of PLN 22,725 thousand, the consolidated cash flow statement for the year then ended with a decrease in cash amounting to PLN 138,793 thousand, and the notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory notes.

The audited Company prepares its financial statements in accordance with International Financial Reporting Standards as adopted by the European Union on the basis of the decision of Extraordinary General Meeting dated 7 December 2004.

The consolidated financial statements have been audited in accordance with the contract dated 10 October 2008, concluded on the basis of the resolution of Supervisory Board dated 20 March 2008 on the appointment of the auditor.

We conducted the audit in accordance with section 7 of the Accounting Act, the professional standards established by the Polish National Council of Certified Auditors and International Standards on Auditing.

We audited the consolidated financial statements in the Parent Company's head office and branches during the period from 3 November 2008 to 12 March 2009.

Management of the Parent Company is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations.

Management of the Parent Company and members of the Supervisory Board are obliged to ensure that the consolidated financial statements and the Report on the Group's activities are in compliance with the requirements set forth in the Accounting Act.

Our responsibility is to express an opinion, and to prepare a supplementing report, on the financial statements.

The Management Board of the Parent Company submitted a statement, dated the same date as this report, as to the true and fair presentation of the consolidated financial statements presented for audit, which confirmed that there were no undisclosed matters which could significantly influence the information presented in the consolidated financial statements.

All our requests for additional documents and information necessary for expressing our opinion and preparing the report have been fulfilled.

KPMG Audyt Sp. z o.o., the members of its Management Board and Supervisory Board and other persons involved in the audit of the consolidated financial statements fulfil independence requirements from the companies included in the Group. The scope of the work planned and performed has not been limited in any way. The method and scope of our audit is detailed in working papers prepared by us and retained in the offices of KPMG Audyt Sp. z o.o.

1.7 Information on audits of the financial statements of the consolidated companies

1.7.1 Parent Company

The financial statements of the Parent Company for the year ended 31 December 2008 were audited by KPMG Audyt Sp. z o.o., certified auditor number 458, and received an unqualified opinion.

1.7.2 Other consolidated entities

Entity's name	Authorised auditor	Financial year end	Type of auditor's opinion
Dom Maklerski Banku Handlowego S.A.	KPMG Audyt Sp. z o.o.	31.12.2008	audit in progress
Handlowy-Leasing Sp. z o.o.	KPMG Audyt Sp. z o.o.	31.12.2008	audit in progress
Handlowy Investments S.A.	KPMG Audit S.a.r.l.	29.02.2009	audit not started yet
PPH Spomasz Sp. z o.o. in liquidation	Was not a subject to audit for the year ended 31 December 2008		

The financial statements of Handlowy Investments S.A. are audited by certified auditors other than KPMG Audyt Sp. z o.o. The total assets presented in the financial statements of this entity as at 31 December 2008 amount to 0.10 % of the total consolidated assets of the Group before consolidation eliminations and the revenues of this entity for the financial year ended 31 December 2008 amount to 0.04 % of the consolidated revenues of the Group, before eliminations of intercompany transactions.

2 Financial analysis of the Group

2.1 Summary of the consolidated financial statements

2.1.1 Consolidated balance sheet

ASSETS	31.12.2008 PLN '000	% of total	31.12.2007 PLN '000	% of total
Cash and balances with central bank	3,530,977	8.30%	3,321,503	8.54%
Financial assets held-for-trading	7,885,488	18.53%	5,135,708	13.20%
Debt securities available-for-sale	10,814,828	25.42%	6,467,638	16.62%
Equity investments accounted for under the equity method	56,469	0.13%	58,388	0.15%
Other equity investments	11,095	0.03%	21,909	0.06%
Loans and advances	17,581,499	41.32%	21,205,373	54.50%
to financial sector	*3,695,522*	*8.69%*	*8,718,832*	*22.41%*
to non-financial sector	*13,885,977*	*32.63%*	*12,486,541*	*32.09%*
Property and equipment	571,947	1.34%	612,797	1.58%
land, buildings and equipment	*553,639*	*1.30%*	*587,769*	*1.51%*
investment property	*18,308*	*0.04%*	*25,028*	*0.07%*
Intangible assets	1,283,326	3.02%	1,284,078	3.30%
Income tax assets	336,290	0.79%	374,468	0.96%
Other assets	443,159	1.04%	413,477	1.06%
Non-current assets held-for-sale	35,267	0.08%	12,645	0.03%
TOTAL ASSETS	**42,550,345**	**100.00%**	**38,907,984**	**100.00%**

LIABILITIES AND EQUITY	31.12.2008 PLN '000	% of total	31.12.2007 PLN '000	% of total
Liabilities				
Financial liabilities held for trading	6,806,790	16.00%	4,373,146	11.24%
Financial liabilities valued at amortized cost	29,345,498	68.97%	28,000,003	71.96%
deposits from	*27,857,332*	*65.47%*	*26,896,411*	*69.13%*
financial sector	*7,922,260*	*18.62%*	*7,085,042*	*18.21%*
non-financial sector	*19,935,072*	*46.85%*	*19,811,369*	*50.92%*
other liabilities	*1,488,166*	*3.50%*	*1,103,592*	*2.84%*
Provisions	24,578	0.06%	37,548	0.10%
Income tax liabilities	77	-	101,889	0.26%
Other liabilities	747,593	1.76%	792,314	2.04%
Total liabilities	**36,924,536**	**86.78%**	**33,304,900**	**85.60%**
Equity				
Share capital	522,638	1.23%	522,638	1.34%
Share premium	3,029,703	7.12%	3,028,809	7.78%
Revaluation reserve	(144,110)	-0.34%	(182,450)	-0.47%
Other reserves	1,627,692	3.83%	1,454,355	3.74%
Retained earnings	589,886	1.39%	779,732	2.00%
Total equity	**5,625,809**	**13.22%**	**5,603,084**	**14.40%**
TOTAL LIABILITIES AND EQUITY	**42,550,345**	**100.00%**	**38,907,984**	**100.00%**

2.1.2 Consolidated profit and loss account

	01.01.2008- 31.12.2008 PLN '000	01.01.2007- 31.12.2007 PLN '000
Interest and similar income	2,318,624	1,976,851
Interest expense and similar charges	(952,874)	(772,431)
Net interest income	**1,365,750**	**1,204,420**
Fee and commission income	721,122	871,142
Fee and commission expense	(102,177)	(134,459)
Net fee and commission income	**618,945**	**736,683**
Dividend income	11,761	5,940
Net income on financial instruments and revaluation	259,342	422,520
Net gain on investment debt securities	57,184	30,086
Net profit on investment equity instruments	(168)	47,489
Other operating income	125,349	107,724
Other operating expenses	(35,924)	(42,659)
Net other operating income	**89,425**	**65,065**
General administrative expenses	(1,398,793)	(1,413,707)
Depreciation expense	(97,115)	(108,837)
Profit/(loss) on sale of tangible fixed assets	3,255	596
Net impairment charges	(153,080)	52,556
Operating income	**756,506**	**1,042,811**
Share in profits/(losses) of undertakings accounted for under the equity method	2,656	(8,586)
Profit before tax	**759,162**	**1,034,225**
Income tax expenses	(158,728)	(210,010)
Net profit	**600,434**	**824,215**
Weighted average number of ordinary shares	130,659,600	130,659,600
Net profit per ordinary share (in PLN)	4.60	6.31
Diluted net profit per ordinary share (in PLN)	4.60	6.31

2.2 Selected financial ratios

	31.12.2008 PLN '000	31.12.2007 PLN '000
Total assets	42,550,345	38,907,984
Gross profit	759,162	1,034,225
Net profit	600,434	824,215
Shareholders' equity *	5,025,375	4,778,869
Return on equity*	11.95%	17.25%
Receivables to total assets	41.32%	54.50%
Income generating assets to total assets	93.73%	93.07%
Interest bearing liabilities to total liabilities	84.96%	83.20%

** excluding current-year net profit*

2.3 Interpretation of selected financial ratios

Changes of the most significant items of balance sheet and income statement of the Group are presented below:

Total assets of the Group as of 31.12.2008 have increased by PLN 3 642 361 thousand (9.36%) compared to 31.12.2007 and accounted for PLN 42 550 345 thousand. On the assets side the increase was mainly connected with an increase in debt securities available for sale by PLN 4 347 190 thousand (67.2%) and financial assets held for trading by PLN 2 749 780 thousand (53.3%). Both increases were partially off-set by a decrease of loans and advances by PLN 3 623 874 thousand (17.09%).

On the equity and liabilities side the most significant influence on the increase of total position balance had the increase of financial liabilities held for trading by PLN 2 433 644 thousand (55.7%) and the increase in financial liabilities valued at amortized cost by PLN 1 345 495 thousand (4.8%). The increase in equity was mainly attributable to the growth of other reserves by PLN 173 337 thousand (11.9%).

Profit before tax for the year ended 31 December 2008 accounted for PLN 759 162 thousand and decreased by PLN 275 063 thousand (26.6%), comparing to the year ended 31 December 2007. The decrease in the gross profit resulted mainly from the net charges to impairment losses of PLN 153 080 thousand (PLN 52 566 thousand of net releases in 2008), the decrease in net income on financial instruments and revaluation by PLN 163 178 thousand (38.6%) and the decrease in net fee and commission income by PLN 117 738 thousand (16%). Those increases were partially off-set by the increase in net interest income by PLN 161 330 thousand (13.4%).

Net profit for the year ended 31 December 2008 amounted to PLN 600 434 thousand and decreased by PLN 223 781 thousand (27.2%), compared to the year ended 31 December 2007.

3 Detailed report

3.1 Accounting principles

The Parent Company maintains current documentation describing the accounting principles applied by the Group and adopted by the Management Board of the Parent Company.

The accounting principles are described in the notes to the consolidated financial statements to the extent required by International Financial Reporting Standards as adopted by the European Union.

Entities included in the Group apply common accounting principles consistent with the accounting principles applied by the Parent Company.

Except for Handlowy Investments S.A., the financial statements of the entities included in the consolidated financial statements were prepared as of the same balance sheet date as the financial statements of the Parent Company. With respect to Handlowy Investments S.A., the requirements of International Financial Reporting Standards as adopted by the European Union were followed.

3.2 Basis of preparation of the consolidated financial statements

The consolidated financial statements of the Bank Handlowy w Warszawie S.A. Group were prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations.

The consolidated financial statements were prepared on the basis of the consolidation documentation.

3.3 Method of consolidation

The method of consolidation is described in note 2 of the notes to the consolidated financial statements.

3.4 Goodwill arising on consolidation

The method of calculating goodwill arising on consolidation is described in note 2 of the notes to the consolidated financial statements.

3.5 Consolidation of equity

The share capital of the Group is equal to the share capital of the Parent Company.

Other equity items of the Group are determined by adding the equity balances of subsidiaries included in the consolidated financial statements in the proportion reflecting the Parent Company's share in the subsidiaries' equity as at the balance sheet date to the corresponding positions of the equity of the Parent Company.

Only equity of subsidiaries arising after the Parent Company obtained control of the subsidiary is included in the equity of the Group.

3.6 Consolidation eliminations

Intercompany balances within the Group were eliminated on consolidation.

Sales between entities and other intercompany operating revenues and expenses and financial revenues and expenses were eliminated on consolidation.

The consolidation eliminations were based on the accounting records of Bank Handlowy w Warszawie S.A. (or subsidiary entities) and agreed with information received from the subsidiaries.

3.7 Compliance with banking regulations

Base on our audit we have not identified any significant deviations in the Parent Company's compliance with the banking regulatory norm pertaining among other to loan concentration, obligatory reserve and capital adequacy ratio.

3.8 Audit materiality

We have planned and applied an appropriate level of precision in conducting our audit procedures in order to obtain reasonable assurance about whether the consolidated financial statements taken as a whole are free of material misstatements.

3.9 Notes to the consolidated financial statements

All information included in the notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory notes, is, in all material respects, presented accurately and completely. This information should be read in conjunction with the consolidated financial statements taken as a whole.

3.10 Report on the Group's activities

The Report of the Management Board of the Parent Company on the Group's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2009, No. 33, item 259) and the information is consistent with the consolidated financial statements.

3.11 Information on the opinion of the independent auditor

Based on our audit of the consolidated financial statements of the Group as at and for the year ended 31 December 2008, we have issued an unqualified.

Signed on the Polish original

....
Certified Auditor No. 90121/8144
Paweł Ryba
Director

Signed on the Polish original

....
For KPMG Audyt Sp. z o.o.
ul. Chłodna 51; 00-867 Warsaw
Certified Auditor No. 9941/7390
Bożena Graczyk,
Member of the Management Board

Signed on the Polish original

....
For KPMG Audyt Sp. z o.o.
ul. Chłodna 51; 00-867 Warsaw
Richard Cysarz,
Member of the Management Board

Warsaw, 12 March 2009

Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. as at 31 December 2008

Selected financial data

	In PLN '000		In EUR '000**	
	2008	2007	2008	2007
Interest income	2,318,624	1,976,851	656,443	523,420
Fee and commission income	721,122	871,142	204,162	230,656
Profit before tax	759,162	1,034,225	214,932	273,836
Net profit	600,434	824,215	163,241	218,231
Increase/decrease of net cash	(138,793)	2,425,161	(39,295)	642,121
Total assets	42,550,345	38,907,984	10,198,050	10,862,084
Financial liabilities valued at amortized cost	29,345,498	28,000,003	7,033,242	7,816,863
Shareholders' equity	5,625,809	5,603,084	1,348,339	1,564,233
Share capital	522,638	522,638	125,261	145,907
Number of shares	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN/EUR)	43.06	42.88	10.32	11.97
Earnings per ordinary share (PLN/EUR)	4.60	6.31	1.30	1.67
Diluted net profit per ordinary share (in PLN/EUR)	4.60	6.31	1.30	1.67
Dividend declared or paid per share (in PLN/EUR)*	-	4.75	-	1.33

** The presented ratios are related to dividend paid in 2008 from the appropriation of the 2007 profit. As at the date of this report the Bank's Management Board has not made a decision concerning the amount of dividend for 2008 profit.*

*** The following foreign exchange rates were applied to transfer PLN into EUR: for the balance sheet - NBP mid exchange rate as at 31 December 2008 – PLN 4.1724 (as at 31 December 2007: PLN 3.5820); for the income statement and cash flow statement - the arithmetic average of month - end NBP exchange rates in 2008 – PLN 3.5321 (in 2007: PLN 3.7768).*

Consolidated income statement

In thousands of PLN	For a period	2008	2007
	Note		
Interest and similar income	4	2,318,624	1,976,851
Interest expense and similar charges	4	(952,874)	(772,431)
Net interest income	**4**	**1,365,750**	**1,204,420**
Fee and commission income	5	721,122	871,142
Fee and commission expense	5	(102,177)	(134,459)
Net fee and commission income	**5**	**618,945**	**736,683**
Dividend income	6	11,761	5,940
Net income on financial instruments and revaluation	7	259,342	422,520
Net gain on investment debt securities	8	57,184	30,086
Net profit on investment equity instruments	9	(168)	47,489
Other operating income		125,349	107,724
Other operating expenses		(35,924)	(42,659)
Net other operating income	**10**	**89,425**	**65,065**
General administrative expenses	11	(1,398,793)	(1,413,707)
Depreciation expense	12	(97,115)	(108,837)
Profit/(loss) on sale of tangible fixed assets	13	3,255	596
Net impairment charges	14	(153,080)	52,556
Operating income		**756,506**	**1,042,811**
Share in profits/(losses) of undertakings accounted for under the equity method		2,656	(8,586)
Profit before tax		**759,162**	**1,034,225**
Income tax expenses	15	(158,728)	(210,010)
Net profit		**600,434**	**824,215**
Weighted average number of ordinary shares (in pcs)	16	130,659,600	130,659,600
Net profit per ordinary share (in PLN)	16	4.60	6.31
Diluted net profit per ordinary share (in PLN)	16	4.60	6.31
Including:			
Net profit for Bank's shareholders		**600,434**	**824,215**
Net profit for minority shareholders		-	-

Explanatory notes on pages: 19-71 are integral parts of financial consolidated statement

Consolidated balance sheet

State on day In thousands of PLN	Note	31.12.2008	31.12.2007
ASSETS			
Cash and balances with central bank	17	3,530,977	3,321,503
Financial assets held-for-trading	18	7,885,488	5,135,708
Debt securities available-for-sale	19	10,814,828	6,467,638
Equity investments accounted for under the equity method	20	56,469	58,388
Other equity investments	21	11,095	21,909
Loans and advances	22	17,581,499	21,205,373
to financial sector		*3,695,522*	*8,718,832*
to non-financial sector		*13,885,977*	*12,486,541*
Property and equipment	24	571,947	612,797
land, buildings and equipment		*553,639*	*587,769*
investment property		*18,308*	*25,028*
Intangible assets	25	1,283,326	1,284,078
Income tax assets	27	336,290	374,468
Other assets	28	443,159	413,477
Non-current assets held-for-sale	29	35,267	12,645
Total assets		**42,550,345**	**38,907,984**
LIABILITIES			
Financial liabilities held-for-trading	18	6,806,790	4,373,146
Financial liabilities valued at amortized cost	30	29,345,498	28,000,003
deposits from		*27,857,332*	*26,896,411*
financial sector		*7,922,260*	*7,085,042*
non-financial sector		*19,935,072*	*19,811,369*
other liabilities		*1,488,166*	*1,103,592*
Provisions	31	24,578	37,548
Income tax liabilities	27	77	101,889
Other liabilities	32	747,593	792,314
Total liabilities		**36,924,536**	**33,304,900**
EQUITY			
Share capital	33	522,638	522,638
Share premium	33	3,029,703	3,028,809
Revaluation reserve	33	(144,110)	(182,450)
Other reserves	33	1,627,692	1,454,355
Retained earnings		589,886	779,732
Total equity		**5,625,809**	**5,603,084**
Total liabilities and equity		**42,550,345**	**38,907,984**

Explanatory notes on pages: 19-71 are integral parts of financial consolidated statement

Consolidated statement of changes in equity

In thousands of PLN	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	Minority equities	Total equity
Balance as at 1 January 2007	**522,638**	**3,027,470**	**(81,501)**	**1,407,081**	**542, 115**	**-**	**5,417,803**
Valuation of financial assets available-for-sale	-	-	(91,520)	-	-	-	(91,520)
Transfer of valuation of sold financial assets available-for-sale to profit and loss account	-	-	(33,109)	-	-	-	(33,109)
Deferred income tax on valuation of financial assets available-for-sale	-	-	23,680	-	-	-	23,680
Foreign exchange gains and losses	-	-	-	(3,235)	954	-	(2,281)
Net profit	-	-	-	-	824,215	-	824,215
Dividends paid	-	-	-	-	(535,704)	-	(535,704)
Transfers to capital	-	1,339	-	50,509	(51,848)	-	-
Closing balance as at 31 December 2007	**522,638**	**3,028,809**	**(185,450)**	**1,454,355**	**779,732**	**-**	**5,603,084**

Consolidated statement of change s in equity

In thousands of PLN	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	Minority equities	Total equity
Balance as at 1 January 2008	**522,638**	**3,028,809**	**(182,450)**	**1,454,355**	**779,732**	**-**	**5,603,084**
Valuation of financial assets available-for-sale	-	-	104,599	-	-	-	104,599
Transfer of valuation of sold financial assets available-for-sale to profit and loss account	-	-	(57,184)	-	-	-	(57,184)
Deferred income tax on valuation of financial assets available-for-sale	-	-	(9,075)	-	-	-	(9,075)
Foreign exchange gains and losses	-	-	-	5,548	-	-	5,548
Net profit	-	-	-	-	600,434		600,434
Dividends paid/to be paid	-	(615)	-	-	(620,982)	-	(621,597)
Transfers to capital	-	1,509	-	167,789	(169,298)	-	-
Closing balance as at 31 December 2008	**522,638**	**3,029,703**	**(144,110)**	**1,627,692**	**589,886**	**-**	**5,625,809**

Explanatory notes on pages: 19-71 are integral parts of financial consolidated statement

Consolidated statement of cash flows

In thousands of PLN	2008	2007
A. Cash flows from operating activities		
I. Net profit (loss)	**600,434**	**824,215**
II. Adjustments to reconcile net profit or loss to net cash provided by operating activities:	**(167,543)**	**2,031,723**
Current and deferred tax income, recognized in income statement	158,728	210,010
Share in net profits/(losses) of undertakings accounted for under the equity method	(2,656)	8,586
Amortization	97,115	108,837
Impairment	158,134	(41,872)
Net provisions (recoveries)	(5,054)	(10,684)
Income on sale of investments	(6,180)	(1,175)
Received interest	1,353,533	1,792,631
Retained interest	(974,434)	(783,052)
Other adjustments	(1,328,591)	(1,095,731)
Cash flows from operating profits before changes in operating assets and liabilities	**(549,405)**	**187,550**
Increase/decrease in operating assets (excl. cash and cash equivalents)	**(2,860,263)**	**(439,826)**
Increase/decrease in credit, loans and receivables	4,209,918	(2,007,554)
Increase/decrease in debt securities available for sale	(4,286,486)	1,754,958
Increase/decrease in equity investments	8,071	16,877
Increase/decrease in assets held-for-trading	(2,747,754)	(593,150)
Increase/decrease in assets held-for-sale	(22,622)	(8,466)
Increase/decrease in other assets	(21,390)	397,509
Increase/decrease in operating liabilities (excl. cash and cash equivalents)	**3,242,125**	**2,283,999**
Increase/decrease in advances from central bank	-	(250,000)
Increase/decrease in financial liabilities valued at amortized cost	958,301	1,900,449
Increase/decrease in liabilities held-for-trading	2,433,644	1,056,299
Increase/decrease in other liabilities	(149,820)	(422,749)
Cash flows from operating activities	**432,891**	**2,855,938**
Income taxes (paid) refunded	**(135,540)**	**(217,688)**
III. Net cash flows from operating activities	**297,351**	**2,638,250**
B. Cash flows from investing activities		
Cash payments to acquire tangible assets	(75,531)	(75,874)
Cash receipts from the sale of tangible assets	18,942	4,943
Cash payments to acquire intangible assets	(18,422)	(19,426)
Cash receipts from the disposal of tangible assets available-for-sale	-	7,556
Other income from investing activities	4,164	-
Net cash flows from investing activities	**(70,847)**	**(82,801)**
C. Cash flows from financing activities		
Dividends paid	(621,598)	(535,704)
Inflows from long-term loans from financial sector	241,110	450,995
Repayment of long-term loans from financial sector	(38,104)	(36,466)
Net cash flows from financing activities	**(418,592)**	**(121,175)**
D. Effect of exchange rate changes on cash and cash equivalent	**53,295**	**(9,113)**
E. Increase/(decrease) in net cash	**(138,793)**	**2,425,161**
F. Cash at the beginning of reporting period	**3,746,323**	**1,321,162**
G. Cash at the end of reporting period (see note 40)	**3,607,530**	**3,746,323**

Explanatory notes on pages: 19-71 are integral parts of financial consolidated statement

Explanatory notes to the consolidated financial statements

1. General information about the Issuer

This annual consolidated financial statements shows the results of operations of the Capital Group of Bank Handlowy w Warszawie S.A. ('the Group'), composed of Bank Handlowy w Warszawie S.A. ('the Bank') as the parent and its subordinated entities.

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

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

The Bank and the Group were set up for unspecified period of time.

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

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

The Bank is a universal bank that offers a wide range of banking services for individuals and corporate customers in the domestic and foreign markets. Additionally the Group operates in the following segments of business through its subordinated entities:

- brokerage operations;
- lease services;
- investment operations.

The Group consists of the Bank and the following subordinated entities:

Subsidiaries	Registered office	% of votes at the General Meeting of Shareholders	
		31.12.2008	31.12.2007
Entities fully consolidated			
Dom Maklerski Banku Handlowego S.A.	Warsaw	100.00	100.00
Handlowy-Leasing Sp. z o.o.	Warsaw	100.00	100.00
Handlowy Investments S.A.	Luxembourg	100.00	100.00
PPH Spomasz Sp. z o.o. under liquidation	Warsaw	100.00	100.00
Entities accounted for under the equity method			
Handlowy Inwestycje Sp. z o.o.	Warsaw	100.00	100.00
Handlowy Investments II S.a.r.l.	Luxembourg	100.00	100.00
Bank Rozwoju Cukrownictwa S.A.	Poznań	100.00	100.00

Financial data of subsidiaries that are not fully consolidated are immaterial to the consolidated financial statements. As at 31 December 2008 and 31 December 2007 the financial data amounted 0.2% of the Group's assets and 0.1% of Group's net profit, excluding elimination of transactions inside the Group.

2. Significant accounting policies

Statement of compliance

Consolidated annual financial statements of Capital Group were prepared in accordance with International Financial Reporting Standards ('IFRS'), as adopted by European Union and with other applicable regulations.

In addition, the annual unconsolidated financial statements have been prepared in accordance with accounting policies described in this note except for the principles of recognition and measurement of equity investments in subordinated and associated entities, which are described in Note 2 of the annual unconsolidated financial statements of the Bank.

Basis of preparation

These consolidated annual financial statements have been prepared for the period from 1 January 2008 to 31 December 2008. The comparable financial data is presented for the period from 1 January 2007 to 31 December 2007. The financial statements are presented in PLN, rounded to the nearest thousand.

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

IFRS 8 concerning operating segments, which replaced IAS 14, was published on 30 November 2006. IFRS have been approved by European Union on 21 November 2007 and is effective for reporting periods beginning on 1 January 2009 or after that day. The Group has not used a possibility to implement IFRS 8.

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

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

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

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

Basis of consolidation

Subordinated entities comprise subsidiaries and associates.

Subsidiaries – definition

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

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

Intra-group transactions and balances are eliminated on consolidation. Material unrealized gains and losses on transactions between Group companies are also eliminated. Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency in all material aspects with the policies adopted by the Group.

Subordinated entities, which are not fully consolidated due to the immateriality of their financial statements in the consolidated financial statements of the Group, are presented in accordance with the equity method.

Associates – definition

Associates are those entities in which the Group indirectly or directly has significant influence but not control, usually accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method. Initially, investments in associates are recorded at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment write-off) determined at the acquisition date.

The Group's share in its associates' post-acquisition profits or losses is recognized in the income statement, and its share in post-acquisition movements in other reserves is recognized in other reserves. When the Group's share in losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Foreign currency translation

Balance sheet and off balance sheet denominated in non – PLN currencies are translated into PLN equivalents using the NBP mid exchange rate prevailing at the balance sheet date.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction.

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

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

In PLN	31 December 2008	31 December 2007
1 USD	2.9618	2.4350
1 CHF	2.8014	2.1614
1 EUR	4.1724	3.5820

Financial assets and financial liabilities

Classification

The Group classifies its financial instruments into the following categories:

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

In the reporting period, the Group did not classify any assets to investments held-to-maturity.

The Group classifies financial assets to particular categories on the date of their first recognition.

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

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

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

b) Loans and receivables

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

c) Available-for-sale financial assets

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

d) Other financial liabilities

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

Recognition and exclusions

Purchases or sales of financial assets measured at fair value through profit or loss (except for derivatives) and purchases or sales of financial assets classified as available-for-sale are recognized using transaction settlement date, i.e. the date on which the Group will receive or transfer the ownership right to the assets. The rights and liabilities from a transaction are measured at fair value from the transaction date to the transaction settlement date.

Loans and receivables are recognized at the time of payment of cash to the borrower.

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

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

Measurement

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

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

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

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

The fair value of shares in companies other than subsidiaries and associates quoted in an active market results from their current purchase price. If the market for specific financial assets is inactive (this also applies to not-quoted securities), such investments are stated at purchase method less impairment write-downs.

Finance lease receivables

The Group enters into lease agreements, on the basis of which the Group transfers to the lessee in return for a payment or series of payments the right to use an asset for an agreed period.

Leases where the Group transfers substantially all the risk and rewards incidental to ownership of the leased assets are not included in the balance sheet. A receivable representing an amount equal to the net investment in the lease is recognized.

The recognition of finance lease receivables is based on an effective interest method reflecting a constant periodic rate of return on the Group's net investment in the finance lease.

Equity investments – stocks and shares in other entities

Stocks and shares in entities other than subordinated entities are classified as available-for-sale financial assets.

Derivative instruments

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

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

Hedge accounting

The Group does not apply hedge accounting.

Offsetting financial instruments

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

Cash pooling

The Group offers its clients cash management services, which consolidate balances within the structure of related accounts ('cash pooling'). Such transactions net the positive and negative balances of participants' current accounts on a designated account of the entity, which manages the settlements. The consolidation of balances is executed at the end of the working day and at the beginning of the next working day the transaction is reversed. Cash pooling transactions are presented on a net basis, if only meet the requirements of IAS 39 regarding derecognizing of financial assets and liabilities from the balance sheet. Conditions of transaction's dues presented on a gross basis – accounts receivable are presented in Financial Statement as loans and accounts payable as deposits.

Sale and repurchase agreements

The Group enters into purchase and sale transactions under agreements to resell and repurchase the same financial assets, so called repurchase and reverse repurchase transactions on securities.
Securities sold under repurchase agreements continue to be shown as the Group's assets and the Group discloses liabilities resulting from the repurchase clause. In the case of securities purchased under agreements to resell, securities are presented in the balance sheet as loans and advances. Any differences between sale/purchase prices and repurchase/resale prices are recognized respectively as interest income and expense using the effective interest rate method.

Impairment of assets measured at amortized cost

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

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

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

The losses expected as a result of future events, no matter how likely, are not recognized.

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

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

Write-downs for impairment of individually significant assets

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

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

Write-downs for impairment of not individually significant assets

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

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

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

Impairment of financial assets available-for-sale

For financial assets classified as available-for-sale, for which there is objective evidence of impairment, accumulated losses recorded in equity as the difference between the purchase price less subsequent repayments and amortization and fair value (taking into account previous impairment write-downs) are transferred to the income statement. Losses on impairment of equity investments classified as available-for-sale are not subject to reversal through the profit and loss account. Losses on impairment of debt instruments classified as available-for-sale are reversed through the profit and loss account if the fair value of a debt instrument increases in subsequent periods and such increase may be reasonably connected with an event that occurred after recognizing the loss.

Impairment of financial assets valued at cost

The category of financial assets valued at cost in the financial statements of the Group consists of shares and shares in entities other than subordinated entities classified as available-for-sale for which the fair value cannot be reasonably measured (for example the assets are not quoted). In case of objective evidence of impairment of equity investments the amount of impairment is measured as the difference between the carrying amount of the financial asset and the current value of the estimated future cash flows discounted at the current market rate for similar financial assets. Losses related to impairment of shares and shares in entities other than subordinated entities classified as available-for-sale where the fair value cannot be reliably measured are not reversed through the profit and loss account.

Impairment of assets other than financial assets

The carrying amounts of the Group's assets, excluding deferred tax assets and goodwill and including in particular tangible and intangible assets, are reviewed at each balance sheet date to determine whether there is any evidence of impairment. If so, the asset's recoverable amount is estimated.

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

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

Calculation of recoverable amount

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

Reversal of impairment losses

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

Goodwill

In the consolidated financial statements goodwill represents the excess of the cost of the acquisition over the fair value of the Group's interest in identifiable assets, liabilities and contingent liabilities acquired. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortized, but is tested annually for impairment independently from detecting the evidence of impairment. The impairment loss in respect of goodwill is not reversed.

In respect of associates, goodwill is included in the carrying amount of the investment in the associate.

Profits or losses on the disposal of a subsidiary or an associate include the carrying value of goodwill allocated to the entity sold.

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

Property and equipment and intangible assets (excluding goodwill)

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

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

Depreciation and amortization are calculated using the straight-line method over the expected useful life of an asset on the basis of rates that are approved in the depreciation and amortization plan for 2008.

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

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

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

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

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

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

Investment properties

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

Employee benefits

Short-term employee benefits

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

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

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

Share-based payments

The Group's employees are entitled to participate in Citigroup equity compensation plans. In accordance with these plans the Group's employees may receive awards under stock option programs based on stock options granted on Citigroup common stock and also under stock award programs based on shares of Citigroup common stock in the form of deferred stock. These programs are deemed to be settled up in capital instruments according to IFRIC 11 and IFRS 2. According to requirements of a standard, the fair value of award is determined at the grant date and is recognized in profit and loss account over the vesting period. At the same time, according to agreement between Group and Citigroup, which regulates the principles of program settlements, a provision is created for the Group future payments, which is presented in 'Other liabilities' position of consolidated financial statements. The provision amount is determined on the basis of the fair value of the award as at the settlement date and is remeasured on every balance sheet date.

Long-term employee benefits

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

Defined contribution plans

The Group enables its employees to join a pension plan, which is described in detail in Note 42. The Group pays contributions for employees who participate in the plan into a separate fund and has no subsequent obligation to pay further contributions. Hence, this is a defined contribution plan in accordance with IAS 19 (Employee Benefits). Contributions are recognized as an expense in the period to which they relate.

Provisions

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

Restructuring provision

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

Equity

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

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

Calculating net income

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

Accruals and prepayments

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

Interest income and interest expenses

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

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

In the case of financial assets or groups of similar financial assets for which impairment losses were recognized, interest income is measured using the interest rate that was used to discount the future cash flows to estimate such impairment losses.

Fee and commission income and expenses

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

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

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

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

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

Other operating income and expenses

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

Income tax

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

A deferred tax provision is calculated using the carrying value method by computing temporary differences between the carrying value of assets and liabilities, in the balance sheet, and the tax base of assets and liabilities. In the balance sheet, the Group discloses deferred tax assets net of deferred tax provisions. A deferred tax asset is recognized only to the extent that it is probable that a tax benefit will be realized in the future.
Following the introduction of the EU Guarantee Fund Act of 16 April 2004 (Journal of Laws No. 121 item 1262) and the related new Art. 38a in the Corporate Income Tax Act, the Group has recognized a receivable from the Budget in respect of its right to reduce its tax liabilities according to the Act.

Segmental reporting

A segment is a separate area of an entity's operations that either distributes goods or renders services in a specific sector environment (business segment) or distributes goods or renders services in a specific economic environment (geographical segment). A segment is exposed to certain risks and derives benefits that are specific only to that segment. The business segment has been adopted as the reporting segment in the Group since both risks and rates of return result from differences between products. The Group is managed at the level of three main business segments – Corporate Bank and Consumer Bank. Detailed information about the segments is presented in Note 3.

Assets and liabilities, revenues and financial results of the Group's segments, are measured in accordance with the accounting policies adopted by the Group.

Non-current assets held-for-sale

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

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

Accounting estimates and judgments

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

Fair value of derivatives

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

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

– fx forwards – discounted cash flows model;
– options – Garman-Kohlhagen model;
– interest rate transactions – discounted cash flows model;
– futures – current quotations.

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

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

Impairment of loans

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

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

Impairment of available-for-sale assets

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

Impairment of financial assets valued at cost

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

Impairment of goodwill

The Group carried out impairment tests of goodwill as at 31 December 2007 and 31 December 2008. The estimate of goodwill has been performed on the basis of the provisions of IAS 36 concerning determination of the value in use of cash generating units. The tests did not show any impairment.

Employee benefits

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

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

3. Segmental reporting

The Group's operating activities have been divided into two business segments:

• Corporate Bank

Within the Corporate Bank segment the Group offers products and renders services to business entities, self-government units and the public sector. Apart from traditional banking services covering lending and deposit activities, the segment provides services in the areas of cash management, trade financing, leases, brokerage and custody services in respect of securities and offers treasury products on financial and commodity markets. In addition, the segment offers a wide range of investment banking services on the local and international capital markets, including advisory services and obtaining and underwriting financing via public and non-public issue of financial instruments. The activities also comprise proprietary transactions in the capital, debt and derivative instruments market. The products and services are available through distribution channels tailored to client needs, both through the branch network, direct contact with customers and modern and effective remote channels such as telephone and electronic banking.

• Consumer Bank

Within the Consumer Bank segment the Group provides products and financial services to individuals and also to micro enterprises and individual entrepreneurs though the CitiBusiness offer. Apart from maintaining bank accounts and providing an extensive lending and deposit offer, it also offers cash loans, mortgage loans, credit cards to customers, provides asset management services, and acts as agent in the sale of investment and insurance products. Customers of the Consumer Bank have the branch network, ATMs, telephone services, and electronic banking services at their disposal and a network of financial agents offering products of this segment.

The valuation of segment assets and liabilities, income and segment results is based on the Group's accounting policies as described in note 2 (Significant accounting policies).

The Group conducts its operations solely in the territory of Poland and no significant differences in risk were identified as regards the geographical location of its outlets. Therefore results of the Group have not been presented by geographical area.

Income statement by business segment

For the period In thousands of PLN	2008			2007		
	Corporate Bank	Consumer Bank	Total	Corporate Bank	Consumer Bank	Total
Net interest income	564,933	800,817	1,365,750	533,757	670,663	1,204,420
Net fee and commission income	259,477	359,468	618,945	309,994	426,689	736,683
Dividend income	3,571	8,190	11,761	5,923	17	5,940
Net income on financial instruments and revaluation	220,401	38,941	259,342	389,500	33,020	422,520
Net gain on investment (deposit) securities	57,184	-	57,184	30,086	-	30,086
Net gain on investment (capital) instruments	(168)	-	(168)	43,700	3,789	47,489
Other operating income	80,601	8,824	89,425	72,787	(7,722)	65,065
General administrative expenses	(596,924)	(801,869)	(1,398,793)	(657,773)	(755,934)	(1,413,707)
Depreciation expense	(64,873)	(32,242)	(97,115)	(76,710)	(32,127)	(108,837)
Profit/(loss) on sale of tangible fixed assets	2,742	513	3,255	597	(1)	596
Net impairment losses	(63,616)	(89,464)	(153,080)	100,390	(47,834)	52,556
Operating income	**463,328**	**293,178**	**756,506**	**752,251**	**290,560**	**1,042,811**
Share in profits/(losses) of undertakings accounted for under the equity method	2,656	-	2,656	(8,586)	-	(8,586)
Profit before tax	**465,984**	**293,178**	**759,162**	**743,665**	**290,560**	**1,034,225**
Income tax expenses			(158,728)			(210,010)
Net profit			**600,434**			**824,215**

State on day In thousands of PLN	31.12.2008			31.12.2007		
	Corporate Bank	Consumer Bank	Total	Corporate Bank	Consumer Bank	Total
Assets including:	36,664,647	5,885,698	**42,550,345**	34,030,227	4,877,757	**38,907,984**
Non-current assets held-for-sale	*35,267*	-	*35,267*	*12,645*	-	*12,645*
Liabilities	34,703,600	7,846,745	**42,550,345**	31,464,198	7,443,786	**38,907,984**

4. Interest income

In thousands of PLN	2008	2007
Interest and similar income from:		
Central Bank	65,158	40,251
Placements in banks	322,685	338,853
Loans and advances, of which:	1,458,455	1,135,502
financial sector	*22,318*	*17,730*
non-financial sector	*1,436,137*	*1,117,772*
Debt securities available-for-sale	364,035	386,655
Debt securities held-for-trading	108,291	75,590
	2,318,624	**1,976,851**
Interest expense and similar charges for:		
Central Bank	-	(100)
Deposits from banks	(74,745)	(127,283)
Deposits from financial sector (excl. banks)	(139,726)	(96,278)
Deposits from non-financial sector	(696,649)	(528,085)
Loans and advances received	(41,754)	(20,685)
	(952,874)	**(772,431)**
	1,365,750	**1,204,420**

Net interest income for 2008 includes interest received on impaired loans, of PLN 17,152 thousand (for 2007: PLN 18,362 thousand)

5. Net fee and commission income

In thousands of PLN	2008	2007
Fee and commission income:		
Insurance and investment products	216,640	294,836
Payment and credit cards	166,934	189,482
Payment services	130,510	133,255
Custody services	78,266	97,621
Brokerage operations	56,432	76,368
Cash management	35,106	34,785
Off-balance sheet guarantee liabilities	14,440	18,300
Off-balance sheet financial liabilities	6,733	7,855
Other	16,061	18,640
	721,122	**871,142**
Fee and commission expense:		
Payment and credit cards	(53,106)	(76,565)
Brokerage operations	(29,195)	(33,867)
Fees paid to the National Depository for Securities (KDPW)	(8,252)	(10,271)
Brokers fees	(5,279)	(10,080)
Other	(6,345)	(3,676)
	(102,177)	**(134,459)**
	618,945	**736,683**

The net commission result for 2008 comprises commission incomes (other than incomes covered by the calculation of the effective interest rate process), which are related to financial assets and liabilities not valued at their fair value through profit and loss account in amount of PLN 177,548 thousand (for 2007: PLN 200,230 thousand) and commission expenses in amount of PLN 53,106 thousand (for 2007: PLN 76,565 thousand).

6. Dividend income

In thousands of PLN	2008	2007
Securities available-for-sale	11,328	5,674
Securities held-for-trading	433	266
	11,761	**5,940**

7. Net gain on financial instruments and revaluation

In thousands of PLN	2008	2007
Net income on financial instruments valued at fair value through profit and loss accoun		
Debt instruments	42,347	42,506
Capital instruments	11,231	125
Investment certificates	-	(1)
Derivative instruments including:	(59,682)	46,408
Interest rate	*(62,182)*	*41,504*
Equity	*2,451*	*4,707*
Commodity	*49*	*197*
	(6,104)	**89,038**
Net income on FX operations		
Operations on FX derivative instruments	93,675	404,599
FX gains and losses (revaluation)	171,771	(71,117)
	265,446	**333,482**
	259,342	**422,520**

Included in net income on financial instruments and revaluation are losses resulting from increased counterparty credit risk on outstanding derivative transactions in the amount of PLN 233,497 thousand and matured derivative transactions in the amount of PLN 27,542 thousand (2007: PLN 10,806 thousand).
The losses were determined through the assessment of the clients' financial standing and their needs to use derivative instruments. The amounts at which the derivative transactions will be settled remain uncertain and the actual losses depend on the changes in the future foreign exchange rates and counterparties' financial standing.

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

Income from derivative instruments comprises net income on interest rate swaps, options, futures and other derivatives.

Net result on FX operations contains gains and losses from revaluation of assets and liabilities denominated in foreign currency and from FX derivative instruments like forward, swap and options. Net result on FX operations also contains margin executed on current and fixed currency transactions.

8. Net gain on investment debt securities

In thousands of PLN	2008	2007
Profits realized on available-for-sale securities:	57,312	34,398
Losses realized on available-for-sale securities:	(128)	(4,312)
	57,184	**30,086**

9. Net gain on investment equity securities

In thousands of PLN	2008	2007
Net gain on investment equity securities available-for-sale	**(168)**	**47,489**

10. Net other operating income

In thousands of PLN	2008	2007
Other operating income:		
Data processing for related parties	63,700	61,616
Income concerning dissolving of reserve for punishment imposed by UOKiK	10,228	-
Income from amount due vindication	7,477	-
Other income related to shares granted by VISA Inc.	3,803	-
Income from office rent	3,101	9,778
Investment property	2,922	156
Settlement of perpetual usufruct right to land	-	758
Other	34,118	35,416
	125,349	**107,724**
Other operating expenses:		
Vindication expenses	(10,287)	(5,214)
Investment property	(1,924)	(3,317)
Provisions for UOKiK dispute	-	(10,228)
Other	(23,713)	(23,900)
	(35,924)	**(42,659)**
	89,425	**65,065**

11. General administrative expenses

In thousands of PLN	2008	2007
Staff expenses:		
Remuneration costs, including:	(590,121)	(557,475)
Provisions for retirement benefits	*(16,101)*	*(14,993)*
Perks and rewards including:	(106,840)	(146,934)
Payments related to own equity instruments	*4,783*	*9,786*
Rewards for long time employment	*18,795*	*(9,353)*
	(696,961)	**(704,409)**
Administrative expenses		
Telecommunication fees and hardware purchases costs	(159,943)	(180,858)
Advisory, audit, consulting and other services costs	(154,880)	(149,640)
Building maintenance and rent costs	(116,084)	(107,646)
Marketing	(62,814)	(73,384)
Transaction costs	(62,278)	(64,952)
Postal services costs	(31,389)	(28,608)
Training and education costs	(15,096)	(14,196)
Bank supervision costs	(7,763)	-
Other expenses	(91,585)	(90,014)
	(701,832)	**(709,298)**
	(1,398,793)	**(1,413,707)**

Staff expenses in 2008 include PLN 14,219 thousand of remuneration and bonuses paid and payable to current and former members of the Management Board (in 2007: PLN 13,512 thousands).

12. Depreciation expense

In thousands of PLN	2008	2007
Depreciation of tangible assets	(78,576)	(87,797)
Depreciation of intangible assets	(18,539)	(21,040)
	(97,115)	**(108,837)**

13. Profit/(loss) on sale of tangible fixed assets

In thousands of PLN	2008	2007
Profits on:		
Other tangible fixed assets	3,573	1,870
Investments in dependent entities	-	177
	3,573	**2,047**
Losses on:		
Other tangible fixed assets	(318)	(314)
Assets held-for-sale*	-	(1,137)
	(318)	**(1,451)**
	3,255	**596**

** Refers to fixed assets classified as at 31 December 2006 as held-for-sale and sold in presented periods (see Note 29)*

14. Net impairment losses

Net impairment write-downs of financial assets

In thousands of PLN	2008	2007
Impairment write-downs:		
Loans and receivables valued at amortized cost	(429,425)	(357,977)
Other	(20,499)	(18,363)
	(449,924)	**(376,340)**
Reversals of impairment write-downs:		
Loans and receivables valued at amortized cost	290,640	418,212
Other	1,150	-
	291,790	**418,212**
	(158,134)	**41,872**

Net (charges to)/releases of provisions for off-balance liabilities

In thousands of PLN	2008	2007
Charges to provisions for off-balance sheet commitments	(36,574)	(59,806)
Releases of provisions for off-balance sheet commitments	41,628	70,490
	5,054	**10,684**
Net impairment losses	**(153,080)**	**52,556**

Included in net impairment losses for 2008 are losses on receivables resulting from matured derivative transactions in the amount of PLN 2,197 thousand.

15. Income tax expense

Recognized in the income statement

In thousands of PLN	2008	2007
Current tax:		
Current year	(120,870)	(319,489)
Adjustments for prior years	(1,366)	8,857
	(122,236)	**(310,632)**
Deferred tax:		
Origination and reversal of temporary differences	(43,056)	100,974
Movement in receivables arising from tax deductions	(299)	(352)
Other	6,863	-
	(36,492)	**100,622**
Income tax expense	**(158,728)**	**(210,010)**

Reconciliation of effective tax rate

In thousands of PLN	2008	2007
Profit before tax	759,162	1,034,225
Income tax at the domestic tax rate of 19%	(144,240)	(196,503)
Expenses not tax deductible	27,921	(13,899)
Taxable income not in income statement	(88,615)	(74,115)
Deductible expenses not in income statement	82,107	58,391
Non taxable income	(31,659)	8,171
Other	(4,242)	7,945
Income tax expense	**(158,728)**	**(210,010)**
Effective tax rate	**20.91%**	**20.31%**

Deferred tax recognized directly in equity

Deferred tax recognized directly in equity as at 31 December 2008 is related to debt and capital instruments available-for-sale and amounts to PLN 33,721 thousand (31 December 2007: PLN 42,797 thousand).

16. Earnings per share

As at 31 December 2008 earnings per share amounted to PLN 4.60 (31 December 2007: PLN 6.31)

The calculation of earnings per share as at 31 December 2008 was based on the consolidated profit attributable to owners of ordinary shares of PLN 600,434 thousand (31 December 2007: PLN 824,215 thousand) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2008 of 130,659,600 (31 December 2007: 130,659,600).

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

17. Cash and balances with the Central Bank

In thousands of PLN	31.12.2008	31.12.2007
Cash at hand	509,841	395,549
Current balances with Central Bank	3,021,136	2,925,954
	3,530,977	**3,321,503**

On the current account in the National Bank of Poland (NBP), the Group maintains an obligatory reserve with the declared balance as at 31 December 2008 of PLN 1,021,738 thousand (31 December 2007: PLN 869,304 thousand). The Group may use the obligatory reserve provided that the sum of the average monthly balance on the current account in NBP is not lower than the declared balance.

18. Financial assets and liabilities held-for-trading

Financial assets held-for-trading

In thousands of PLN	31.12.2008	31.12.2007
Debt securities held-for-trading		
Bonds and notes issued by:		
Financial sector	3,185	50,771
Non-financial sector	-	70,847
Government	1,219,013	916,555
Other debt securities issued by:		
Banks	26,065	85,883
	1,248,263	**1,124,056**
Including:		
Listed	*721,127*	*915,891*
Unlisted	*527,136*	*208,165*
Equity instruments	**28,952**	**5,671**
Including:		
Listed	*952*	*5,671*
Unlisted	*28,000*	*-*
Derivatives	**6,608,273**	**4,005,981**
	7,885,488	**5,135,708**

Debt securities held-for-trading (maturity)

In thousands of PLN	31.12.2008	31.12.2007
up to 1 month	501,071	4,598
1 month - 3 months	15,318	108,804
3 months - 1 year	343,729	88,516
1 year - 5 years	314,089	250,381
over 5 years	74,056	671,757
	1,248,263	**1,124,056**

Financial liabilities held-for-trading

In thousands of PLN	31.12.2008	31.12.2007
Short positions in financial assets	-	34,932
Derivative financial instruments	6,806,790	4,338,214
	6,806,790	**4,373,146**

As at 31 December 2008 and 31 December 2007 the Group did not hold any financial assets initially designated for valuation at fair value through the profit and loss account.

As at 31 December 2008 derivative financial assets were adjusted due to increased counterparty credit risk.

Derivative financial instruments as at 31 December 2008

In thousands of PLN	Notional amount of derivatives with remaining life of				Total	Fair values	
	less than 3 months	between 3 months and 1 year	between 1 year and 5 years	more than 5 years		Assets	Liabilities
Interest rate instruments	**15,398,442**	**128,402,320**	**81,870,532**	**27,995,099**	**253,666,393**	**3,240,873**	**3,445,108**
FRA - purchase	1,335,000	43,459,500	10,000,000	-	54,794,500	997	200,586
FRA - sale	480,000	47,479,500	13,900,000	-	61,859,500	234,294	2,939
Interest rate swaps (IRS)	12,426,692	35,567,485	53,240,564	25,541,633	126,776,374	2,661,595	2,835,139
Currency - interest rate swaps (CIRS)	533,340	510,749	3,229,968	2,286,570	6,560,627	340,743	398,577
Interest rate options purchased	-	50,000	750,000	83,448	883,448	3,128	-
Interest rate options sold	-	50,000	750,000	83,448	883,448	-	3,128
Future contracts - purchase*	40,113	-	-	-	40,113	116	-
Future contracts - sale*	583,297	1,285,086	-	-	1,868,383	-	4,739
Currency instruments	**20,485,768**	**23,588,551**	**6,948,407**	**727,190**	**51,749,916**	**3,357,190**	**3,352,109**
FX forward	5,988,519	5,652,621	1,103,951	360,252	13,105,343	1,658,404	321,564
FX swap	5,868,193	3,889,206	52,359	-	9,809,758	240,630	1,339,865
Foreign exchange options purchased	4,341,401	7,089,743	2,957,678	173,774	14,562,596	1,457,958	186
Foreign exchange options sold	4,287,655	6,956,981	2,834,419	193,164	14,272,219	198	1,690,494
Securities transactions	**274,615**	**98,000**	**22,885**	**-**	**395,500**	**1,380**	**743**
Share options (purchase)	-	49,000	11,443	-	60,443	719	-
Share options (sale)	-	49,000	11,442	-	60,442	-	719
Securities purchased pending delivery	90,728	-	-	-	90,728	192	-
Securities sold pending delivery	183,887	-	-	-	183,887	469	24
Commodity transactions	**23,268**	**19,144**	**-**	**-**	**42,412**	**8,830**	**8,830**
Swaps	8,814	10,540	-	-	19,354	6,003	6,003
Purchase options	7,227	4,302	-	-	11,529	2,827	-
Sold options	7,227	4,302	-	-	11,529	-	2,827
Derivative instruments total	**36,182,093**	**152,108,015**	**88,841,824**	**28,722,289**	**305,854,221**	**6,608,273**	**6,806,790**

** Exchange-traded products*

Derivative financial instruments as at 31 December 2007

In thousands of PLN	Notional amount of derivatives with remaining life of				Total	Fair values	
	less than 3 months	between 3 months and 1 year	between 1 year and 5 years	more than 5 years		Assets	Liabilities
Interest rate instruments	**12,975,579**	**190,584,210**	**208,779,554**	**52,547,416**	**464,886,759**	**2,839,478**	**3,152,736**
FRA - purchase	-	67,438,340	23,621,000	-	91,059,340	160,812	24,143
FRA - sale	-	66,632,380	27,250,000	-	93,882,380	14,063	188,464
Interest rate swaps (IRS)	12,110,230	52,631,300	156,068,847	48,747,574	269,557,951	2,336,848	2,535,774
Currency - interest rate swaps (CIRS)	183,183	1,462,465	1,622,170	2,299,842	5,567,660	317,098	396,239
Interest rate options purchased	-	100,000	50,000	750,000	900,000	6,412	-
Interest rate options sold	-	100,000	50,000	750,000	900,000	-	6,417
Future contracts - purchase*	95,537	1,876,835	-	-	1,972,372	4,225	1,518
Future contracts - sale*	586,629	342,890	117,537	-	1,047,056	20	181
Currency instruments	**33,244,381**	**22,548,321**	**5,174,028**	**613,228**	**61,579,958**	**1,152,436**	**1,172,230**
FX forward	6,127,526	5,576,040	542,844	302,814	12,549,224	195,399	420,746
FX swap	15,478,832	5,751,616	197,539	-	21,427,987	626,750	423,692
Foreign exchange options purchased	5,739,636	5,548,032	2,183,571	146,884	13,618,123	312,749	17,537
Foreign exchange options sold	5,898,387	5,672,633	2,250,074	163,530	13,984,624	17,538	310,255
Securities transactions	**140,306**	**1,404**	**102,806**	**-**	**244,516**	**8,025**	**7,206**
Share options (purchase)	-	702	51,403	-	52,105	3,720	3,311
Share options (sale)	-	702	51,403	-	52,105	3,311	3,720
Securities purchased pending delivery	93,589	-	-	-	93,589	504	75
Securities sold pending delivery	46,717	-	-	-	46,717	490	100
Commodity transactions	**-**	**43,260**	**32,164**	**-**	**75,424**	**6,042**	**6,042**
Swaps	-	12,882	13,208	-	26,090	2,873	2,873
Purchase options	-	15,189	9,478	-	24,667	3,169	-
Sold options	-	15,189	9,478	-	24,667	-	3,169
Derivative instruments total	**46,360,266**	**213,177,195**	**214,088,552**	**53,160,644**	**526,786,657**	**4,005,981**	**4,338,214**

** Exchange-traded products*

Foreign currency contracts

The table below summarizes, by major currency, the contractual amounts of forward, swap and options contracts, with details of the contracted exchange rates and remaining periods to maturity. Foreign currency amounts are translated at rates ruling at the balance sheet date.

In thousands of PLN	Weighted average contracted exchange rates		Notional amount	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Buy Euro				
Less than 3 months	3.5217	3.7729	8,283,738	9,510,016
Between 3 months and 1 year	3.4537	3.7351	10,498,827	8,756,471
More than 1 year	3.4838	3.7478	4,067,164	2,172,671
Sell Euro				
Less than 3 months	3.5309	3.7110	7,754,562	12,190,066
Between 3 months and 1 year	3.4643	3.6762	9,731,510	7,780,681
More than 1 year	3.4859	3.7279	3,207,250	1,853,468
Buy US Dollars				
Less than 3 months	2.7797	2.5844	2,807,349	6,272,420
Between 3 months and 1 year	2.6241	2.7148	2,781,861	3,132,427
More than 1 year	2.7866	2.7516	763,665	1,144,284
Sell US Dollars				
Less than 3 months	2.6748	2.5587	3,116,061	8,065,961
Between 3 months and 1 year	2.5721	2.7710	2,465,124	3,359,748
More than 1 year	2.8489	2.7376	687,191	922,329
Buy Swiss Franc				
Less than 3 months	2.7875	2.1985	137,325	6,484
Sell Swiss Franc				
Less than 3 months	2.7895	2.1564	269,775	18,178
Buy Pound Sterling				
Less than 3 months	4.4775	5.4832	226,298	64,519
Between 3 months and 1 year	4.3527	5.5551	241,882	86,060
More than 1 year	4.6193	5.7650	93,371	26,292
Sell Pound Sterling				
Less than 3 months	4.4585	5.2544	183,823	45,498
Between 3 months and 1 year	4.5976	5.7292	203,111	43,385
More than 1 year	4.5342	5.7650	61,562	26,292

19. Debt securities available-for-sale

In thousands of PLN	31.12.2008	31.12.2007
Bonds and notes issued by:		
Central Bank	2,383,387	377,428
Non-financial sector	21,929	88,135
Government	8,409,512	6,002,075
	10,814,828	**6,467,638**
Including:		
Listed instruments	*7,081,278*	*5,933,705*
Unlisted instruments	*3,733,550*	*533,933*

Debt securities available-for-sale (by maturity)

In thousands of PLN	31.12.2008	31.12.2007
up to 1 month	2,460,631	4,994
1 month - 3 months	395,668	-
3 months - 1 year	926,086	602,493
1 year - 5 years	3,653,999	2,761,921
over 5 years	3,378,444	3,098,230
	10,814,828	**6,467,638**

The total amount of debt securities available-for-sale includes bonds of the National Bank of Poland with a nominal value of PLN 366,665 thousand, purchased on 28 February 2002, in connection with the reduction of the rates of mandatory reserves maintained by banks in NBP. These bonds include bearer bonds with interest calculated according to the interest rate of 52-week T-bills.

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

In thousands of PLN	2008	2007
As at 1 January	**6,467,638**	**8,247,313**
Increases (in respect of)		
Purchases	40,634,297	113,732,927
Amortization of discount, premium and interest	46,233	95,641
FX differences	325,556	-
Amortization of discount, premium and interest	112,920	-
Decreases (in respect of)		
Purchases	(36,735,113)	(115,121,563)
Revaluation	-	(116,619)
FX differences	-	(306,985)
Amortization of discount, premium and interest	(36,703)	(63,076)
As at 31 December	**10,814,828**	**6,467,638**

20. Equity investments accounted for under the equity method

In thousands of PLN	31.12.2008	31.12.2007
Stocks and shares in subordinated entities	**56,469**	**58,388**
Including:		
Listed instruments	-	-
Unlisted instruments	*56,469*	*58,388*

The movement in equity investments accounted for under the equity method is as follows:

In thousands of PLN	2008	2007
As at 1 January	**58,388**	**67,910**
Increases (in respect of)		
Revaluation	438	599
Decrease (in respect of)		
Revaluation	(2,357)	(10,121)
As at 31 December	**56,469**	**58,388**

21. Other equity investments

In thousands of PLN	31.12.2008	31.12.2007
Stocks and shares in other entities	42,905	57,028
Impairment	(31,810)	(35,119)
	11,095	**21,909**
Including:		
Listed instruments	*4,986*	*1,300*
Unlisted instruments	*6,109*	*20,609*

The change in other equity investments is as follows:

In thousands of PLN	2008	2007
As at 1 January	**21,909**	**54,618**
Increases (in respect of)		
Purchase	3,803	2,930
Revaluation	1,183	31,650
Decreases (in respect of)		
Sales	(1,299)	(32,731)
Revaluation	(1)	(34,558)
Other	(14,500)	-
As at 31 December	**11,095**	**21,909**

Financial information on subordinated entities as at 31 December 2008

Subordinated entities consolidated under the full method
In thousands of PLN

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY-LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	97.47	1,556,142	1,377,311	178,830	107,684	5,555
HANDLOWY INVESTMENTS S.A.[1)]	Luxemburg	Investment activity	Subsidiary undertaking	100.00	28,625	436	28,189	901	(6,007)
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary undertaking	100.00	458,339	366,183	92,156	102,554	9,715
PPH SPOMASZ Sp. z o.o. under liquidation	Warsaw	-	Subsidiary undertaking	100.00	Entity under liquidation				

Other entities
In thousands of PLN

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
BANK ROZWOJU CUKROWNICTWA S.A.*	Poznań	Banking	Subsidiary undertaking	100.00	40,046	40,442	459	39,983	1,948	769
HANDLOWY INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	80.97	7,124	7,125	194	6,930	176	(1,587)
HANDLOWY INWESTYCJE Sp. z o.o.[2)]	Warsaw	Investment activity	Subsidiary undertaking	100.00	9,298	16,762	4,358	12,403	2,605	1,568

** On 2 March 2009 Extraordinary Meeting of Shareholders of Bank Rozwoju Cukrownictwa S.A. with headquarters in Poznań ('BRC') has passed the resolution about dissolution of the company and put the company to state of voluntary liquidation. Beginning of BRC liquidation process depends on sanction of the Company's voluntary liquidation program by Polish Financial Supervision Authority.*

The financial data of subordinated entities is based on unaudited financial information available at the time of preparation of these statements.

The explanation of indirect relationships:

1) Indirect relationship via Handlowy Investments S.A.

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	19.03	1,663	7,125	194	6,930	176	(1,587)

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

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY-LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	2.53	3,125	1,556,142	1,377,311	178,830	107,684	5,555

The financial data of subordinated entities is based on unaudited financial information available at the time of preparation of these statements.

Financial data concerning subordinated entities as at 31 December 2007

Subordinated entities consolidated under the full method
In thousands of PLN

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY-LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	97.47	1,133,298	921,290	212,008	73,320	13,812
HANDLOWY INVESTMENTS S.A. [1)]	Luxembourg	Investment activity	Subsidiary undertaking	100.00	28,735	86	28,649	39,813	33,592
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary undertaking	100.00	437,956	338,173	99,783	92,617	18,851
PPH SPOMASZ Sp. z o.o. under liquidation	Warsaw	-	Subsidiary undertaking	100.00	Entity under liquidation				

Other entities
In thousands of PLN

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
BANK ROZWOJU CUKROWNICTWA S.A.	Poznań	Banking	Subsidiary undertaking	100.00	39,609	40,084	450	39,634	1,563	466
HANDLOWY INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	80.97	7,434	7,513	238	7,275	106	(249)
HANDLOWY INWESTYCJE Sp. z o.o. [2)]	Warsaw	Investment activity	Subsidiary undertaking	100.00	11,345	19,102	7,342	11,760	1,374	925

The financial data of subordinated entities is based on audited financial information available at the time of preparation of these statements except: Handlowy Investment S.A., Handlowy Investment II S.a.r.l. and PPH Spomasz Sp. z o.o. under liquidation.

The explanation of indirect relationships:

1) Indirect relationship via Handlowy Investments S.A.

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	19.03	1,428	7,513	238	7,275	106	(249)

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

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of investment	Assets	Liabilities	Equity	Revenues	Profit/(loss)
HANDLOWY-LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	2.53	3,125	1,133,298	921,290	212,008	73,320	13,812

The financial data of these entities is based on audited financial information available at the time of preparation of these statements except: Handlowy Investment S.A., Handlowy Investment II S.a.r.l. and PPH Spomasz Sp. z o.o. under liquidation.

22. Loans and advances

Loans and advances (by category)

In thousands of PLN	31.12.2008	31.12.2007
Loans and advances to the financial sector:		
Current accounts of banks	76,553	424,820
Loans, placements and advances, including:	2,721,417	8,252,222
placements in banks	*1,917,991*	*7,394,904*
Purchased receivables	15,152	24,311
Realized guarantees	249	205
Receivables subject to securities sale and repurchase agreements	877,484	57,097
Other receivables	82,294	36,665
	3,773,149	**8,795,320**
Impairment write-offs	(77,627)	(76,488)
	3,695,522	**8,718,832**
Loans and advances to the non-financial sector:		
Loans and advances	13,576,369	12,392,630
Purchased receivables	241,156	282,773
Realized guarantees	41,502	45,472
Other receivables	1,452,464	1,131,442
	15,311,491	**13,852,317**
Impairment write-offs	(1,425,514)	(1,365,776)
	13,885,977	**12,486,541**
Loans and advances	**17,581,499**	**21,205,373**

Loans and advances – gross (by time to maturity)

In thousands of PLN	31.12.2008	31.12.2007
Loans and advances to the financial sector:		
- banks and other monetary financial institutions		
up to 1 month	1,323,990	3,034,173
1 month - 3 months	712,457	2,299,204
3 months - 1 year	994,839	1,937,203
1 year - 5 years	12,517	760,401
over 5 years	-	45,701
	3,043,803	**8,076,682**
- other financial institutions		
up to 1 month	375,365	553,990
1 month - 3 months	25,000	5,147
3 months - 1 year	69,172	98,744
1 year - 5 years	245,000	48,582
over 5 years	14,809	12,175
	729,346	**718,638**
Loans and advances from financial sector - gross	**3,773,149**	**8,795,320**
Loans and advances to the non-financial sector:		
up to 1 month	8,150,354	7,620,951
1 month - 3 months	844,619	733,892
3 months - 1 year	1,558,933	1,447,324
1 year - 5 years	4,242,433	3,703,021
over 5 years	515,152	347,129
	15,311,491	**13,852,317**
Loans and advances - gross	**19,084,640**	**22,647,637**

Finance lease receivables

The Group operates on the leasing market through its subordinated entity Handlowy-Leasing sp. z o.o. The Group provides finance leases of vehicles, machines and equipment.

Included in loans and advances to the non-financial sector are the following amounts relating to finance lease obligations:

In thousands of PLN	31.12.2008	31.12.2007
Gross finance lease receivables	1,595,415	1,242,754
Unearned finance income	(150,257)	(117,332)
Net finance lease receivables	**1,445,158**	**1,125,422**
Gross finance lease receivables by time to maturity:		
Less then 1 year	589,014	440,294
between 1 and 5 years	996,628	792,606
over 5 years	9,774	9,854
	1,595,416	**1,242,754**
Net finance lease receivables by time to maturity:		
Less then 1 year	520,233	387,747
between 1 and 5 years	915,434	728,076
over 5 years	9,492	9,599
	1,445,159	**1,125,422**

As at 31 December 2008 impairment for unrecoverable finance lease receivables amounted to PLN 45,759 thousand (as at 31 December 2007 amounted PLN 38,687 thousand).

Finance lease income is presented in interest income.

23. Impairment of loans and advances

The movement in impairment of loans and advances is as follows:

In thousands of PLN	2008	2007
Balance as at 1 January	**1,442,264**	**1,632,707**
Related to:		
Receivables from banks	1,886	9,572
Receivables from other customers of financial and non- financial sector	1,440,378	1,623,135
Change in impairment write-downs	60,877	(190,443)
Charges	429,426	357,977
Write-offs	(107,771)	(191,340)
Amounts released	(290,640)	(418,212)
Other	29,862	61,132
Balance as at 31 December	**1,503,141**	**1,442,264**
Related to:		
Receivables from banks	4,041	1,886
Receivables from other customers of financial and non-financial sector	1,499,100	1,440,378

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

In thousands of PLN	31.12.2008	31.12.2007
Portfolio impairment loss	389,991	385,638
Individual impairment loss	1,040,661	1,006,747
Incurred but not reported losses (IBNR)	72,489	49,879

24. Property and equipment

Land, buildings and equipment

In thousands of PLN	Land and buildings	Machines and equipment	Vehicles	Other	Under construction	Total
Gross value:						
Balance as at 1 January 2007	**746,092**	**694**	**63,347**	**665,981**	**21,486**	**1,497,600**
Additions:						
Purchases	1,556	237	456	27,399	46,431	76,079
Other increases	-	-	-	7,135	-	7,135
Decreases:						
Disposals	(179)	-	(14,212)	(3,859)	-	(18,250)
Liquidation	(5,982)	(4)	(95)	(106,557)	-	(112,638)
Classified as investment property	(12,404)	-	-	(60)	(18,144)	(30,608)
Other decreases	(13)	-	(56)	(462)	-	(531)
Reclassification	13,643	-	19,344	7,952	(43,374)	(2,435)
Balance as at 31 December 2007	**742,713**	**927**	**68,784**	**597,529**	**6,399**	**1,416,352**
Balance as at 1 January 2008	**742,713**	**927**	**68,784**	**597,529**	**6,399**	**1,416,352**
Additions:						
Purchases	1,383	93	20,511	13,526	38,978	74,491
Other increases	-	-	-	3,666	-	3,666
Decreases:						
Disposals	(105)	-	(20,493)	(10,697)	-	(31,295)
Liquidation	(588)	(39)	-	(48,203)	-	(48,830)
Classified as investment property/fixed assets held-for-sale	(36,677)	-	-	(354)	-	(37,031)
Other decreases	-	-	(97)	(3,759)	(1,602)	(5,457)
Reclassification	15,042	-	3,147	8,630	(30,244)	(3,425)
Balance as at 31 December 2008	**721,768**	**981**	**71,852**	**560,339**	**13,531**	**1,368,471**
Depreciation and amortization						
Balance as at 1 January 2007	**252,258**	**591**	**27,515**	**588,376**	**-**	**868,740**
Increases:						
Depreciation charge for the period	31,904	192	12,949	42,902	-	87,947
Other increases	-	-	-	3,553	-	3,553
Decreases:						
Disposals	(179)	-	(11,572)	(3,837)	-	(15,588)
Liquidation	(5,391)	(3)	(40)	(106,138)	-	(111,572)
Classified as investment property	(4,005)	-	-	(11)	-	(4,016)
Other decreases	(13)	-	(20)	(448)	-	(481)
Balance as at 31 December 2007	**274,574**	**780**	**28,832**	**524,397**	**-**	**828,583**
Balance as at 1 January 2008	**274,574**	**780**	**28,832**	**524,397**	**-**	**828,583**
Increases:						
Depreciation charge for the period	29,345	188	10,663	38,381	-	78,577
Other increases	-	-	-	1,122	-	1,122
Decreases:						
Disposals	(58)	-	(16,443)	(10,526)	-	(27,027)
Liquidation	(107)	(39)	-	(48,162)	-	(48,308)
Classified as investment property/fixed assets held-for-sale	(12,913)	-	-	(251)	-	(13,164)
Other decreases	-	-	(1,198)	(3,753)	-	(4,951)
Balance at 31 December 2008	**290,841**	**929**	**21,854**	**501,208**	**-**	**814,832**

In thousands of PLN	Land and buildings	Machines and equipment	Vehicles	Other	Under construction	Total
Carrying amounts						
As at 1 January 2007	493,834	103	35,832	77,605	21,486	628,860
As at 31 December 2007	468,139	147	39,952	73,132	6,399	587,769
As at 1 January 2008	468,139	147	39,952	73,132	6,399	587,769
As at 31 December 2008	430,927	52	49,998	59,131	13,531	553,639

Investment properties

In thousands of PLN	2008	2007
Balance as at 1 January	**25,028**	**9,386**
Increases:		
Reclassified from Bank's properties	164	26,592
Decreases:		
Disposals	(6,884)	(920)
Classify as tangible assets held for sale	-	(8,466)
Revaluation	-	(1,564)
Balance as at end of period	**18,308**	**25,028**

25. Intangible assets

In thousands of PLN	Goodwill	Patents and trademarks	Software	Other intangible assets	Prepay-ments	Total
Gross value:						
Balance as at 1 January 2007	**1,245,976**	**1,651**	**226,607**	**19,088**	**43**	**1,493,365**
Additions:						
Purchases	-	-	8,730	-	10,545	19,275
Decreases:						
Reclassification	-	-	5,468	-	(5,530)	(62)
Balance as at 31 December 2007	**1,245,976**	**1,651**	**240,805**	**19,088**	**5,058**	**1,512,578**
Balance as at 1 January 2008	**1,245,976**	**1,651**	**240,805**	**19,088**	**5,058**	**1,512,578**
Increases:						
Purchases	-	931	10,318	69	7,129	18,447
Reclassification	-	-	8,174	-	(8,838)	(664)
Decreases:						
Other decreases	-	-	(7,283)	-	-	(7,283)
Balance as at 31 December 2008	**1,245,976**	**2,582**	**252,014**	**19,157**	**3,349**	**1,523,078**
Depreciation and amortization:						
Balance as at 1 January 2007	**-**	**1,639**	**193,741**	**12,232**	**-**	**207,612**
Increases:						
Depreciation charge for the period	-	-	18,126	2,762	-	20,888
Balance as at 31 December 2007	**-**	**1,639**	**211,867**	**14,994**	**-**	**228,500**
Balance as at 1 January 2008	**-**	**1,639**	**211,867**	**14,994**	**-**	**228,500**
Increases:						
Depreciation charge for the period	-	23	16,807	1,709	-	18,539
Decreases:						
Other decreases	-	-	(7,287)	-	-	(7,287)
Balance as at 31 December 2008	**-**	**1,662**	**221,387**	**16,703**	**-**	**239,752**
Carrying amounts						
As at 1 January 2007	1,245,976	12	32,866	6,856	43	1,285,753
As at 31 December 2007	1,245,976	12	28,938	4,094	5,058	1,284,078
As at 1 January 2008	1,245,976	12	28,938	4,094	5,058	1,284,078
As at 31 December 2008	1,245,976	920	30,627	2,454	3,349	1,283,326

As at 31 December 2008, goodwill includes the amount of PLN 1,243,645 thousand arising from the merger of Bank Handlowy w Warszawie S.A. and Citibank (Poland) S.A. on 28 February 2001 and the amount of PLN 2,331 thousand as a result of the purchase of an organized part of an enterprise from ABN AMRO Bank (Poland) S.A. on 1 March 2005.

26. Impairment test for goodwill

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

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

Book value of goodwill allocated to unit:

In thousands of PLN	
Corporate Bank	851,944
Consumer Bank	394,032
	1,245,976

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

The discount rate, which is equivalent to the required rate of return, has been used in the valuation. The required rate of return is assessed on the basis of the capital assets pricing model using a beta coefficient for the banking sector, bonus for risk and Treasury bond yield curves. In 2008 the discount rate amounted to 12.4% (in 2007: 14.0%)

Extrapolation of cash flows, which exceed the five-year period covered by the financial plan, has been based on growth rates reflecting the long-term NBP inflation target that amounted to 2.5 pp as at 31 December 2008.

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

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

27. Income tax assets and liabilities

In thousands of PLN	31.12.2008	31.12.2007
Income tax assets*		
Current tax	7,862	770
Deferred tax	328,428	373,698
	336,290	**374,468**
Income tax liabilities*		
Current tax	**77**	**101,889**

** Deferred income tax assets and liabilities are presented jointly in the balance sheet.*

Positive and negative taxable and deductible temporary differences are presented below:

Deferred tax assets are attributable to the following:

In thousands of PLN	31.12.2008	31.12.2007
Interest accrued and other expense	10,619	15,341
Loan loss provisions	105,945	92,755
Unrealized premium	19,258	12,389
Unrealized financial instruments valuation expenses	648,872	533,044
Negative pricing of securities	2,524	4,215
Income collected in advance	24,148	29,723
Valuation of shares	5,436	5,986
Commissions	5,878	5,333
Debt securities available-for-sale	33,721	42,797
Unrealized cost related to asymmetric transaction	69,399	156,767
Staff expenses and other cost due to pay	48,657	61,838
Differences between balance sheet and tax value of leases	-	10,777
Other	58,080	19,988
Deferred tax assets	**1,032,537**	**990,953**

Deferred tax liabilities are attributable to the following:

In thousands of PLN	31.12.2008	31.12.2007
Accrued interest (income)	64,643	71,652
Unrealized premium from options	212	475
Unrealized financial instruments valuation income	569,540	482,766
Unrealized securities discount	2,940	319
Incomes to receive	9,046	20,422
Positive valuation of securities	6,005	3,719
Investment relief	19,835	21,706
Valuations of shares	571	1,215
Differences between balance sheet and tax value of leases	22,866	-
Other	8,451	14,981
Deferred tax provisions	**704,109**	**617,255**

Movement in temporary differences during the period

In thousands of PLN	Balance as at 1 January 2007	Adjustments recognized in income	Adjustments recognized in equity	Balance as at 31 December 2007
Interest accrued and other expense	17,240	(1,899)	-	15,341
Loan loss provisions	107,515	(14,760)	-	92,755
Subordinated loans provisions	547	(547)	-	-
Unrealized premium	7,346	5,043	-	12,389
Unrealized financial instruments valuation expense	637,714	(104,670)	-	533,044
Negative valuation of securities	683	3,532	-	4,215
Income collected in advance	27,055	2,668	-	29,723
Valuation of shares	68	5,918	-	5,986
Commission	5,666	(333)	-	5,333
Debt securities available-for-sale	19,118	-	23,679	42,797
Unrealized cost related to asymmetric transaction	74,258	82,509	-	156,767
Staff expenses and other cost due to pay	53,707	8,131	-	61,838
Differences between balance sheet and tax value of leases	-	10,777	-	10,777
Other	21,924	(1,936)	-	19,988
	972,841	**(5,567)**	**23,679**	**990,953**

In thousands of PLN	Balance as at 1 January 2007	Adjustments recognized in income	Balance as at 31 December 2007
Interest accrued (income)	63,810	7,842	71,652
Unrealized premium from options	133	342	475
Unrealized financial instruments valuation income	618,827	(136,061)	482,766
Unrealized securities discount	910	(591)	319
Incomes to receive	6,124	14,298	20,422
Positive valuation of securities	428	3,291	3,719
Investment relief	22,377	(671)	21,706
Valuation of shares	667	548	1,215
Differences between balance sheet and tax value of leases	303	(303)	-
Other	10,218	4,763	14,981
	723,797	**(106,542)**	**617,255**

In thousands of PLN	Balance as at 1 January 2008	Adjustments recognized in income	Adjustments recognized in equity	Balance as at 31 December 2008
Interest accrued and other expense	15,341	(4,722)	-	10,619
Loan loss provisions	92,755	13,190	-	105,945
Unrealized premium	12,389	6,869	-	19,258
Unrealized financial instruments valuation expenses	533,044	115,828	-	648,872
Negative valuation of securities	4,215	(1,691)	-	2,524
Income collected in advance	29,723	(5,575)	-	24,148
Valuation of shares	5,986	(550)	-	5,436
Commissions	5,333	545	-	5,878
Debt securities available-for-sale	42,797	-	(9,076)	33,721
Unrealized cost related to asymmetric transaction	156,767	(87,368)	-	69,399
Staff expenses and other cost due to pay	61,838	(13,181)	-	48,657
Differences between balance sheet and tax value of leases	10,777	(10,777)	-	-
Other	19,988	38,092	-	58,080
	990,953	**50,660**	**(9,076)**	**1,032,537**

In thousands of PLN	Balance as at 1 January 2008	Adjustments recognized in income	Balance as at 31 December 2008
Interest accrued (income)	71,652	(7,009)	64,643
Unrealized premium from options	475	(263)	212
Unrealized financial instruments valuation income	482,766	86,774	569,540
Unrealized securities discount	319	2,621	2,940
Incomes to receive	20,422	(11,376)	9,046
Positive valuation of securities	3,719	2,286	6,005
Investment relief	21,706	(1,871)	19,835
Valuation of shares	1,215	(644)	571
Differences between balance sheet and tax value of leases	-	22,866	22,866
Other	14,981	(6,530)	8,451
	617,255	**86,854**	**704,109**

28. Other assets

In thousands of PLN	31.12.2008	31.12.2007
Interbank settlements	970	23,321
Settlements related to brokerage activity	221,861	185,379
Accounts receivable	50,879	60,417
Staff loans out of the Social Fund	25,041	29,878
Sundry debtors	129,975	98,376
Prepayments	14,405	16,078
Other assets	28	28
	443,159	**413,477**

29. Non-current assets held-for-sale

As at 31 December 2008 non-current assets held-for-sale include Bank's own property on joint value PLN 35,267 thousand (31 December 2007: PLN 12,645 thousand), that fulfils the requirements of IFRS 5 and therefore was reclassified to this group from fixed tangible assets.

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

In thousands of PLN	2008	2007
Balance as at 1 January	**12,645**	**12,539**
Increases:		
Reclassify from banking properties	23,703	-
Reclassify from investment properties	-	8,466
Decreases:		
Valuation updating	(1,081)	-
Cash receipts from the sale of holiday resorts	-	(8,360)
Balance as at 31 December	**35,267**	**12,645**

30. Financial liabilities valued at amortized cost

Financial liabilities valued at amortized cost (by category)

In thousands of PLN	31.12.2008	31.12.2007
Deposits from financial sector:		
Current accounts, including:	2,089,692	2,434,363
current accounts of banks	*1,212,394*	*2,190,764*
Deposits, including:	5,828,349	4,609,805
term deposits of banks	*2,122,493*	*1,705,572*
Accrued interest	4,219	40,874
	7,922,260	**7,085,042**
Deposits from non-financial sector:		
Current accounts, including:	7,476,940	8,050,347
corporate customers	*3,336,662*	*3,939,403*
individual customers	*3,181,256*	*3,498,981*
budgetary units	*611,357*	*225,596*
Deposits, including:	12,431,216	11,748,246
corporate customers	*8,457,649*	*9,213,611*
individual customers	*2,291,343*	*1,695,854*
budgetary units	*1,171,453*	*332,744*
Accrued interest	26,916	12,776
	19,935,072	**19,811,369**
Deposits	**27,857,332**	**26,896,411**
Other liabilities:		
Loans and advances received	1,253,420	795,544
Liabilities in respect of securities subject to sale and repurchase agreements	-	69,155
Other liabilities, including:	229,928	234,808
cash collateral	*156,858*	*140,592*
Accrued interest	4,818	4,085
	1,488,166	**1,103,592**
Total	**29,345,498**	**28,000,003**

Financial liabilities valued at amortized cost (by time to maturity)

Financial liabilities valued at amortized cost towards to:

In thousands of PLN	31.12.2008	31.12.2007
Financial sector		
- banks and other monetary financial institutions		
up to 1 month	3,290,134	2,890,891
1 month - 3 months	13,223	837,875
3 months - 1 year	862,901	229,100
1 year - 5 years	333,530	612,384
over 5 years	89,680	-
Accrued interest	4,830	41,710
	4,594,298	**4,611,960**
- other financial institutions		
up to 1 month	4,543,455	3,269,469
1 month - 3 months	32,442	7,063
3 months - 1 year	6,221	5,050
1 year - 5 years	4,743	5,915
over 5 years	19	29
Accrued interest	3,108	1,228
	4,589,988	**3,288,754**
	9,184,286	**7,900,714**
Non-financial sector		
up to 1 month	18,446,358	19,120,245
1 month - 3 months	1,321,039	591,858
3 months - 1 year	338,368	294,842
1 year - 5 years	27,345	77,378
over 5 years	88	169
Accrued interest	28,014	14,797
	20,161,212	**20,099,289**
	29,345,498	**28,000,003**

31. Provisions

In thousands of PLN	31.12.2008	31.12.2007
For disputes	5,439	23,974
For restructuring	10,619	-
For off-balance sheet commitments	8,520	13,574
	24,578	**37,548**

The movement in provisions is as follows:

In thousands of PLN	2008	2007
Balance as at 1 January	**37,548**	**44,378**
Concerning:		
Disputes	23,974	20,120
Off-balance sheet commitments	13,574	24,258
Increases:		
Creation of provisions in the period, including:	71,698	74,306
Disputes	5,124	14,500
For restructuring	30,000	-
Off-balance sheet commitments	36,574	59,806
Decreases:		
Use of provisions, include:	(15,305)	-
for restructuring	(15,305)	-
Release of provisions:	(69,363)	(81,136)
for disputes	(23,659)	(10,646)
for restructuring	(4,076)	-
for off-balance sheet liabilities	(41,628)	(70,490)
Balance as at 31 December	**24,578**	**37,548**

32. Other liabilities

In thousands of PLN	31.12.2008	31.12.2007
Fund of social service	63,566	65,409
Interbank settlements	57,367	60,531
Interbranch settlements	1,003	4,344
Settlements related to brokerage activity	224,377	187,603
Settlements with Tax Office and National Insurance (ZUS)	7,722	8,342
Sundry creditors	98,872	82,252
Accruals	251,293	340,063
Provision for employee payments	*87,643*	*134,926*
Provision for employees retirement and jubilee payments	*44,300*	*63,176*
Other	*119,350*	*141,961*
Deferred income	43,393	43,770
	747,593	**792,314**

33. Capital and reserves

Share capital

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

Par value of 1 share = PLN 4.00

As at 31 December 2008, the Bank's share capital amounted to PLN 522,638,400 divided into 130,659,600 common bearer shares nominal value of PLN 4 each, which has not changed since 31 December 2006.

The Bank has not issued preference shares.

Principal shareholders

As at 31 December 2008 the list of shareholders who held at least 5% of the total number of votes in the General Assembly or at least 5% of the Bank's share capital is as follows:

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

In 2008 and in 2007 the structure of major shareholdings has not changed.

Supplementary capital

Supplementary capital is designated for offsetting the Bank's balance sheet losses or for other purposes, including payment of dividends to the shareholders. The General Shareholders' Meeting decides upon the utilization of supplementary capital, but a portion of its balance, amounting to one third of total share capital may be used exclusively for offsetting losses shown in the financial statements.

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

Revaluation reserve

In thousands of PLN	31.12.2008	31.12.2007
Revaluation of financial assets available-for-sale	**(144,110)**	**(182,450)**

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

Other reserves

In thousands of PLN	31.12.2008	31.12.2007
Reserve capital	1,233,896	1,066,053
General risk reserve	390,000	390,000
Foreign currency translation adjustment	3,796	(1,698)
	1,627,692	**1,454,355**

Reserve capital

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

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

General risk fund

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

Dividends

Dividends paid in 2008

In accordance with Resolution No. 10 of the Ordinary General Meeting of the Bank of 19 June 2008 the profit for 2007 was allocated, a resolution for the payment of dividends was adopted, the dividend date and the date of dividend payment were determined. The Bank proposed to pay out PLN 620,633,100.00 as dividend (in 2007 dividend was paid out from 2006 profit: PLN 535,704,360.00). This means that the dividend per one ordinary share amounts to PLN 4.75 (in 2006 appropriately: PLN 4.10).

The date of determination of the right to the dividend was designated as 4 July 2008 and the date of dividend payment as 29 August 2008.

As at 31 December 2008 the Bank did not have any liabilities in respect of approved dividends.

Declared dividends

The Bank's Management hasn't taken resolution regarding suggested distribution of profit for 2008, including amount suggested to assign on payment of dividend, till the day of signed the financial statement.

34. Repurchase and reverse repurchase agreements

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

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

As at 31 December 2008, there weren't any assets sold under repurchase agreements.

As at 31 December 2007 assets sold under repurchase agreements were as follows:

In thousands of PLN	Fair value of underlying assets	Carrying amount of corresponding liabilities*	Repurchase dates	Repurchase price
Trading instruments				
Debt securities	69,304	69,173	To 1 week	69,275

** including interest*

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

As at 31 December 2008 and 31 December 2007, assets sold through repo, cannot be traded further.

In 2008 the total interest expenses on repurchase agreements was PLN 2,146 thousand (in 2007: PLN 3,444 thousand).

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

As at 31 December 2008 assets purchased under resell agreements were as follows:

In thousands of PLN	Carrying amount of liabilities*	Fair value of assets constituted as indemnity	Repurchase dates	Repurchase price
Loans and other receivables				
from financial sector:	877,485	888,931	To 1 month	877,639

** including interest*

As at 31 December 2007 assets purchased under resell agreements were as follows:

In thousands of PLN	Carrying amount of liabilities*	Fair value of assets constituted as indemnity	Repurchase dates	Repurchase price
Loans and other receivables				
from financial sector:	57,097	57,067	To 1 week	57,141

** including interest*

As at 31 December 2008 and 31 December 2007, the Group held the option to pledge or sell the assets acquired through reverse repo.

In 2008 total interest income on repurchase agreements was PLN 12,013 thousand (in 2007: PLN 48 thousand).

35. Fair value information

Fair value of financial assets and liabilities

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

The summary below provides balance sheet (by categories) and fair value information for each asset and financial liability group.

As at 31 December 2008

In thousands of PLN	Note	Held-for-trading	Credit, loans and other receivables	Available for sale	Other financial assets/liabilities	Total balance value	Fair value
Assets							
Cash, balances with central bank	17	-	-	-	3,530,977	3,530,977	3,530,977
Financial assets held-for-trading	18	7,885,488	-	-	-	7,885,488	7,885,488
Debt securities available-for-sale	19	-	-	10,814,828	-	10,814,828	10,814,828
Capital investment valued at equity method	20	-	-	56,469	-	56,469	56,469
Other capital investment	21	-	-	11,095	-	11,095	11,095
Credit, loans and other receivables	22	-	17,581,499	-	-	17,581,499	17,556,094
		7,885,488	**17,581,499**	**10,882,392**	**3,530,977**	**39,880,356**	**39,854,951**
Liabilities							
Financial liabilities held-for-trading	18	6,806,790	-	-	-	6,806,790	6,806,790
Financial liabilities valued at amortized cost	30	-	-	-	29,345,498	29,345,498	29,337,568
		6,806,790	**-**	**-**	**29,345,498**	**36,152,288**	**36,144,358**

As at 31 December 2007

In thousands of PLN	Note	Held-for-trading	Credit, loans and other receivables	Available for sale	Other assets/ financial liabilities	Total balance value	Fair value
Assets							
Cash, balances with central bank	17	-	-	-	3,321,503	3,321,503	3,321,503
Financial assets held-for-trading	18	5,135,708	-	-	-	5,135,708	5,135,708
Debt securities available-for-sale	19	-	-	6,467,638	-	6,467,638	6,467,638
Capital investment valued at equity method	20	-	-	58,388	-	58,388	58,388
Other capital investment	21	-	-	21,909	-	21,909	21,909
Credit, loans and other receivables	22	-	21,205,373	-	-	21,205,373	21,168,353
		5,135,708	**21,205,373**	**6,547,935**	**3,321,503**	**36,210,519**	**36,173,499**
Liabilities							
Financial liabilities held-for-trading	18	4,373,146	-	-	-	4,373,146	4,373,146
Financial liabilities valued at amortized cost	30	-	-	-	28,000,003	28,000,003	28,009,758
		4,373,146	**-**	**-**	**28,000,003**	**32,373,149**	**32,382,904**

The table below presents balance sheet values of instruments measured at fair value, ranked according to the fair value measurement method applied:

As at 31 December 2008

In thousands of PLN	Note	Quoted market prices	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs
Assets				
Financial assets held-for-trading	18			
- derivatives		5,197	4,906,525	1,696,551
- debt securities		1,219,013	-	29,250
- capital instruments		952	-	28,000
Debt securities held-for-trading	19	8,409,512	2,383,387	21,929
Other capital investment	20	4,986	-	-
Liabilities				
Financial liabilities held-for-trading - derivatives	18	10,139	6,361,332	435,319

As at 31 December 2007

In thousands of PLN	Note	Quoted market prices	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs
Assets				
Financial assets held-for-trading	18			
- derivatives		7,173	3,998,808	-
- debt securities		916,555	-	207,501
- capital instruments		5,671	-	-
Debt securities held-for-trading	19	6,002,075	377,428	88,135
Other capital investments	21	1,300	-	-
Liabilities				
Financial liabilities held-for-trading - derivatives	18	5,358	4,332,856	-

Fair Value Definition

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

Equity Investments

Equity investments accounted for under the equity method: In the case of shares in subsidiaries and associated entities that are fixed assets available-for-sale the fair value is based on the binding sale offer. The fair value of shares in subsidiaries that are not consolidated is presented as the percentage of net assets of an entity that is attributable to the Group's shares in a given entity. Management believes that this is the best available approximation of fair value of such instruments.

Other equity investments: For listed minority shares market value is applied. For unlisted minority shares the Group is not able to estimate a reasonable fair value, therefore the fair value amount includes purchase price adjusted by revaluation write-offs connected with diminution in value.

Strategically, the Group has planned a phased-out reduction of the capital exposures presented in this report, save for the strategic exposures to certain selected infrastructure entities providing services to the financial sector. The individual equity stakes will be sold at the time of the best market opportunity.

In 2008 the Group disposed it's minority shareholdings in Lubelska Fabryka Maszyn Rolniczych S.A. (LFMR), which were classified as equity instruments for which the fair value can not be reliably measured. The balance value of sold LFMR shares amounted PLN 0 and profit on sale amounted PLN 440 thousand. In 2007 from among equity investments that the fair value was not able to estimate, the Group has sold minority shares of Fabryka Maszyn i Urządzeń FAMAK S.A. (FAMAK). The balance value of sold shares amounted PLN 0 and profit on sale amounted PLN 71 thousand.

Loans and advances

In the balance sheet loans are valued at amortized cost less impairment. The fair value of fixed interest rate loans is calculated as the discounted value of expected future principal payments and takes into account fluctuations in market interest rates on the balance sheet date. It is assumed that loans will be paid back on their contractual date. In the case of loans for which repayment dates are not fixed (e.g. overdrafts), fair value is the repayment that would be required if the amount were due on the balance sheet date. Expected future cash flows connected with homogenous loan categories, particularly credits for individuals, are assessed on the basis of the loan portfolio and discounted using the current interest rate.

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

Financial liabilities valued at amortized cost

In the case of demand deposits, as well as deposits without any pre determined maturity date, fair value is an amount that would be paid out if demanded on the balance sheet date. The fair value of fixed maturity deposits is estimated on the basis of cash flows discounted with current interest rates. The role of long-term relationships with depositing parties is not taken into account in the course of the fair value valuation process adopted for such instruments.

36. Contingent liabilities

Information on pending proceedings

As at 31 December 2008, no proceedings relating to the liabilities or receivables of the Bank or its subsidiaries, the value of which would correspond to at least 10% of the Group's shareholders' equity, were pending before any court, administrative authority or an arbitration court.

The total value of all pending court proceedings involving the Bank or its subsidiaries and related to their receivables exceeded 10% of the Group's shareholders' equity and amounted to PLN 837,161 thousand.

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

Parties to Proceedings	Litigation Value (in thousands of PLN)	Proceedings Commencement Date	Description of Case
Creditor: Bank Handlowy w Warszawie S.A.	158,534	8 August 1996 - declaration of bankruptcy.	Case pending. The Bank submitted the receivable to obtain repayment from the bankrupt's assets for arrangement on 14 October 1996. The Bank realized all the collateral. The Bank will probably not receive its receivables. The official receiver expected to complete the bankruptcy proceeding by the end of 2006. The Bank expects to receive a resolution on completion of the bankruptcy proceeding.
Creditor: Bank Handlowy w Warszawie S.A.	41,502	On 22 June 2001, the court declared the debtor bankrupt.	The Bank submitted its receivables to the proceedings. Case pending.

The Group in accordance with law makes provisions for contingent liabilities. Impairment related to these provisions is also made.

As at 31 December 2008, no proceedings relating to the liabilities or receivables of the Bank or its subsidiaries, the value of which would correspond to at least 10% of the Bank's shareholders' equity, were pending before any court, administrative authority or an arbitration court.

The total value of liabilities of the Bank or its subsidiaries resulting from pending court proceeding has not exceeded 10% of the Group shareholder's equity.

The Group records provisions when there is a probability that there will be an outflow of cash.

Off-balance sheet commitments

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

In thousands of PLN	31.12.2008	31.12.2007
Off-balance sheet commitments granted		
Letters of credit	198,369	159,804
Guarantees granted	2,349,068	2,158,948
Credit lines granted	10,949,511	10,874,042
Issue guarantees	29,500	172,000
	13,526,448	**13,364,794**

In thousands of PLN	31.12.2008	31.12.2007
Letters of credit by categories		
Import letters of credit issued	188,228	146,673
Export letters of credit confirmed	10,141	13,131
	198,369	**159,804**

As at 31 December 2008 and 31 December 2007 the Group did not have any contingent liabilities granted to subordinated entities.

The Group makes specific provisions for off-balance sheet commitments. As at 31 December 2008, the specific provisions created for off balance sheet commitments amounted to PLN 8,520 thousand (31 December 2007: PLN 13,574 thousand).

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

In thousands of PLN	31.12.2008	31.12.2007
Contingent liabilities received		
Finance	26,000	50,000
Guarantees	2,394,584	2,573,703
	2,420,584	**2,623,703**

37. Assets pledged as collateral

Assets have been pledged as security in respect of the following liabilities:

In thousands of PLN	31.12.2008	31.12.2007
Liabilities		
Financial liabilities valued at amortized cost:		
Liabilities in respect of securities subject to sale and repurchase agreements	-	69,173

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

In thousands of PLN	31.12.2008	31.12.2007
Assets pledged		
Debt securities held for trading	-	69,304
Debt securities available-for-sale	111,440	66,252
Loan and advantages		
Guarantee funds of stock transactions	78,935	30,743
Settlements related to operations on derivative instruments	50,023	-
	240,398	**166,299**

As at 31 December 2008 and 31 December 2007, the debt securities available for sale presented in the table constituted a reserve against the funds guaranteed to the Bank Guarantee Fund. The information on the assets securing repo liabilities of the Group has been discussed in Note 34. Other assets disclosed above secure settlement of their respective transactions, including derivatives transactions. The terms and rules of the transactions executed to date are standard and typical for such dealings.

38. Trust activities

Bank is the leader on the market of custodian banks in Poland. It offers both custody services connected with securities accounts for foreign institutional investors and depositary services for Polish financial institutions, including pension, investment and equity insurance funds. As at 31 December 2008 the Bank maintained 13,172 securities accounts (31 December 2007: 11,690 accounts).

39. Operating leases

Leases where the Group is the lessee

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

In thousands of PLN	31.12.2008	31.12.2007
Less than 1 year	51,075	43,737
Between 1 and 5 years	134,072	102,747
More than 5 years	25,384	35,815
	210,531	**182,299**
Total operating leasing rentals for unprescribed time	**1,643**	**1,516**

The Group uses office space under operating lease contracts. The most significant lease contracts relate to office space situated in Warsaw at Wolska 171/175 and Chałubińskiego 8. Generally the contracts have been signed for 5 years and there is an ability to extend them over the next three years. Some contracts have been signed for an unspecified period of time. Lease payments are under one year indexation. In 2008 the total amount of lease payments was PLN 41,284 thousand (in 2007: PLN 40,933 thousand).

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

Leases where the Group is the lessor

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

In thousands of PLN	31.12.2008	31.12.2007
Less than 1 year	1,727	4,024
Between 1 and 5 years	3,694	7,348
More than 5 years	909	1,419
	6,330	**12,791**
Total operating leasing rentals for unprescribed time	**2,070**	**2,717**

Part of the Group's office space is leased. Most of the agreements are signed for an unspecified period of time. Other agreements are signed for a period of between 2 and 10 years. Lease payments are under one year indexation. In 2008 the income related to these contracts amounted to PLN 4,152 thousand (in 2007: PLN 9,983 thousand).

The Bank leases cars under contracts with subordinate entities. Agreements are signed for two years or for an unspecified period of time. Lease payments are determined at a fixed interest rate for the entire lease period. The total amount of lease payments in 2008 amounted to PLN 150 thousand (in 2007: PLN 113 thousand).

These payments are presented in the income statement in 'Other operating income'.

40. Cash flow statement

Additional information:

In thousands of PLN	31.12.2008	31.12.2007
Cash related items		
Cash at hand	509,841	395,549
Nostro current account in Central Bank	3,021,136	2,925,954
Current accounts in other banks	76,553	424,820
	3,607,530	**3,746,323**

41. Related parties

Transactions with related parties

Within its normal course of business activities the Group enters into transactions with related entities, in particular with entities of Citigroup Inc., associates (see Note No. 20) and members of the Bank's supervisory board, management and employees.

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

Transactions with Citigroup Inc. entities

The balance sheet and off-balance sheet receivables and commitments towards Citigroup Inc. companies:

In thousands of PLN	31.12.2008	31.12.2007
Receivables, including:	1,432,414	3,391,324
Placements	*1,341,839*	*3,367,120*
Liabilities, including:	3,516,583	2,393,504
Deposits	*1,892,540*	*1,072,283*
Loans received	*1,037,369*	*606,884*
Balance valuation of derivative transactions		
Assets held-for-trading	3,849,056	2,418,523
Liabilities held-for-trading	4,817,442	3,052,520
Off-balance sheet guarantee liabilities granted	286,908	67,318
Off-balance sheet guarantee liabilities received	228,391	227,389
Interest and commission income	113,641	98,371
Interest and commission expense	72,520	68,982

Furthermore the Group incurs costs and receives income of an operational nature from agreements concluded between Citigroup Inc. entities and the Group for the provision of mutual services.
The costs arising and accrued in 2008 from concluded agreements amounted in total to PLN 155,592 thousand (in 2007: PLN 139,212 thousand) and related in particular to the costs arising from the provision of services related to the maintenance of the Group's information systems and advisory support for the Group; income of PLN 67,451 thousand (in 2007: 58,998 thousand) arose from the provision of data processing and other services by the Group.

Transactions with subordinated entities

In thousands of PLN	31.12.2008	31.12.2007
Loans, advances and other receivables*		
Current accounts	**220,096**	**228,214**
Loans, advances and other receivables		
Opening balance	228,214	352,156
Closing balance	220,096	228,214
Deposits		
Current accounts (in respect of):	2,747	19,007
consolidated subordinated undertakings	*953*	*16,585*
subordinated undertakings accounted under for the equity method	*1,794*	*2,422*
Term deposits (in respect of):	228,741	247,954
consolidated subordinated undertakings	*179,122*	*227,117*
subordinated undertakings accounted under for the equity method	*49,619*	*20,837*
	231,488	**266,961**
Deposits		
Opening balance	266,961	372,245
Closing balance	231,488	266,961
Contingent liabilities granted**		
Letters of credit	1,008	4,513
Guarantees granted	904	1,340
Credit lines granted	413,572	330,172
	415,484	**336,025**
Interest and commission income in 2008/2007 (in respect of):	16,294	23,405
consolidated subordinated undertakings	*16,284*	*21,311*
subordinated undertakings accounted for under the equity method	*10*	*2,094*
Interest and commission expenses in 2008/2007 (in respect of):	13,679	13,146
consolidated subordinated undertakings	*12,724*	*12,542*
subordinated undertakings accounted for under the equity method	*955*	*604*

* *On 31 December 2008 and 31 December 2007 loans, advances and other receivables were related to taken advantage credits in current account of consolidation included units.*

** *On 31 December 2008 and 31 December 2007, contingent liabilities granted to dependent units concerned obligations granted to consolidation included units.*

As at 31 December 2008 and 31 December 2007 any receivables or contingent liabilities of subsidiaries have not been subject to impairment write-offs.

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

In thousands of PLN	31.12.2008			31.12.2007		
	Employees	Members of the Management Board	Members of the Supervisory Board	Employees	Members of the Management Board	Members of the Supervisory Board
Loans, advances and other receivables						
Loans granted	41,434	104	8	72,235	288	4
Staff benefits	25,441	-	-	29,878	-	-
Prepayments	11	-	-	52	-	-
	66,886	**104**	**8**	**102,165**	**288**	**4**
Deposits						
Current accounts	65,625	2,457	1,186	62,463	2,171	636
Term deposits	26,474	200	2,741	19,519	100	116
	92,099	**2,657**	**3,927**	**81,982**	**2,271**	**752**
Guarantees issued	5	-	-	49	-	-

42. Employee benefits

Employee benefits are divided into the following categories:

- short-term benefits, which include salaries, social insurance contributions, paid leave and benefits in kind (such as medical care, company apartments, company cars and other free or subsidized benefits). The costs of short-term benefits are expensed in the profit and loss account in the period to which they relate. At the end of a given reporting period, if there is a balance payable that equals the expected undiscounted value of short-term benefits for that period, the Group will record it as an accrued expense;
- benefits after termination of employment – including severance pay (see Note 2) and pension plans presented below offered by the Group to its staff.

A provision is created for future pension severance pay that is shown in the balance sheet in ‘Other liabilities’. An independent actuary in accordance with IFRS rules verifies the provision.

The Group’s pension plan is a pre-determined-premium program in accordance with IAS 19. The Group pays contributions for its staff to a separate organization and, after they are paid, has no other payment liabilities. Premiums are shown as employee benefit expenses in the period they concern.

Description of Employee Pension Plan

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

The current Plan, which is a continuation of PPE Polskie Towarzystwo Emerytalne ‘Diament’, was implemented on 19 March 2004 under an agreement with Legg Mason Senior Specjalistyczny Fundusz Inwestycyjny Otwarty (LM Senior SFIO) and is registered in the District Court for Warsaw under number RFJ-8. LM Senior SFIO is managed by Legg Mason Towarzystwo Funduszy Inwestycyjnych S.A. and its transfer agent is Obsługa Funduszy Inwestycyjnych Sp. z o.o.

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

- Other long-term employee benefits – jubilee and other long service awards. Information about jubilee awards is described in Note 2. These are paid under a pre-determined benefit scheme and their valuation is carried out by actuarially method according to IAS no 19.
- Employee equity benefits – in the form of stock options granted on Citigroup common stock and also under stock award programs based on shares of Citigroup common stock in the form of deferred stock. Valuation and presentation principles of these programs are described in Note 2. Detailed information concerning the employee equity benefits are presented in the further part of this note.

By reason of employment restructuring, reserve amounted PLN 30 million, for costs concerning reduction of employment was established in 2008. The reserve has been utilized in total amount of PLN 25,924 thousand, whereof PLN 10,619 thousand concern payment of benefits in January 2009. The rest of reserve amount to the tune of PLN 4,076 thousand has been dissolved in 2008 (see note 31). Principles of the reserve establishing were presented in note 2 point ‘Restructuring reserve’.

Provisions for the above employee benefits are as follows:

In thousands of PLN	31.12.2008	31.12.2007
Provision for remuneration	82,265	119,674
Provision for employees' retirement and jubilee payments	47,300	63,176
Provision for employees' equity compensation	5,378	15,252
Provision for personal cost of restructurings	10,619	-
	145,562	**198,102**

In 2008, the Group's expenses in respect of premiums for the employee pension plan amounted to PLN 16,093 thousand (in 2007: PLN 14,959 thousand).

Employment in the Group:

	2008	2007
Mid employment during a year	5,701	5,722
At the end of the year	5,540	5,921

Description and principles of employee stock benefits

The Group's employees are entitled to participate in Citigroup equity compensation plans. In accordance with these plans the Group's employees may receive Citigroup stocks (capital accumulation program or CAP) or options for Citigroup stocks (stock option program or SOP) as awards.

Within the framework of the SOP, eligible employees receive options to buy stock at the NYSE average closing price as at the 5 days directly preceding the award grant date. Employees acquire the right to a portion of their options on each anniversary of their SOP award grant date. Options granted during 2005-2008 will be transferred partially in 25% every year for the next four years, starting from the first anniversary of option acquire. Options may be exercised by purchases of stock in the period from the acquisition date of the right to an option to the expiry date of the option.

Deferred shares within the framework of the CAP are granted at the NYSE average closing price as at the 5 days prior to the grant date. Deferred shares give the right to equivalents of dividends, but without voting rights, and must not be sold prior to their conversion into stocks. Deferred shares are converted into stocks after the end of a period that is determined in the Program Rules, which commences on the CAP award allocation date, provided, however, that an eligible employee is still with Citigroup. Options granted during 2005–2008 will be transferred partially in 25% every year for the next four years, starting from the first anniversary of option acquire.

Assumptions of valuation of the employee equity benefit programs

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

SOP Program	Grant date	Exercise price/stock price at grant date	Number of eligible employees	Number of options/shares
1	13.02.02	42.11 or 41.90	251	98,145
2	12.02.03	32.05	227	69,851
3	20.01.04	49.50	89	54,761
4	18.01.05	47.50	5	1,547
5	20.09.05	45.36	1	1,500
6	17.01.06	48.92	1	1,538
7	16.01.07	54.38	1	436
8	22.01.08	24.45	10	31,497

CAP Program	Grant date	Exercise price/stock price at grant date	Number of eligible employees	Number of options/shares
1	18.01.05	35.96 or 47.95	188	17,728
2	15.11.05	48.24	2	1,166
3	17.01.06	36.58 or 48.77	166	41,895
4	21.11.06	50.73	1	1,478
5	16.01.07	40.84 or 54.46	195	73,111
6	17.07.07	52.19	1	1,917
7	16.10.07	46.24	1	406
8	20.11.07	32.00	1	3,516
9	22.01.08	19.75 or 26.33	250	304,417

	Program SOP	Program CAP
Period to acquire the title (in years)	(1) 20% after the each of the following years (2)-(3) 33.33% after each of the following years (4)-(8) 25% after each of the following years	(1)-(5) and (7)-(9) 25% after each of the following years (6) 100% after 3 years
Expected variances	114.78%	114.78%
Life cycle of the instrument	(1)-(8) 1 year from the moment of rights acquisition	In the moment of rights acquisition
Risk free interest rate (for USD)	1.12%	1.12%
Expected dividends (in USD per one share)	0.64	0.64
Probability of premature termination of employment (annual staff turnover for awarded employees)	7 %	7 %
Fair value of one instrument* (in USD)	0.00 - 2.34	6.71

** Varies depending on the date of exercise*

Options – volumes and weighted-average strike prices (SOP program):

	31.12.2008		31.12.2007	
	Number	Weighted average strike price	Number	Weighted average strike price
At the beginning of the period	250,616	40.75	328,107	39.94
Allocated in the period	31,497	24.45	436	54.38
Redeemed in the period	-	-	59,543	39.48
Expired in the period	22,839	-	18,383	-
At the end of the period	259,274	38.93	250,616	40.75
Exercisable at the end of the period	225,775	40.86	247,335	40.66

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

31.12.2008			31.12.2007		
Striking price range (in USD)	Number (in thousands of pieces)	Weighted average period to the end of life cycle (in years)	Striking price range (in USD)	Number (in thousands of pieces)	Weighted average period to the end of life cycle (in years)
41.90	1.77	0.00	41.90	0.81	0.53
42.11	96.38	0.00	42.11	102.72	0.53
32.05	69.85	0.00	32.05	81.26	0.00
49.5	54.76	0.00	49.5	61.05	0.55
47.5	1.55	0.55	47.5	1.31	1.06
45.36	1.50	1.22	45.36	1.5	1.06
48.92	1.54	1.05	48.92	1.54	1.56
54.38	0.44	1.55	54.38	0.44	2.56
24.45	31.50	2.55	-	-	-

Options – volumes and weighted-average strike prices (CAP program):

	31.12.2008		31.12.2007	
	Number	Weighted average strike price	Number	Weighted average strike price
At the beginning of the period	226,616	42.23	217,022	40.29
Allocated in the period	304,417	21.87	114,898	43.68
Redeemed /expired in the period	85,399	-	105,304	-
At the end of the period	445,634	28.33	226,616	42.23

43. Subsequent events

After 31 December 2008 there were no major events after the balance sheet date not included in the financial statement that could have a significant influence on the net result of the Group.

On January 12, 2009 it sold to Fairfax Financial Holdings Limited with its seat in Ontario, Canada, all of its 17,500,000 Series A and B registered shares of the company operating under the brand name of Polskie Towarzystwo Reasekuracji S.A. with its seat in Warsaw (PTR S.A.), constituting about 16.64% of the share capital of PTR S.A. and entitling to the same number of votes at the General Meeting of Shareholders of PTR S.A. The sale of shares was made as a result of the Bank's response on November 28, 2008 to the public tender offer to acquire all of the outstanding shares of PTR S.A. made on September 8, 2008 by Fairfax Financial Holdings Limited and in connection with the fulfillment of all legal conditions specified in the Tender Offer. The total price at which the Bank sold 17,500,000 PTR S.A. shares is PLN 28,000,000.

On 20 February 2009, Management Board of Bank Handlowy w Warszawie S.A. ('Bank') received from Pioneer Pekao Investment Management S.A. (PPIM) information that at the date of 12 February 2009, the total shareholding of PPIM clients has reach the level of 5.01% of the total number of votes at the General Meeting of the Bank, in respect of financial instruments included in the client's portfolios managed by PPIM, who performs on behalf of its clients portfolio management services of a broker financial instruments.

The information was sent by the Pioneer Pekao Investment Management S.A. as required by the Art. 87 paragraph 1 point 3 b) and Art. 87 paragraph 1 point 2 letter a). of the Act from 29 July 2005 concerning public offering and conditions of introducing financial instruments into organized trading system and about public companies.

Obtained information has presented that the engagement of the following entities, as at February, 13, 2009:

- Pionier Akcji Polskich Fundusz Inwestycyjny Otwarty,
- Pionier Aktywnej Alokacji Fundusz Inwestycyjny Otwarty,
- Pionier Małych i Średnich Spółek Rynku Polskiego Fundusz Inwestycyjny Otwarty,
- Pionier Średnich Spółek Rynku Polskiego Fundusz Inwestycyjny Otwarty,
- Pionier Stabilnego Wzrostu Fundusz Inwestycyjny Otwarty,
- Pionier Zrównoważony Fundusz Inwestycyjny Otwarty,
- Specjalistyczny Fundusz Inwestycyjny Otwarty Telekomunikacji Polskiej

has reached level of 5.002% of cumulative number of votes on the Bank's General Meeting in range of financial instruments included in those entities' portfolios, managing by PPIM, supplying service of managing broker financial instruments portfolio on demand.

Portfolios of above mentioned entities present subgroup of all PPIM clients' portfolios.

Subsequent to 31 December 2008 there has been a significant depreciation of the polish zloty against other major currencies:

- from PLN 4.1724/EUR as at 31 December 2008 to PLN 4.6197/EUR as at 12 March 2009,
- from PLN 2.9618/USD as at 31 December 2008 to PLN 3.6105/USD as at 12 March 2009,
- from PLN 2.8014/CHF as at 31 December 2008 to PLN 3.1266/CHF as at 12 March 2009.

This movement can have a significant effect on the values and risk profiles of foreign currency assets, liabilities and off balance sheet financial instruments.

44. Risk management

Risk management structure and process

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

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

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

Management Board of the Bank by way of a resolution:

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

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

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

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

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

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

- managing operational risk,
- supporting risk management.

The independent risk managers dedicated to specific customer segments are responsible for establishing and implementing risk management policies and practices within their business, for overseeing the risk in their business, and for responding to the needs and issues of their business.

As part of holistic review of risks the Bank performs two processes:

- Annual scenario tests: the entire Group business, corporate and consumer, is stressed for 2 downside economic & political scenarios. This test requires preparation of a country scenario plan that establishes key risk triggers and key action plans to be undertaken in an adverse event. The test results are reviewed by Group higher level management, including some of the Management Board members and triggers are monitored as part of official Committee meetings.
- Assessment of significant risks and capital required to cover them under base case and stress scenarios. Different parameters impacting risk weighted assets are stressed to assess the size of risk.

Risk management in the Bank is supported by the IT systems in the following areas:

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

Further paragraphs of the chapter describe detailed organisational solutions and processes of managing specific risks, that is credit risk, including Bank's policies in respect of collaterals and impaired exposures, market risk and operational risk.

Credit risk

Credit risk is the potential for financial loss resulting from the failure of a borrower or counterparty to honor its financial or contractual obligations. It may also relate to the downgrade of debt securities issuer rating. Credit risk arises in many of the Bank's business activities, including:

- credits and loans,
- FX sales and trading,
- derivatives,
- securities transactions,
- settlements,
- transaction in which the Bank acts as an intermediary on behalf of its clients or other third parties.

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

Corporate and commercial banking

The processes and organization of credit risk management in Corporate and Commercial Banking

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

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

- joint business and independent risk management responsibility for the quality of credit portfolio and process as well as for costs of credit,
- adherence to portfolio guidelines to ensure diversification and to maintain risk/capital alignment,
- a minimum of two authorized credit approvers required for extensions of credit,
- risk approval level dependent on risk assessment i.e. size and risk related to the exposure, higher risk exposures require approvals at higher decision levels and/or special approvals,
- risk ratings derived through using risk rating models and scorecards,
- risk rating standards, applicable to every obligor and facility, though with possibility of minor differences between Corporate and Commercial Bank portfolios,
- standards for credit origination documentation and remedial management,
- periodic monitoring of customers' results from their activities, and identification of such negative changes in their standing which require immediate remedial actions and communication to upper level management,
- exceptions to policies approved at higher levels within the organization to ensure control over risk policy implementation by upper level management.

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

Customer Level Monitoring

Tools employed to monitor the ongoing creditworthiness of a borrower include:

- quarterly financial reviews of the obligor,
- periodic reviews of credit exposures watchlisted and/or adversely classified,
- periodic credit calls on customers,
- ongoing contacts by business/relationship managers,
- analysis and assessment of external information (rating reports, analyst reports, press, industry sources etc),
- annual reviews of credit relationships,
- ongoing monitoring of timely repayments and adherence of other contractual obligations.

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

Portfolio Level Monitoring

- Regular monitoring of the use of risk concentration limits in the credit portfolio,
- Regular, periodic credit portfolio reviews,
- 'ad hoc' portfolio reviews caused by sudden, negative external information.

In addition to the various reporting processes provided above, regular portfolio round tables are conducted by the independent risk managers dedicated to specific customer segments with the business to review business pipelines and credit issues, as well as meeting and consultation with the representatives of Institutional Remedial Management Department to assess the situation of customer which demonstrate deterioration of financials and agree the eventual action plan.

Ongoing training of risk and business managers is undertaken, especially when credit policy changes are implemented or new initiatives are undertaken.

Risk mitigation policies for Corporate and Commercial Banking

Risk mitigation is constant and key element of Group credit risk management processes. It is achieved at several levels as described below. Some of the measures are more relevant to Corporate and some to Commercial Bank portfolios.

Customer selection & credit approvals

- Target market and customer selection criteria are determined;
- Define the maximum credit exposure against obligor through obligor limits related to customer risk ratings and/or through risk acceptance criteria;
- Specialist approvals: consultation with industry experts and product specialists are mandatory for certain products and clients in specific industries;
- Robust credit due diligence standards (initial and annual reviews);
- Documentation standards. All credit/collateral agreements must incorporate minimum, pre-defined documentation standards. These are aimed at protecting Group interests during enforcement of claims;
- Credit approvals by authorized approvers knowing best the customer from risk management and business units.

Credit portfolio monitoring & early warning

- Active portfolio management by the implementation of respective changes in the credit strategy based upon portfolio reviews or stress tests,
- Setting portfolio limits for each risk bucket, necessitating review and change of the customer selection and risk acceptance criteria, if exceeded,
- Ongoing portfolio review ensures identification of adverse trends and concentrations, prompting suitable changes in credit strategy,
- Considering specific risk mitigation tools, such as accepting parent and third party guarantees, taking collateral, loan sell-down etc.,
- Periodic stress tests on the portfolio enable identification of portfolio vulnerability to specific external events,
- In cases of low exposures customers with the homogeneous characteristic (especially small enterprises), statistic analysis of portfolio including: level of delinquency, level of credit losses, vintage analysis.

Credit risk measurement in Corporate and Commercial Banking

Risk rating is the part of credit risk assessment associated with the granted credit. Obligor risk rating reflects an estimated probability of default for an obligor, and is derived primarily through the use of statistical models (which are validated periodically), external rating agencies (under defined circumstances), or scoring methodologies. To that end, the Bank uses its internal ratings based both on the financial and quality criteria alike, referred to the prevailing financial situation and the development perspectives of the industry. Internal obligor ratings equivalent to BBB (according to S&P) and above are considered investment-grade. Ratings below the equivalent of BBB- are considered non-investment-grade. The Bank identifies eight main ratings for not impaired exposures. Higher value of rating means higher level of receivables risk. As part of the approval or subsequent renewal process, Risk Management is responsible for assigning a risk rating to the obligor.

Each credit limit is assigned to a facility risk rating. Facility risk rating is assigned, using the obligor risk rating and facility-level characteristics decreasing the losses in the situation of obligor default (i.e. support or collateral). The facility risk rating refers to an expected probability of losses on the credit facility (the product of probability of default and loss given default).

In case of the amount of exposure measurements methods these vary from the most simple, such as the book value of the asset, to complex, such as estimating potential replacement cost on a derivative contract. The processes required for these measurements also vary considerably, from a simple feed of balances to a complex simulation engine.

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

- at a facility level,
- at an obligor level,
- at a group level, considering the group structure of multiple obligors with common ownership and/or organization,
- at a portfolio level.

Consumer banking

The processes and organization of credit risk management in Consumer Banking

Within Consumer Banking, independent credit risk management is responsible for establishing the Consumer Credit Policy, approving business specific policies and procedures, monitoring business risk management performance, providing ongoing assessment of portfolio credit risk, and approving new products and new risks. Approval policies for a product or business are tailored to internal audit ratings, profitability, and credit risk portfolio performance.

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

- Credit policies define customer minimum acceptance criteria (minimum net income, permitted income source, exposure etc.), method of evaluation of creditworthiness (multipliers, debt burden, maximum exposure limits etc.), personnel authorized to make credit decisions and limits assigned to personnel, cutoff score used, application verification process, documents required and other criteria;
- The credit policy defines principles for single product unsecured exposure as well as aggregated maximum unsecured exposure by customer;
- Credit authority can be given to authorized, trained and experienced staff based upon their professional experience and tested qualifications concerning the risk assessment and making credit decisions. Credit competences are subject to periodic verification. Results of credit decisions taken by credit analysts are analyzed and relevant revisions of the limits assigned are executed;
- Effectiveness of scorecards used in risk assessment process is monitored on a regular basis by Score Unit with use of population stability reports, KS reports, and performance reports by score band (delinquencies and losses ratios). Each scorecard has an annual validation process;
- Bank maintains written procedures for each product covering all aspects related to product: legal documentation, pricing, terms and conditions, operational procedures (risk assessment, disbursal, maintenance), accounting, collection process, credit policy rules, identification of impaired exposures and methods for calculation of credit losses, etc.;
- Each portfolio has annual stress testing performed;
- The Bank prepares the forecasts of current receivables and at risk of impairment. The receivables forecast is followed by a forecast of credit losses and a forecast of expected level of provisions and overdue receivables for 30–89 days.

For retail exposures (individuals as well as small and medium enterprises managed on a portfolio/delinquency basis) risk measurement is done by the statistical analysis of the behavior of the whole portfolio or selected group of customers (for instance divided by geographic location, revenues range, score range, job, etc.). Level of delinquency indicators, credit loss indicators, flows of receivables between delinquency buckets is monitored. Monitoring is conducted on a monthly basis.

Risk mitigation policies for Consumer Banking

Consumer Banking Division uses the following means to mitigate risk:

- customers verification in Credit Bureau (BIK),
- exposure limits on product and customer level,
- assessment of a customer creditworthiness on a systematic basis with a scorecard,
- verification of income and employment,
- controls mitigating frauds,
- monthly monitoring of the portfolio quality,
- stress tests.

The scope and nature of credit risk reporting and measurement systems in Consumer Banking

Each portfolio has dedicated MIS used to track performance and identify trends in portfolio:

- reports on applications received 'through the door' MIS – identifying all acquired accounts,
- coincident indicators report – identifying delinquencies in accounts,
- lagging indicators report – identifying losses.

The above mentioned reports are prepared for each product separately and by segments. Possible segmentation includes: demographic criteria (employment, age, education, marital status etc.), score value (score bands, risk segmentation to high, medium, low), product parameters (tenor, APR, limit etc.), etc.

MIS and Scoring Analysis Units are independent from business units and report to Consumer Banking Risk Division.

Quality controls in MIS and Score Analysis Units include:

- reconciliation with general ledger,
- repository of scripts used,
- annual validation of models used for forecasting reserves according to IFRS reserves.

MIS package for each portfolio is prepared on a monthly basis and distributed to appropriate personnel (Chief Risk Officer, Head of Consumer Risk Division, Head of Consumer Bank and other).

The policies for collateral and other risk mitigation acceptance

Previous sections presented descriptions for general rules of risk mitigation specific for Corporate and Consumer Bank. This section describes collateral and other credit risk mitigation policies, including parent and third party guarantees and similar forms of support (jointly called: collateral), which are common for both areas.

Creditworthiness and customer ability to repay is a primary decision criteria based upon which the Bank approves credit to both individuals and companies alike. Collateral is only used as a risk mitigation tool.

The Bank accepts various types and forms of collateral from its clients. For individual clients the most common type of collateral is residential real estate while for companies many types of collateral are common and accepted, including:

- Bank guarantees/personal guarantees/sponsoring letters,
- cash,
- Treasury bonds, notes/NBP certificates,
- securities,
- shares in a limited liability company,
- receivables,
- inventory,
- real estate,
- equipment and machines,
- vehicles.

In order to standardize and improve the process, a specialized risk unit responsible for management and monitoring of collaterals was created. The key elements of the process include:

- definition of collateral acceptance criteria,
- collateral appraisal and its validity period,
- required documentation,
- monitoring process,
- inspections and insurance requirements.

The Group requires additional collateral from the customer when the liquidity declines or worsens (according to the Group) or when the collateral value declines.

The credit procedures describe:

- collateral requirements for different types of exposure/s,
- credit/collateral relation for different types of collateral,
- collateral structure as it relates to the portfolio structure.

The rules for accepting, managing, monitoring and reporting collateral as per the procedures are checked within the control process. Periodically Bank also monitors if the actual structure of the collateral portfolio is compliant with the assumed.

Concentration of exposure

Concentration risk management in Group's portfolio regards especially concentration resulted from following exposure:

- on single obligors or relationships, including related to the Group (counterparty concentration risk),
- on obligors from the same industry group, sector and carrying the same activity or trading with the same type goods (industry concentration risk).

Above concentrations relate especially to Corporate and Commercial Banks portfolios. Also other potential concentrations like currency, geographic and collateral are also monitored, but no significant concentrations are observed there. With respect to currency concentration exposures expressed in Polish zloty prevail in the Bank's portfolio. Geographically the Bank is active in the Republic of Poland only, some exposure concentration is naturally observed in central Poland. General Bank's policy of financing based on obligor creditworthiness and not type of collateral available results in generally low secured portfolio and thus low specific collateral concentrations. Considering above and the fact that these concentrations are monitored based on management information portfolio data, they were not described in details in the subsequent sections.

Group sets limits and manages of the size of exposure to ensure the proper of risk diversification in portfolio.

Counterparty concentration risk

The Group sets out to limit its exposure to a single customers or capital group of customers. As at 31 December 2008, the Group's exposure in banking portfolio transactions with the group of customers, which all-in exceeded 10 % of the Group's equity, amounted to PLN 2,161,636 thousand i.e. 64.8% of these funds (31 December 2007: PLN 2,805,204 thousand i.e. 81.7%).

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

In thousands PLN	31.12.2008			31.12.2007		
	Balance outstanding*	Off-balance outstanding	Total outstanding	Balance outstanding*	Off-balance outstanding	Total outstanding
Group 1	344,592	408,274	752,866	443,585	159,694	603,279
Group 2	187,916	311,341	499,257	132,638	473,595	606,233
Group 3	135,195	327,636	462,831	167,690	141,592	309,282
Group 4	267,359	179,323	446,682	186,218	298,882	485,100
Group 5	86,728	235,094	321,822	21	360,522	360,543
Group 6	6	312,102	312,108	10	125,425	125,435
Group 7	113,757	188,303	302,060	36,406	255,205	291,611
Group 8	238,175	38,605	276,780	46,129	93,333	139,462
Group 9	111,534	164,381	275,915	3,573	127,666	131,239
Group 10	245,000	5,000	250,000	75,294	5,000	80,294
Total	**1,730,262**	**2,170,059**	**3,900,321**	**1,091,564**	**2,040,914**	**3,132,478**

** Excluding outstanding on commercial papers and subsidiaries.*

The Banking Act of 29 August 1997 (Journal of Laws of 2002 No. 72, item 665, as later amended) and its executive regulations issued by the Commission for Banking Supervision define maximum exposure limits for a Group. Under article 71 paragraph 1 of the Act, which came into force as of 1 January 2002, total balance sheet and off-balance sheet exposure from one or more capital and organizationally related entities cannot exceed 20% of the Group's equity when one of the entities is a parent entity or subsidiary undertaking of the Bank or is a subsidiary undertaking to a parent entity of the Bank or cannot exceed 25% of the Bank's equity when there is no such relationship between the Bank and the borrower. Pursuant to provisions of the Resolution No. 1/2007 of the Commission for Banking Supervision dated 13 March 2007 regarding specific rules for calculating capital requirements for banking risk categories (…) the Bank is allowed to maintain exposure exceeding concentration limits, as defined in article 71 paragraph 1 of the Banking Act, on condition that the excess exposure relates only to transactions classified to trading portfolio. Equity for the purpose of setting concentration limits specified in the Banking Act, has been established in accordance with resolution No. 2/2007 of the Commission for Banking Supervision dated 13 March 2007 regarding specific rules for other reductions for calculating Bank's primary funds (…).

As at 31 December 2008, the Group had an exposure to a related party from the banking sector exceeding the statutory debt concentration limits. The excess exposure arose by virtue of derivative transactions. As a consequence, an additional capital requirement for excess exposure was factored into the calculation of the Group's capital adequacy ratio as at 31 December 2008.

Concentration of exposure in individual industries

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

The Group's policy concerning exposures to particular industries is developed separately for large customers from the Corporate Bank and medium-sized, small and micro enterprises from the Commercial Bank:

- The Group's policy regarding exposures to large corporate and commercial customers active in particular sectors is developed through an identification of target markets. A key component in this identification of markets is an assessment of industry risk. To this end, specialists in particular industries carry out industry analyses. Within the framework of the target markets specified risk acceptance criteria;
- In terms of small and medium enterprises and micro-companies, the Group's policy on exposures consists of identifying a target market by negative selection of industries where the risk of doing business is considered unacceptable.

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

Sector of the economy according to Polish Classification of Economic Activity (PKD)	31.12.2008	31.12.2007
	in %	in %
Wholesale and sale on commission basis, except for trade with vehicles and motorcycles	17.9	17.5
Financial intermediation, except for insurance and retirement fund business	11.1	9.1
Production of food and beverages	6.8	7.5
Retail trade, except for trade with vehicles and motorcycles; servicing and repair of personal commodities	5.7	4.3
Provision of power, gas, steam and hot water	5.7	8.2
Production of chemicals	4.6	5.4
Production, sale and service of vehicles and motorcycles; retail sale of fuel for car vehicles	3.3	3.0
Production of rubber and plastic goods	3.2	2.6
Postal services and telecommunications	3.0	3.7
Production of machines and equipments	2.8	1.9
Top 10 business sectors	**64.1**	**63.3**
Building industry	2.7	2.5
Land based transport, pipeline transport	2.1	2.2
Other services concerned with economic activity	2.1	3.0
Production of goods out of other non-metallic resources	2.1	1.8
Production of metallic goods, except for machines and equipment	2.0	1.9
Production of vehicles, trailers and semi-trailers	1.9	1.6
Production of other transportation equipment	1.8	1.6
Production of equipment, otherwise unclassified	1.8	2.2
Production of coke, oil refinery and atomic fuel	1.7	2.3
Production of tobacco goods	1.7	1.6
Top 20 business sectors	**84.0**	**83.9**
Other sectors	**16.0**	**16.1**
Total	**100.0**	**100.0**

Although concentration in some industries has changed the overall portfolio concentration remains on similar level.

In thousands PLN	31.12.2008	31.12.2007
Gross receivables from customers and banks (by type of activity)		
Gross receivables from economic entity and banks		
Financial	3,870,650	9,010,899
Production	3,875,943	3,586,522
Services	1,850,503	1,591,744
Other	3,713,016	3,689,717
	13,310,112	**17,878,882**
Gross receivables from individuals	**5,774,528**	**4,768,755**
(see note 22)	**19,084,640**	**22,647,637**

Managing impaired exposures

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

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

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

- known solvency difficulties experienced by the borrower,
- overdue contractual payments,
- violation of loan covenants,
- the probability that the borrower will enter bankruptcy proceedings.

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

Risk Management regularly evaluates the adequacy of the established allowances for impaired loans by conducting a review of the loan portfolio.

On basis of clasification managed customers

These are determined by evaluating the exposure to loss, case by case, on all individually significant accounts. In determining allowances on classifiably managed accounts, the following factors are considered:

- aggregated exposure to the customer,
- the viability of the customer's business model and the capacity to successfully work out their financial difficulties,
- generating sufficient cash flow to service debt obligations,
- the amount and timing of expected payments,
- the realizable value of security and probability of successful repossession considering all legal risks,
- the expected payments available on bankruptcy or liquidation,
- the possible assumption of any expenses concerned in recovering outstanding amounts,
- when suitable, the market price of the debt.

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

Delinquency managed accounts

For loans that are not considered individually significant impairment is calculated on a collective basis. A formulaic approach is used which allocates progressively higher percentage loss rates the longer a customer's loan is overdue.

The tables below present direct exposure of the Group to credit risk, whereas the accounts payable to customers, with established value loss, have been grouped for presentation purposes into risk categories using classification and without impairment has been presented using the internal risk ratings, and the accounts payable. There are also presented the details of provisions made for impaired receivables and receivables with incurred but not recognized (IBNR) losses. In order to define the maximum exposure of the Group to the credit risk, it is necessary to account also for the off--balance sheet exposure (discussed in Note 36), the debt securities available for sale (discussed in Note 19), the financial assets provided for trading (discussed in Note 18) and other assets (discussed in Note 28).

The tables below present exposition of the Group on credit risk.

In thousands of PLN	31.12.2008		31.12.2007	
	Receivables from customers	Receivables from banks	Receivables from customers	Receivables from banks
Individually assessed receivables				
Risk category II	188,274	-	43,759	-
Risk category III	212,653	-	213,956	-
Risk category IV	1,026,063	2,253	952,101	1,852
Gross value	**1,426,990**	**2,253**	**1,209,816**	**1,852**
Impairment	1,038,408	2,253	1,004,895	1,852
Net value	**388,582**	**-**	**204,921**	**-**
Collectively assessed receivables				
Risk category II	18,767	-	11,421	-
Risk category III	24,283	-	29,718	-
Risk category IV	499,211	-	446,416	-
Gross value	**542,261**	**-**	**487,555**	**-**
Impairment	389,991	-	385,638	-
Net value	**152,270**	**-**	**101,917**	**-**
Not impaired receivables				
Risk rating 1-4	12,304,080	2,875,124	9,760,222	8,269,748
Risk rating 5-6	1,394,529	43,272	2,762,258	1,403
Risk rating 7-8	395,002	101,129	154,783	-
Gross value	**14,093,611**	**3,019,525**	**12,677,263**	**8,271,151**
Impairment	70,701	1,788	49,845	34
Net value	**14,022,910**	**3,017,737**	**12,627,418**	**8,271,117**
Total net value	**14,563,762**	**3,017,737**	**12,934,256**	**8,271,117**

In thousands of PLN	31.12.2008		31.12.2007	
	Receivables from customers	Receivables from banks	Receivables from customers	Receivables from banks
Impairment value for receivables assessed individually				
Risk category II	21,501	-	3,113	-
Risk category III	74,740	-	110,966	-
Risk category IV	942,167	2,253	890,816	1,852
	1,038,408	**2,253**	**1,004,895**	**1,852**
Impairment value for receivables assessed collectively				
Risk category II	4,322	-	2,771	-
Risk category III	7,551	-	12,352	-
Risk category IV	378,118	-	370,515	-
	389,991	**-**	**385,638**	**-**
IBNR provisions				
Risk rating 1-4	54,865	2	32,923	25
Risk rating 5-6	6,178	322	12,911	9
Risk rating 7-8	9,658	1,464	4,011	-
	70,701	**1,788**	**49,845**	**34**
Total net value	**1,499,100**	**4,041**	**1,440,378**	**1,886**

In thousands of PLN	31.12.2008	31.12.2007
Receivables with incurred but not recognized (IBNR) losses		
Regular receivables		
0-30 days	16,992,453	20,882,043
Oveardue receivables		
31-90 days	120,639	66,323
91-180 days	44	48
Gross value	**17,113,136**	**20,948,414**

Market risk

The processes and organization of market risk management

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

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

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

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

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

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

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

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

Liquidity risk management

Liquidity management has the aim of ensuring the Bank and the Group's entities an access to liquid assets for the purpose of fulfilling its obligations on time, also under extreme yet probable crisis conditions. The Group is compliant with the regulatory banking supervision requirements in Poland, and in particular with Resolution No 9/2008 of the Polish Banking Supervision Authority of 13 March 2007 (from the 1st of January 2008 called Financial Supervision Authority) on setting liquidity norms binding to banks, with due consideration of the liquidity policy of Citigroup.

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

Liquidity risk is monitored and managed in the approach approved and by reports presented to ALCO, Bank's Supervisory Board and Treasury Division. The Director of Assets and Liabilities Management Bureau in Treasury Division is responsible for keeping the liquidity risk within the limits set by Polish Financial Supervision Authority, keeping the exposure to liquidity risk within the set internal limits and for the managing of current liquidity.

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

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

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

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

Liquidity risk management in the entities of the Bank's Group is ensured by the management boards of these entities and appropriate application of the 'Risk management principals'. Liquidity oversight for entities from the Bank's Group is performed by ALCO. In order to ensure effective communication between the Bank and the entities from the Group, delegates from these entities participate in the meetings of the Market Risk Working Group for Bank's Subsidiaries.

Measurement and mitigation of the liquidity risk, rules and processes

The primary Group's liquidity risk assessment reports include regulating measures of liquidity i.e.: the short-term liquidity gap report – demonstrating the relationship between liquid assets and unstable sources of funds – and reports of the supervisory long-term liquidity measures, that means the ratio of coverage of non-liquid assets in own capital funds and the ratio of coverage of non-liquid assets and limited liquidity assets in own capital funds and stable external funds.

The Commission for Financial Supervision had set the minimum limits for all of the ratios at 1, meaning that on each business day liquid assets of the Group ought to exceed unstable sources of funds and that own capital funds together with stable external funds ought to exceed non-liquid and limited liquidity assets. In its calculations the Group prepares regular analyses of stability for the respective classes of liabilities, of accessibility and trading levels of markets used for liquidating assets and projects increases in assets of its depositors.

Additionally, for purposes of limiting its payment related liquidity risk, the Group prepares the MAR report. The report demonstrates the gaps in financial flows in individual time buckets and reflects potential exposure to the necessity of finding additional funding sources on the monetary market. MAR comprises all the financial flows relating to balance sheet and off-balance sheet transactions, transactions of currency exchange, future currency valuable papers buying and selling transactions. The liquidity gap reports are prepared on daily basis and encompass the Bank's and dependent companies Handlowy-Leasing Sp. z o.o. and Dom Maklerski Banku Handlowego S.A., balance sheet in aggregate and by individual currency balances.

The gap limits established by the Bank's ALCO are binding for the following terms: O/N, 2–7 days, 8–15 days, 1 month, 2 months, 3 months, 6 months and 1 year. The liquidity gap above one year is not covered by limits, but is subject to monitoring. In calculating the gap, statistical research is taken into account, for example, in the area of the deposit base stability and the assumptions relating to the share of the individual product groups in the Group's balance sheet structure. Additionally, in order to assess liquidity risk, the Market Risk Department monitors the basic relationships in the Group's balance sheet structure and analyzes changes in these relationships over time.

The measure of the assessment of liquidity risk is the level of the modified gap in financial flows in respect of the potential sources of financing. Therefore, the gap level is compared with the possibility of obtaining additional funding from the wholesale market (other banks, investment funds, pension funds, insurance companies) and with the balance of liquid assets (mainly liquid securities), which may be sold or pledged (as part of repo transactions or at use of a pawn loan from NBP) in the assumed time horizon.

The levels of the modified gap in financial flows and the level of liquid assets as at 31 December 2008 and 31 December 2007 are shown in the tables below.

The liquidity gap as at 31 December 2008 in real terms:

In thousands of PLN	Up to 1 month	More than 1 to 3 months	More than 3 months to 1 year	More than 1 year to 2 years	More than 2 years
Assets	4,261,460	686,524	989,882	12,517	36,599,962
Liabilities	7,049,895	94,153	870,108	315,248	34,220,941
Balance sheet gap in the period	(2,788,435)	592,371	119,774	(302,731)	2,379,021
Off-balance sheet transactions - inflows	7,294,723	6,124,796	10,871,352	1,752,153	4,512,902
Off-balance sheet transactions - outflows	6,535,615	6,017,968	10,810,675	1,738,723	5,563,943
Off-balance sheet gap in the period	759,108	106,828	60,677	13,430	(1,051,041)
Cumulative gap	(2,029,327)	(1,330,128)	(1,149,677)	(1,438,978)	(110,998)

The liquidity gap as at 31 December 2007 in real terms:

In thousands of PLN	Up to 1 month	More than 1 to 3 months	More than 3 months to 1 year	More than 1 year to 2 years	More than 2 years
Assets	4,686,511	2,284,393	2,127,856	431,051	29,390,544
Liabilities	4,803,476	860,220	69,814	455,274	32,731,571
Balance sheet gap in the period	(116,965)	1,424,173	2,058,042	(24,223)	(3,341,027)
Off-balance sheet transactions - inflows	16,145,664	6,012,349	12,864,609	873,564	4,227,464
Off-balance sheet transactions - outflows	16,073,820	6,109,831	12,783,930	902,277	4,277,569
Off-balance sheet gap in the period	71,844	(97,482)	80,679	(28,713)	(50,105)
Cumulative gap	(45,121)	1,281,570	3,420,291	3,367,355	(23,777)

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

In thousands of PLN	31.12.2008	31.12.2007	Change
Liquid assets, including:	15,247,016	10,651,168	4,595,848
obligatory reserve in NBP and stable part of cash	3,183,925	3,059,474	124,451
debt securities held for trade	1,248,263	1,124,056	124,207
debt securities available for sale	10,814,828	6,467,638	4,347,190
Cumulative liquidity gap up to 1 year	(1,149,677)	3,420,291	(4,569,968)
Coverage of the gap with liquid assets	1,326%	Positive gap	Not applicable

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

As at 31 December 2008:

In thousands of PLN	Note	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Interests
Financial liabilities held-for-trading								
Short positions in financial assets	18	-	-	-	-	-	-	-
Financial liabilities valued at amortized cost								
Deposits from financial sector	30	7,922,266	7,829,200	43,691	40,407	4,743	-	4,225
Including banks	*30*	*3,336,022*	*3,287,207*	*13,223*	*34,457*	-	-	*1,135*
Deposits from non-financial sector	30	19,935,083	18,256,867	1,298,410	325,730	27,065	84	26,927
Other liabilities	30	1,488,396	194,051	24,603	841,353	333,810	89,703	4,876
		29,345,745	26,280,118	1,366,704	1,207,490	365,618	89,787	36,028
Financial liabilities held-for-trading								
Derivative financial instruments	18	4,754,417	224,081	399,117	1,277,529	1,575,691	1,277,999	-
Unused credit lines liabilities		10,949,511	10,309,913	38,618	168,924	380,018	52,038	-
		45,049,673	**36,814,112**	**1,804,439**	**2,653,943**	**2,321,327**	**1,419,824**	**36,028**
Gross derivatives								
Inflows		29,126,979	6,209,300	6,180,753	10,389,201	3,700,904	2,646,821	
Outflows		28,994,979	6,415,210	6,022,235	10,373,970	3,557,517	2,626,047	
		132,000	**(205,910)**	**158,518**	**15,231**	**143,387**	**20,774**	

As at 31 December 2007

In thousands of PLN	Note	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Interests
Financial liabilities held-for-trading								
Short positions in financial assets	18	34,932	34,932	-	-	-	-	-
Financial liabilities valued at amortized cost								
Deposits from financial sector	30	7,085,166	6,144,625	842,659	55,000	1,855	29	40,998
Including banks	*30*	*3,790,469*	*2,864,837*	*835,859*	*50,000*	-	-	*39,773*
Deposits from non-financial sector	30	19,811,372	18,898,970	573,487	249,598	76,367	169	12,781
Other liabilities	30	1,103,687	237,009	20,650	224,394	617,456	-	4,178
		28,000,225	25,280,604	1,436,796	528,992	695,678	198	57,957
Financial liabilities held-for-trading								
Derivative financial instruments	18	3,097,536	157,773	218,318	675,047	1,335,325	711,073	-
Unused credit lines liabilities		10,874,042	9,742,453	1,492	274,002	778,667	77,428	-
		42,006,735	**35,215,762**	**1,656,606**	**1,478,041**	**2,809,670**	**788,699**	**57,957**
Gross derivatives								
Inflows		38,582,702	15,848,325	6,024,356	12,513,327	1,846,563	2,350,131	
Outflows		38,648,175	15,775,189	6,071,284	12,522,393	1,902,218	2,377,091	
		(65,473)	**73,136**	**(46,928)**	**(9,066)**	**(55,655)**	**(26,960)**	

As part of annual funding and liquidity plan preparation ALCO establishes a set of Market Factors for which appropriate triggers are set. Each trigger breach shall be discussed by the Committee and the decision shall be taken regarding the necessity of extraordinary actions including the changes in liquidity risk management of the Group.

Group performs liquidity stress tests. The stress scenarios include assumptions about significant changes in key funding parameters. The four stress scenarios are:

- concentration event,
- long-term rating downgrade,
- short-term rating downgrade,
- financial crisis on the domestic market.

Stress testing of liquidity risk is performed on a monthly basis.

The results of stress tests are reviewed to ensure that Group is self-funding, under stress scenarios, and has sufficient liquidity. In addition a Contingency Funding Plan has to prepared and updated on a periodic basis. The plan includes detailed policies, procedures, roles and responsibilities in the case of actual liquidity stress situation including alternatives that can be used by the head of Treasury in a liquidity event.

Pricing risk management

Scope of risk

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

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

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

The balance sheet of the Group includes the following assets and liabilities:

- Subject to the fair value risk (interest-rate linked):
  - fixed rate debt securities and discounting securities, and
  - fixed rate loans and deposits,
- Subject to the cash flow risk (cash flows linked to the interest rate):
  - floating rate debt securities, and
  - floating rate loans and deposits,
- Not subject to a direct interest rate risk:
  - fixed assets,
  - capital investments, and
  - intangible assets.

In addition, the Group is subjected to the interest rate risk of derivative agreements such as Interest Rate Swaps (IRS), Currency Interest Rate Swaps (CIRS), Forward Rate Agreement (FRA), future contracts, forward and swap FX contracts.

Measurement of the pricing risk of the bank portfolios

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

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

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

It is assumed that:

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

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

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

The IRE is calculated for the Group and the Treasury Division separately. The IRE for the Group reflects the actual exposure to the interest rates risk, while maintaining the revaluation timescales set out in the contracts with customers (in keeping with the above-mentioned structuring and revaluation rules), or estimated by the Group against its proprietary analyses (for the positions with no preset revaluation/due dates). The IRE for the Treasury Division reflects the risk positions transferred by the other entities of the Group to that Department, through the agency of the transfer price of funds mechanisms along with the Department's own positions.

Follow the IRE measures for the Group valid on 31 December 2008 and 31 December 2007. The list has been broken down into the main currencies, i.e. PLN, USD and EUR, which jointly account for over 90% of the Group's balance sheet.

In thousands of PLN	31.12.2008		31.12.2007	
	IRE 12M	IRE 5L	IRE 12M	IRE 5L
PLN	7,642	104,071	8,130	90,683
USD	(394)	3,351	(3,649)	(4,469)
EUR	(8,836)	(42,808)	(18,431)	(48,043)

Stress tests measure potential impact of material changes in the level or directionality of interest rate curves on the open interest positions in the bank portfolio.

Group runs stress tests of predefined interest rate movement scenarios, which represent combinations of market factor movements defined as large moves and stress moves occurring both in Poland and abroad. Values of the assumed market factor movements are revised at least once a year and duly adjusted to the changes in the market conditions of the Group's operation.

Supplementary to the stress tests of the Group's entire bank book we run tests of the portfolio of securities available for sale (AFS), which assesses the potential impact of any change in valuation of the portfolio of these securities on the Group's equity capital.

IRE and AFS DV01 limits are set for all material exposures in all currencies. Currencies in respect of which only minor exposures exist can be aggregated in a separate portfolio.

The DV01, i.e. the dollar value of a basis point of the portfolio of securities available for sale supplements the IRE control measure applied to the interest rates risk on the Group's books. This measure shows how the value of the financial instruments portfolio will change (in this case the instruments will be the AFS securities) with the change of the interest rate for a particular currency along a certain section of the interest rates curve. The IRE shows the potential change of the interest rate margin in the future, thus the consequence of changes of the interest rates for the Group's financial result will surface in the future periods, as happens in the case of the positions valued through the depreciated cost method. Nonetheless the impact of any change in interest rates on the value of the portfolio of securities available for sale is immediate, though not in the financial result, but in the value of the Group's capital funds, since the unrealized result from revaluation of these securities revises their value.

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

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

In order to avoid the excessive fluctuations of the value of the Group's capital funds due to the revaluation of the assets available for sale, the Group has been setting the maximum DV01 position limits for these portfolios. Also, the limits cover open positions in derivative instruments (e.g. interest rate swap transactions) executed for the purpose of securing the fair value of the portfolio.

Whenever border value of any of the above-mentioned risk measures is exceeded this information is escalated to higher management levels and triggers the requirement for definition of further action plan by the managers.

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

In thousands of PLN	31.12.2008			31.12.2007			Overall between 01.01.2008 and 31.12.2008		
	Total	Securities	IRS	Total	Securities	IRS	Average	Minimum	Maximum
PLN	(1,246)	(1,246)	-	(1,338)	(1,338)	-	(1,267)	(1,368)	(1,144)
USD	(99)	(99)	-	(123)	(203)	80	(116)	(420)	0
EUR	(766)	(766)	-	(650)	(827)	177	(856)	(1,187)	(657)

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

Systems applied for reporting and measurement of interest rate risk in banking portfolios

The application used for banking book interest rate risk reports production works on the basis of standardized set of transaction-level data sourced from bank's books. This is a standard application used by Citigroup subsidiaries and branches. In addition to the reports produced by the application there is available information generated based on data from internal systems of Financial Division.

Pricing risk of the trading portfolios

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

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

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

In the case of interest rates, the applicable sensitivity measure is DV01 (Dollar Value of 1 basis point), which determines the potential change in value of the risk positions on a given interest rate curve at a specific nodal point (which brings together all the cash flows in a given timeframe), which is caused by a shift in the market rate of interest by 1 basis point up. Total DV01 value for a given currency is the difference between the valuation of all the instruments forming part of the trading portfolio in a given currency by structure of the yield curve at the time of valuation and the valuation of the same instruments based on the same curves assuming a parallel shift of 1 basis point up. DV01 is calculated for each defined risk factor (curve nodal point) separately, and subsequently aggregated for the respective currencies.

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

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

The foregoing measures are used to determine the risk position limits, broken down into currencies and the Group's organizational units. As for the interest rates risk, the Group we also uses certain warning thresholds for the risk position at different sections of the interest rates curves. The position risk limits are set at the end of the day and monitored on daily basis.

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

The Group measures VaR and monitors this measure as part of its operational risk management. VaR is however not used at present for purposes of calculating the regulatory capital requirement, and Group has thus not applied to the Commission for Financial Supervision for issuance of a permit for the use of the Value at Risk method.

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

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

The Group runs the stress tests for the four basic scenarios, as follows:

- the most likely scenario, based on the historic fluctuations of the risk factors,
- local financial crisis, and
- global financial crisis,
- shock based on hypothetical changes of market factors.

On top of the foregoing tools for the limiting and monitoring the pricing risk of the trading portfolios, the Group uses the following:

- warning threshold of the monthly cumulated loss on the trading portfolios,
- Aggregate Contracts Triggers, being the warning thresholds in respect of the total volume of unsettled transactions in a specific financial instrument,

- Maximum Tenor Trigger, being the warning thresholds in respect of the maximum time to maturity of a specific financial instrument, and
- the limits, or warning thresholds of concentration for the types of security, issuer, and issue of debt securities and equities.

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

The values of significant exposures of the bank portfolios to the interest rates risk in terms of DV01, net of the exposures derived from the economic hedging of the portfolios of the securities available for sale in the year 2008 have been listed in the table below:

in thousands of PLN	31.12.2008	31.12.2007	Overall between 01.01.2008 and 31.12.2008		
			Average	Maximum	Minimum
PLN	(42)	(43)	(121)	294	(515)
EUR	23	(73)	(37)	82	(218)
USD	(10)	(14)	7	243	(112)
HUF	(12)	(31)	(38)	12	(113)

The marked exposure to the interest rates risk, in the year 2008, compared with the year 2007 remains on the similar level although the FX structure of the position changes. Higher exposure was taken in LCY (average DV01 was at the -121 thousand PLN level comparing to -45 thousand PLN in 2007) while the risk appetite in EUR was lower (average position was 66 thousand PLN lower than in 2007). What's regarding the maximum position taken by Treasury thy were lower for all currencies (i.e. maximum position in LCY was -515 thousand PLN comparing to -690 thousand PLN in 2007 and in EUR -218 thousand PLN comparing to -379 thousand PLN in 2007).

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

The table below shows the levels of risk measured using the VaR (net of the economic hedges of the portfolio of securities available for sale) broken down into the FX risk and the interest rate risk positions in the year 2008:

In thousands of PLN	31.12.2008	31.12.2007	Overall between 1.01.2008 and 31.12.2008		
			Average	Maximum	Minimum
FX risk	114	151	916	5,672	34
Interest rate risk	3,511	4,254	3,427	14,192	1,089
Overall risk	3,514	4,225	3,790	14,564	1,148

In the year 2008, the overall, average level of the pricing risk of the trading portfolios was lower than medium level in year 2007 of about PLN 0.4 million. Although the maximum risk levels were much higher in year 2008 than in 2007. Maximum price risk level gain amount of PLN 14.6 million, compared to amount of PLN 8.9 million in the same period of the year 2007.

Systems applied for reporting and measurement of interest rate risk in banking portfolios

The main system applied for trading portfolios price risk measurement, reporting and monitoring is the internal common reporting data-base of Financial Division and Market Risk Department – TPRC, which is sourced daily from the following systems:

- Kondor+ the Group's main transactional front-office system as far as data regarding the interest rate sensitivities and foreign exchange positions are concerned,
- the calculation and reporting system GMR (Citigroup systems) as far as VaR measures are concerned.

Capital instruments risk

The Dom Maklerski Banku Handlowego S.A. (DMBH) is the Group's key company transacting the capital instruments. In order to run its core business, DMBH has been authorized to take up the pricing risk of the trading portfolio of shares, or share rights, traded, or likely to be traded on Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange or WSE), or Centralna Tabela Ofert (Central Bids Table or CTO), WIG20 futures and the Indexed Participation Units, as well as shares on the international stock exchanges of the companies listed on the WSE. The pricing risk of DMBH's instruments portfolios is curbed by the volume limits applicable to specific types of financial instruments and the warning thresholds applicable to the volume of instruments introduced to the market by specific issuers. Moreover, warning thresholds are used for DMBH, alerting on the potential loss for the stress scenarios and the cumulated, realized loss on the trading portfolio.

Currency exhibition of the Group

Currency structure of assets and liabilities of the Group with main currency is presented in the following table:

31 December 2008

In thousands of PLN	Balance transaction		Off-balance transaction		Net item
	Assets	Liabilities	Assets	Liabilities	
EUR	4,916,401	5,257,506	11,890,724	11,479,544	70,075
USD	2,929,613	3,307,388	4,855,201	4,496,077	(18,651)
GBP	411,184	518,265	303,154	190,099	5,974
CHF	543,561	607,254	350,563	269,775	17,095
Other currencies	442,909	430,188	520,318	553,579	(20,540)
	9,243,668	**10,120,601**	**17,919,960**	**16,989,074**	**53,953**

31 December 2007

In thousands of PLN	Balance transaction		Off-balance transaction		Net item
	Assets	Liabilities	Assets	Liabilities	
EUR	4,908,141	3,892,161	11,778,224	12,796,716	(2,512)
USD	4,074,052	2,508,183	8,981,926	10,554,964	(7,169)
GBP	11,818	153,499	170,978	26,181	3,116
CHF	199,114	179,192	6,484	18,177	8,229
Other currencies	16,360	64,233	553,858	523,823	(17,838)
	9,209,485	**6,797,268**	**21,491,470**	**23,919,861**	**(16,174)**

Operational risk

The processes and organization of the operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, or technical systems, or from external events. It includes franchise risks associated with business practices or market conduct. It also includes the risk of failing to comply with applicable laws and internal regulations. Operational risk does not cover reputation risk, strategic risks or the risk of loss resulting solely from authorized judgments made with respect to taking credit, market, liquidity or insurance risk.

Operational Risk Framework covering the Group aims at:

- providing a single coherent and effective approach to identification, control, assessment, monitoring, measurement and reporting of operational risks,
- ensuring effective reduction of the operational risk-exposure, and as a consequence, reduction of operational risk events and their severability,
- ensuring the execution of requirements for operational risk, according to KNB resolutions,
- ensuring compliance with regulations connected with operational risk management.

The Group's approach to operational risk is defined in the Operational Risk Policy, including Risk and Control Self-Assessment (RCSA) Process.

There are the following key elements in the operational risk management:

- risk identification,
- risk mitigation,
- Risk and Control Self Assessment (RCSA),
- monitoring,
- measurement,
- reporting covering areas of increased exposure to operational risk.

Risk and Control Self Assessment process has been implemented for ongoing identification, control, assessment, monitoring, measurement and reporting of quality of the control environment and potential threats. Data on operational risk events' effects (losses) has been regularly collected for several years. Centralization and automation introduced during recent years allowed the Group to significantly reduce the number as well as amount of operational losses.

For a few years, the Group has managed the operating risk using a variety of tools and techniques including chiefly the self-assessment process, check lists, limits, contingency planning, insurance, and audits.

Roles and break-down of responsibilities at different levels of the Group's Senior Management for the operating risk have all been defined in the Operational Risk Policy, including Risk and Control Self-Assessment (RCSA) Process.

The most important include:

- Management Board is accountable for preparation and implementation of operational risk management strategy, including organization and insurance of proper operational risk management process in the entire organization. Where necessary the Management Board should introduce necessary amendments aiming at improvement of operational risk management process. Operational risk management principles and procedures should cover all Group activities. Strategic decisions regarding bank policies, organization, assignment of roles and responsibilities, reorganizations of processes, automation and centralization are reserved for Management Board;
- Supervisory Board supervises and assesses adequacy and effectiveness of control over operational risk management;
- Each major business segment and subsidiaries must implement an operational risk process, consistent with the requirements of the Operational Risk Policy, including Risk and Control Self-Assessment (RCSA) Process. Risk identification, RCSA and reporting processes in main aspects are prescribed and standard across Business Units. Risk mitigation, monitoring, and measurement processes are defined by each Business Unit and may differ from Business Unit to Business Unit.

Issues, events, indicators pertaining to the operational risk are being regularly reported to the Business Risk, Control and Compliance Committees (in the Group there are two separate Committees, one for Corporate Banking and one for Consumer Banking). All detected oversights, remedial actions, operational events and operating risk indicators are the subject of regular reports submitted with the relevant committees. At the same time, the operating risk management process quality (including the self-assessment process) in the respective organizational units of the Group entities are the subject of inspections and assessment carried out by the internal audit.

The scope and nature of operational risk reporting and measurement systems

Reporting of operational risk data should cover:

- results of internal and external audits,
- RCSA results,
- Key Operational Risk and key risk indicators,
- internal operational risk events,
- COB and Information Security – updates, issues,
- data allowing monitoring of the Group's operational risk profile.

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

On the basis of regular monitoring, the Management Board assesses the general level of operational risk as average, typical for the scale of activity of the Group.

Risk mitigation policies for operational risk

Control processes introduced in the Group mitigate causes, reduce the probability of occurring the negative results of operational events (including operational losses), minimize the severity of an effect. Examples of control mechanism might include segregation of duties (maker-checker), monitoring of established limits, or employee personal trading policy pre-clearance requirements. Risk mitigation measures include as well risk transfer mechanisms (contract management/ outsourcing, insurance).

The Group's Senior and Middle Management is responsible for implementation of additional control mechanisms if deemed required, especially in the context of compliance with Banking Law and regulations of Commission of Banking Supervision.

Each Business Unit must establish an appropriate system of controls that are commensurate with the level of operational risk and other risks being managed, including proper documentation of the control procedures and appropriate staff training. Each Business Unit must evaluate the risks that are unacceptable or outside of the Business Unit's risk appetite and determine the appropriate actions for their mitigation or transfer.

Additionally, there is periodic assessment of adequacy and effectiveness of controls which covers testing the adequacy and effectiveness of the Key Controls at a frequency commensurate with the underlying risk and frequency of the control (self-assessment) and independent review by internal audit. In case of identification of deficiency and the areas of uncontrolled risk, the management of the Business Unit is responsible for formulating a corrective action plan to resolve these deficiencies. Realization of the action plans depends on independent monitoring and control.

The equity management

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

The Group's equity amounted to PLN 5.6 bn as at 31 December 2008. Regulatory capital, which included increases and decreases set by Commission for Banking Supervision (KNB), (since 1 January 2008 named Polish Financial Supervision Authority) amounted to PLN 3.7 bn. Such capital level is regarded as sufficient for conducting business activity. The capital level is regularly monitored using capital adequacy ratio.

The Bank's Management Board decided to apply the standardized approach (implemented by KNB resolution) for calculating capital requirements due to credit and operational risk. The long-term Bank's goal is the implementation of the advanced approach for estimation of the above-mentioned risks.

Beginning from 2008 the Group has launched the process of estimating internal capital. There had place classification of risks with regard for relevance criterion and for risks identified as relevant the capital required for coverage of these risks was calculated.

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

45. Statement of the Bank's Management Board

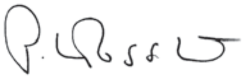
Accuracy and fairness of the statements presented

To the best knowledge of the Bank's Management Board, which members are: Mr. Sławomir S. Sikora – President of the Management Board, Mr. Michał H. Mrożek – Vice-President of the Management Board, Mr. Peter Rossiter – Vice-President of the Management Board, Mrs. Sonia Wędrychowicz-Horbatowska – Vice-President of the Management Board, Mr. Witold Zieliński – Vice-President of the Management Board, the financial data and the comparative data presented in the 'Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. as at 31 December 2008' were prepared consistently with the accounting standards in force and reflect the accurate, true and fair view of assets and financial position as well as the financial profit or loss of the Group. The 'Report on Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in 2008' contained in this document is a true representation of the development, achievements and situation (together with a description of the main types of risks) of the Group in 2008.

Selection of the auditor authorized to examine financial statements

The entity authorized to examine financial statements KPMG Audyt Sp. z o.o., and auditor, reviewing 'The Annual Financial Statements of Bank Handlowy w Warszawie S.A. as at 31 December 2008', was selected consistently with the legal regulations. The registered auditor met the conditions necessary for issuing an impartial and independent opinion on the review, consistently with the respective regulations of the Polish law.

Signatures of all Management Board Members

Date	Name	Position/function	Signature
12.03.2009	Sławomir S. Sikora	President of the Management Board	
12.03.2009	Michał H. Mrożek	Vice-President of the Management Board	
12.03.2009	Peter Rossiter	Vice-President of the Management Board	
12.03.2009	Sonia Wędrychowicz- -Horbatowska	Vice-President of the Management Board	
12.03.2009	Witold Zieliński	Vice-President of the Management Board	

Report on Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in 2008

Poland's economy in 2008

Main macroeconomic trends

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

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

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

Money and forex markets

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

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

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

Capital market

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

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

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

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

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

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

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

** sub-index calculated since 19 September 2008*
*** sub-index calculated since 15 June 2007*
Source: WSE, Dom Maklerski Banku Handlowego S.A.

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

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

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

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

Reverse trends occurred in the fixed income market. Year 2008 closed with evidence that bond trading grew by 44% compared to 2007 reaching PLN 4.69 billion.

The futures and options market proved to be slower than in 2007 in terms of trading volumes, however, the 12.2 million (or 29% YOY) increment can be deemed robust.

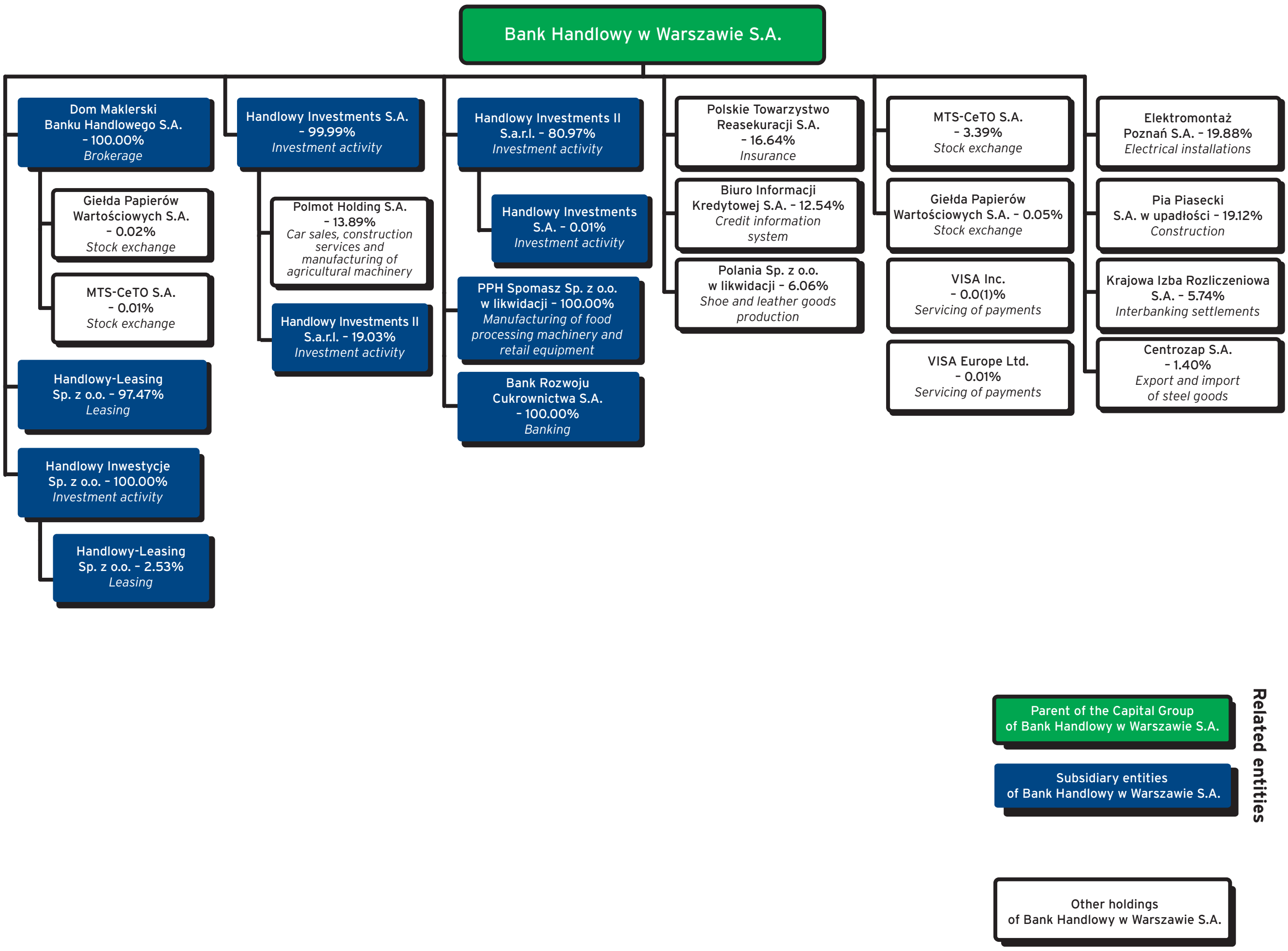
Banking sector

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

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

Organizational structure of the Capital Group of Bank Handlowy w Warszawie S.A.

The organizational structure of the group entities of Bank Handlowy w Warszawie S.A. (Bank), by percentage of share capital held as at 31 December 2008, is presented below.



Changes in the organizational structure of the Capital Group of Bank Handlowy w Warszawie S.A.

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

Group entities fully consolidated

Entity	Business	Capital relationship	% of authorised capital held	Accounting method	Equity (PLN '000)
Bank Handlowy w Warszawie S.A.	banking	parent	-	-	5,539,450*
Dom Maklerski Banku Handlowego S.A. (DMBH)***	securities brokerage	subsidiary	100.00%	full consolidation	92,156
Handlowy-Leasing Sp. z o.o.	leasing	subsidiary	100.00%**	full consolidation	178,830
Handlowy Investments S.A.***	investment activity	subsidiary	100.00%	full consolidation	28,189
PPH Spomasz Sp. z o.o. w likwidacji (under liquidation)***	-	subsidiary	100.00%	full consolidation	Company under liquidation

** Equity of Bank Handlowy w Warszawie S.A. as per stand-alone balance sheet of the Bank in respect of 2008*
*** Including indirect participations*
**** Above data have not been audited*

Group entities not fully consolidated

Entity	Business	Capital relationship	% of authorised capital held	Accounting method	Equity (PLN '000)
Handlowy Inwestycje Sp. z o.o.***	investment activity	subsidiary	100.00%	equity valuation	12,403
Handlowy Investments II S.a.r.l.***	investment activity	subsidiary	100.00%**	equity valuation	6,930
Bank Rozwoju Cukrownictwa S.A.***	banking	subsidiary	100.00%	equity valuation	39,983

*** Including indirect participations*
**** Above data have not been audited*

In 2008 the Group executed a transaction involving divestment of shares in Narodowy Fundusz Inwestycyjny Magna Polonia S.A. As at 11 January 2008 the Bank's subsidiary Handlowy Investments S.A. sold a stake of 390,323 shares in the said company, with nominal value of PLN 0.10 per share and total nominal value of PLN 39,032.30, which represented 3.04% of its share capital, via a special session on the Warsaw Stock Exchange (WSE).

On 4 December 2008 the Bank's subsidiary Handlowy Inwestycje Sp. z o.o. sold all 80,001 it held in Lubelska Fabryka Maszyn Rolniczych S.A., with nominal value of PLN 4.00 per share and total nominal value of PLN 320,004.00, which represented 5.00% of its share capital.

In the fourth quarter of 2008 as a result of a distribution of Visa Incorporated shares by Visa Europe Limited to the participating banks, Bank Handlowy w Warszawie S.A., a member of Visa Europe Limited, took up 30,526 shares in Visa Incorporated, with nominal value of USD 0.0001 per share and total nominal value of USD 3.0526, which represented 0.0(1) % of its share capital.

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

Highlights of the year 2008

Year 2008 proved to be exceptionally hard for the banking sector in Poland. In spite of the unfavourable circumstances the Group registered a number of successes. The key areas of achievement included:

- Cost discipline policy; **1.7% cost reduction**;
- Growth in lending to non-financial sector; loans, advances and other receivables of non-financial sector rose by 11.2%;
- Retention of strong market position in Commercial and Investment Banking;
- **Dom Maklerski Banku Handlowego** advanced to the second position in the market as it retained its position of leadership in serving institutional clients; market share in overall WSE trading;
- **Improved competitiveness of the Consumer Bank**; the number of current accounts rose by 31% YOY reaching 403,000 at the end of 2008;
- **The best year to date in credit card sale**; the Bank sold over 296,000 new cards, a 25% YOY improvement. Total number of credit cards exceeded one million at the end of the year;
- **Successes in transaction servicing**: 70% share in the Polish prepaid cards market; development of novel MicroPayments (Mikrowpłaty) product; recognised as SEPA Leader in Poland, Escrow Account recognised as Europrodukt;
- **New offer addressed to SMEs**; combining the standardised package offer for the mass market with the individualised approach to SMEs with more advanced needs;
- Further **optimisation of the branch network**; integration of all the outlets, including Commercial Bank, Consumer Bank and CitiFinancial branches.

Summary financial data of the Bank

PLN million	31.12.2008	31.12.2007
Total assets	42,550.3	38,908.0
Equity	5,625.8	5,603.1
Loans*	13,886.0	12,486.5
Deposits*	19,935.1	19,811.4
Net profit	600.4	824.2
Capital adequacy ratio	12.1%	12.9%

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

Financial result of the Group for the year ended 31 December 2008

Income Statement

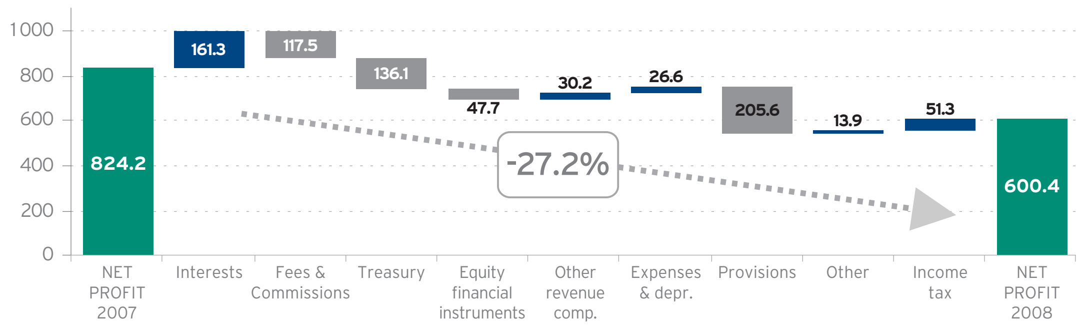
The Group's gross profit for the year 2008 reached PLN 759.2 million and was PLN 275.1 million or 26.6% lower than a year earlier. Its consolidated net profit for the year 2008 reached PLN 600.4 million, which means a decline of PLN 223.8 million or 27.2% compared to a year earlier.

Selected Income Statement items

PLN '000	2008	2007	Change PLN '000	Change %
Net interest income	1,365,750	1,204,420	161,330	13.4%
Net commission income	618,945	736,683	(117,738)	(16.0%)
Dividend income	11,761	5,940	5,821	98.0%
Net gains on financial instruments held for trading and on revaluation	259,342	422,520	(163,178)	(38.6%)
Net gains on investment debt securities	57,184	30,086	27,098	90.1%
Net gains on investment equity securities	(168)	47,489	(47,657)	(100.4%)
Net other operating income	89,425	65,065	24,360	37.4%
Total income	**2,402,239**	**2,512,203**	**(109,964)**	**(4.4%)**
Overheads and general administrative expenses and depreciation	(1,495,908)	(1,522,544)	26,636	1.7%
Overheads and general administrative expenses	(1,398,793)	(1,413,707)	14,914	1.1%
Depreciation/amortisation of tangible and intangible fixed assets	(97,115)	(108,837)	11,722	10.8%
Net gains on sale of fixed assets	3,255	596	2,659	446.1%
Net change in impairment losses	(153,080)	52,556	(205,636)	(391.3%)
Share in net profits/(losses) of entities valued by equity method	2,656	(8,586)	11,242	130.9%
Profit before taxation	**759,162**	**1,034,225**	**(275,063)**	**(26.6%)**
Income tax expense	(158,728)	(210,010)	51,282	24.4%
Net profit for the year	**600,434**	**824,215**	**(223,781)**	**(27.2%)**

Depicted below is the impact of individual income statement (P&L) items on net profit:

An impact of the particular Profit & Loss Result components on net profit decrease in 2008



The key factors contributing to the reduced earnings included: an increase in net impairment losses of PLN 153.1 million in 2008 as against net impairment loss releases of PLN 52.6 million in 2007 (PLN 205.6 million negative impact on net profit), decrease of net gains/losses on financial instruments held for trading and on their revaluation by PLN 163.2 million and a PLN 117.7 million YOY decline in net fees and commissions. PLN 161.3 million YOY raise in net interest income contributed net profit.

Operating income – which includes net interest and commission income, dividend income, net gains/losses on financial instruments held for trading and on their revaluation, net gains/losses on investment debt securities and on equities and net other operating gains/losses – was PLN 2,402.2 million (decrease of PLN 110 million) compared to a year earlier. The highest impact on this decrease had negative fx options adjustment in the amount of PLN 261 million, lowering net gains/losses on financial instruments held for trading and on their revaluation. Average duration of the options portfolio amounts nearly 9 months.

At the same time costs of Group operating activity, overheads and general administrative expenses and depreciation were brought down by 1.7%.

A number of material one-off events were posted in both 2008 and 2007, which had an impact on the Group's financial result.

In 2008 these included: booking of a PLN 30 million provision against employment restructuring; a PLN 11 million contribution to operating income triggered by a favourable court ruling closing a certain dispute with the Bank; a PLN 3.8 million contribution to operating income from granting of shares in VISA Incorporated; and a PLN 10 million release of a provision earlier posted against a penalty imposed by the Office of Competition and Consumer Protection in connection with proceedings relating to 'interchange' charges in the banking sector.

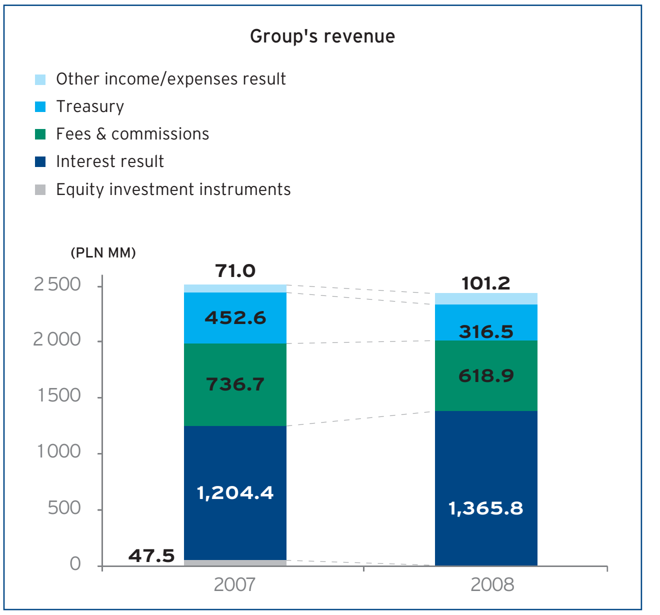
In 2007 the one-off transactions included:

- PLN 6.7 million income at divestment of a minority share interest in Stalexport S.A.;
- PLN 33.5 million income at divestment of a minority share interest in NFI Empik Media & Fashion by Handlowy Investments S.A., a subsidiary of the Bank;
- PLN 3.8 million income at divestment of shares in MasterCard;
- PLN 10 million provision against a penalty imposed by the Office of Competition and Consumer Protection in connection with proceedings relating to 'interchange' charges in the banking sector;
- PLN 3.2 million income at divestment of shares in NFI Magna Polonia S.A. by Handlowy Investments S.A.

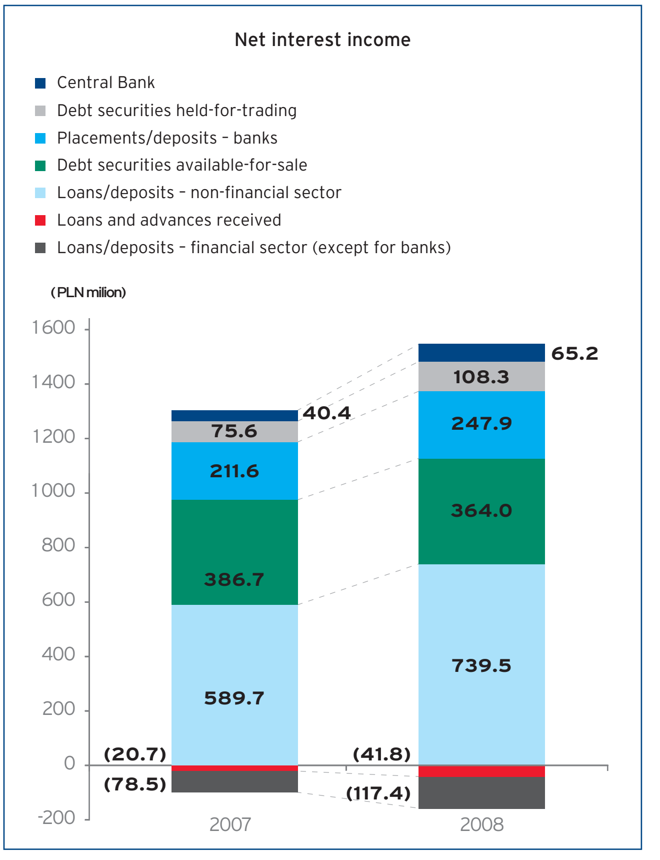
At netting out of these transactions, 2008 gross profit declined by PLN 232.7 million or 23% YOY, 2008 net profit declined by PLN 190 million or 24% YOY while 2008 operating income decreased by PLN 97.6 million or 4% YOY.

Revenue

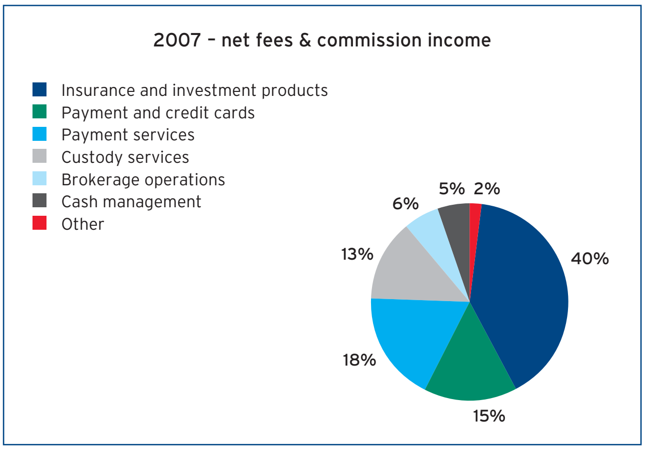
Operating income in 2008 reached PLN 2,402.2 million, a PLN 110 million decrease on year 2007, which represented a combined effect of the following primary factors:

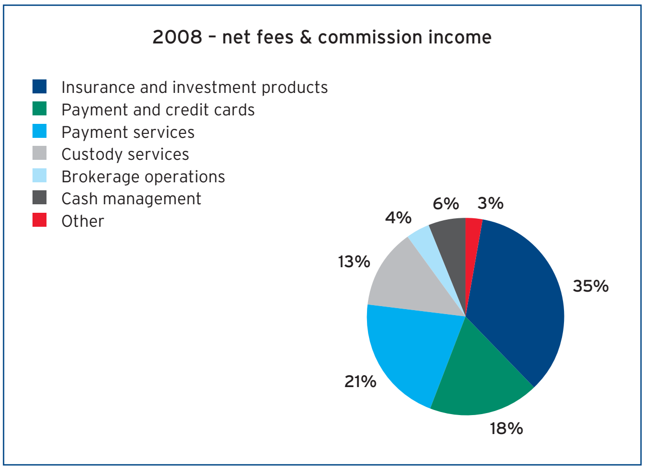


- PLN 161.3 million or 13.4% net interest income growth, primarily resulting from an increase in income on loans and other non-financial sector receivables: mainly income from retail loans and credit card borrowing;



- PLN 117.7 million or 16.0% net commission income contraction, primarily in the Consumer Bank's commissions on insurance and investment products, and commissions on custody and depositary services, and brokerage services;





- PLN 5.8 million or 98% growth in dividend income;
- PLN 27.1 million or 90.1% growth in net gains on investment debt securities: the effect of active portfolio management strategy and of successful exploitation of the favourable bond markets conditions;
- PLN 163.2 million or 38.6% decline in net gains on financial instruments held for trading and on their revaluation: the Group pursued active marketing of the products to its clients and customers, however, net gains on financial instruments held for trading and on revaluation take into account value adjustments on increased counterparty credit risk charged in the fourth quarter of 2008;
- PLN 47.7 million decline in net gains on investment equity securities; largely the effect of material one-off transactions executed in 2007 (divestments of: a minority share stake of NFI in Empik Media & Fashion, shares in NFI Magna Polonia S.A. by Handlowy Investments S.A., a subsidiary of the Bank, shares in MasterCard and shares in Stalexport S.A.);
- PLN 24.4 million or 37.4% increase in net other operating income; largely the effect of material one-off events in both 2008 and 2007: in 2008 these included a PLN 11 million contribution to operating income triggered by a favourable court ruling closing a certain dispute with the Bank and a PLN 10 million release of a provision earlier posted against a penalty imposed by the Office of Competition and Consumer Protection in connection with proceedings relating to 'interchange' charges in the banking sector; in 2007 a PLN 10 million provision was posted on account of the abovementioned penalty.

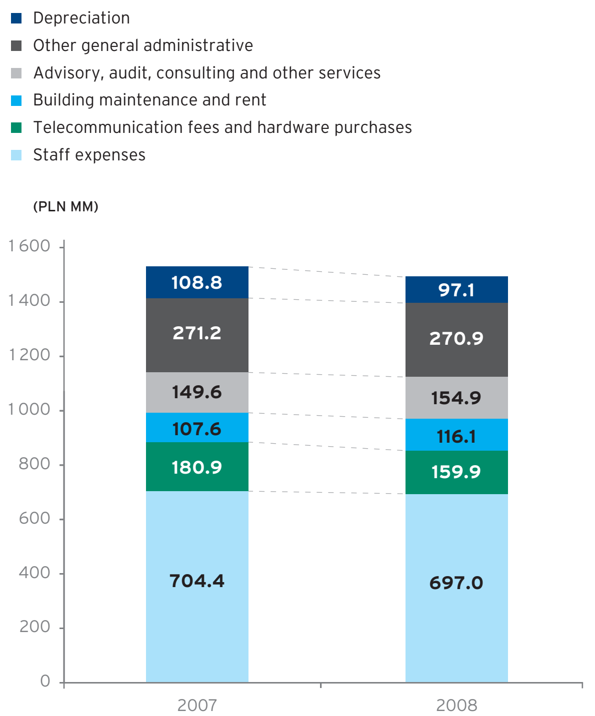
In short, the key contributors to PLN 2,402.2 million operating income and its decrease by PLN 110 million recognised in 2008 the highest impact had interest income, which rose by PLN 161.3 million, net gains on financial instruments held for trading and on their revaluation, which declined by PLN 163.2 million and net commission income, which fell by PLN 117.7 million.

Expenses

PLN '000	2008	2007	Change	
			PLN '000	%
Personnel costs	**696,961**	**704,409**	**(7,448)**	**(1.1%)**
General administrative expenses, among others:	**701,832**	**709,298**	**(7,466)**	**(1.1%)**
Telecommunication fees and IT hardware	159,943	180,858	(20,915)	(11.6%)
Building maintenance and rent	116,084	107,646	8,438	7.8%
Advisory, audit, consulting and other external services	154,880	149,640	5,240	3.5%
Total overheads	**1,398,793**	**1,413,707**	**(14,914)**	**(1.1%)**
Depreciation	97,115	108,837	(11,722)	(10.8%)
Total expenses	**1,495,908**	**1,522,544**	**(26,636)**	**(1.7%)**

Throughout the year 2008 the Group continued to pursue its cost discipline policy. Compared to 2007 expense was reduced by 1.7% or PLN 26.6 million, a result of lower depreciation, costs of banking activity and of general administrative expenses. PLN 20.9 million reduction telecommunication fees and IT hardware costs contributed substantially to lowering of general administrative expenses.

Administrative expenses & depreciation



Depreciation and personnel costs in the Commercial Bank fell, primarily due to lower personnel, technology, advertising and advertising and marketing costs. At the same time costs in the Consumer Bank rose, primarily driven by increased spent on customer acquisition and portfolio retention, and on technology and development of the Bank's IT systems.

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

Net impairment losses

PLN '000	Change			
	2008	2007	PLN '000	%
Net impairment losses incurred but not reported (IBNR)	(16,726)	8,829	(25,555)	(289.5%)
Net impairment losses on loans and off-balance sheet liabilities	(136,354)	43,727	(180,081)	(411.8%)
accounted for individually	(60,900)	75,046	(135,946)	(181.2%)
accounted for collectively, on a portfolio basis	(75,454)	(31,319)	(44,135)	(140.9%)
Total change in impairment losses	**(153,080)**	**52,556**	**(205 636)**	**(391.3%)**

Total impairment losses increased by PLN 153.1 million in 2008 – compared to PLN 52.6 million net releases in 2007 – was mainly a result of deteriorating ratio of released loan loss provisions to new provisions formed on account of increased lending risk in the Commercial Bank.

This increased risk reflected deteriorating financial condition of the Bank's clients in the individually accounted for portfolio, wherever timely debt service was under threat. In the Consumer Bank the increased impairment loss charges were precipitated by the growing loan and credit cards portfolios as well as the growing share of irregularly serviced receivables.

Ratio analysis

Profitability and cost efficiency ratios

	2008	2007
Return on equity (ROE)*	11.7%	16.6%
Return on assets (ROA)**	1.5%	2.1%
Net interest margin (NIM)***	3.5%	3.1%
Earnings per share in PLN	4.60	6.31
Cost/Income****	62.3%	60.6%
Non-financial sector loans to non-financial sector deposits	70%	63%
Non-financial sector loans to total assets	33%	32%
Net interest income to total revenue	57%	48%
Net commission income to total revenue	26%	29%

** 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*

Most of the financial indicators presented above confirm certain deterioration in efficiency and effectiveness having occurred in 2008: ROE fell by 4.9 p.p. while ROA by 0.6 p.p.

There was slight deterioration in cost effectiveness: cost-income ratio increased by 1.7 p.p.

As at 31 December 2008, total assets of the Group reached PLN 42,550.3 million, a 9.4% growth on the year-end 2007 number, though non-financial sector loans to total assets increased slightly and reached 33% while non-financial sector loans to non-financial sector deposits ratio rose by 7 p.p. to 70%.

Balance Sheet

As at 31 December 2008, total assets of the Group reached PLN 42,550.3 million and were 9.4% higher than at the end of 2007.

Balance Sheet

PLN '000	As at		Change	
	31.12.2008	31.12.2007	PLN '000	%
ASSETS				
Cash and balances with central bank	3,530,977	3,321,503	209,474	6.3%
Financial assets held-for-trading	7,885,488	5,135,708	2,749,780	53.5%
Debt securities available-for-sale	10,814,828	6,467,638	4,347,190	67.2%
Equity investments	56,469	58,388	(1,919)	(3.3%)
Loans and advances	11,095	21,909	(10,814)	(49.4%)
to financial sector	17,581,499	21,205,373	(3,623,874)	(17.1%)
to non-financial sector	3,695,522	8,718,832	(5,023,310)	(57.6%)
Property and equipment	13,885,977	12,486,541	1,399,436	11.2%
land, buildings and equipment	571,947	612,797	(40,850)	(6.7%)
investment property	553,639	587,769	(34,130)	(5.8%)
Intangible assets	18,308	25,028	(6,720)	(26.8%)
Deferred income tax assets	1,283,326	1,284,078	(752)	(0.1%)
Other assets	336,290	374,468	(38,178)	(10.2%)
Non-current assets available-for-sale	443,159	413,477	29,682	7.2%
Total assets	35,267	12,645	22,622	178.9%
ASSETS	**42,550,345**	**38,907,984**	**3,642,361**	**9.4%**
LIABILITIES				
Financial liabilities held-for-trading	6,806,790	4,373,146	2,433,644	55.6%
Financial liabilities valued at amortized cost	29,345,498	28,000,003	1,345,495	4.8%
Deposits from	27,857,332	26,896,411	960,921	3.6%
financial sector	7,922,260	7,085,042	837,218	11.8%
non-financial sector	19,935,072	19,811,369	123,703	0.6%
other liabilities	1,488,166	1,103,592	384,574	34.8%
Provisions	24,578	37,548	(12,970)	(34.5%)
Income tax liabilities	77	101,889	(101,812)	(99.9%)
Other liabilities	747,593	792,314	(44,721)	(5.6%)
Total liabilities	**36,924,536**	**33,304,900**	**3,619,636**	**10.9%**
EQUITY				
Issued capital	522,638	522,638	-	0.0%
Share premium	3,029,703	3,028,809	894	0.0%
Revaluation reserve	(144,110)	(182,450)	38,340	21.0%
Other reserves	1,627,692	1,454,355	173,337	11.9%
Retained earnings	589,886	779,732	(189,846)	(24.3%)
Total equity	**5,625,809**	**5,603,084**	**22,725**	**0.4%**
Total liabilities and equity	**42,550,345**	**38,907,984**	**3,642,361**	**9.4%**

Assets

Gross loan receivables*

PLN ('000)	As at		Change	
	31.12.2008	31.12.2007	PLN '000	%
Banks and other monetary financial institutions	3,021,777	8,273,004	(5,251,227)	(63.5%)
Non-banking financial institutions	751,369	522,317	229,052	43.9%
Non-financial sector entities	9,454,807	9,016,472	438,335	4.9%
Individuals	5,774,318	4,767,344	1,006,974	21.1%
Government units	71,597	60,652	10,945	18.0%
Other receivables	10,771	7,848	2,923	37.2%
Total	**19,084,639**	**22,647,637**	**(3,562,998)**	**(15.7%)**

** Receivables with payable interest*

In 2008 portfolio of non-financial sector entities expanded in a substantial way (by PLN 1.4 billion or 11.2% YOY). In gross terms, receivables of non-financial sector corporate entities rose by PLN 0.4 billion or 4.9% whereas receivables of individuals rose by PLN 1.0 billion or by 21.1%.

Balance of loans granted to banks and other monetary financial institutions contracted substantially: by PLN 5.3 billion or 63.5%.

Debt securities portfolio expanded by PLN 4,471.4 million or 58.9% remaining the second largest constituent of the Bank's assets.

Debt securities portfolio

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

Liabilities

Financial liabilities valued at amortised cost

PLN ('000)	As at		Change	
	31.12.2008	31.12.2007	PLN '000	%
Due to financial sector	**7,918,041**	**7,044,168**	**873,873**	**12.4%**
- banks and other monetary financial institutions	3,334,887	3,896,336	(561,449)	(14.4%)
- due to non-banking financial sector	4,583,154	3,147,832	1,435,322	45.6%
Due to non-financial sector including:	**19,908,156**	**19,798,593**	**109,563**	**0.6%**
- corporate clients	11,794,311	13,153,014	(1,358,703)	(10.3%)
- individuals	5,472,599	5,194,835	277,764	5.3%
Other liabilities including accrued interest:	**1,519,301**	**1,157,242**	**362,059**	**31.3%**
Total	**29,345,498**	**28,000,003**	**1,345,495**	**4.8%**

The key item funding the Group's assets are liabilities due to non-financial sector clients. Within that category, due to corporate clients contracted by PLN 1,358.7 million or 10.3% while due to individuals expanded by PLN 277.8 million or 5.3% in YOY terms.

Within the due to fi nancial sector category, funds due to non-banking financial sector rose by PLN 1,435.3 million or 45.6% while funds of banks and other monetary financial institutions declined by PLN 561.5 million or 14.4% in YOY terms.

Sources and uses of funds

	31.12.2008	31.12.2007
Source of funds		
Funds of banks and other monetary financial institutions	4,594,886	4,601,505
Funds of customers and government units	24,750,612	23,398,498
Own funds with net income	5,625,809	5,603,084
Other external funds	7,579,038	5,304,897
Total source of funds	**42,550,345**	**38,907,984**

	31.12.2008	31.12.2007
Use of funds		
Receivables from banks and other monetary financial institutions	3,017,739	8,271,118
Receivables from customers and government units	14,563,760	12,934,256
Securities, shares and other financial assets	18,767,880	11,683,643
Other uses of funds	6,200,966	6,018,967
Total use of funds	**42,550,345**	**38,907,984**

Equity and Capital Adequacy Ratio

Compared to 2007 equity of the Group at the end of 2008 increased slightly: by 5.2%. Supplementary capital rose by PLN 167.8 million, which included allocation of net profit for 2007 and of other capital funds of PLN 39.4 million while revaluation reserve rose by PLN 38.3 million.

Equity

PLN ('000)	As at		Change	
	31.12.2008	31.12.2007	PLN ('000)	%
Issued capital	522,638	522,638	-	0.0%
Share premium	3,029,703	3,028,809	894	0.0%
Supplementary capital	1,233,896	1,066,053	167,843	15.7%
Revaluation reserve	(144,110)	(182,450)	38,340	21.0%
General risk reserve	390,000	390,000	-	0.0%
Other equity	(6,752)	(46,181)	39,429	85.4%
Total equity	**5,025,375**	**4,778,869**	**246,506**	**5.2%**

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

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

Capital adequacy ratio

	PLN ('000)	31.12.2008	31.12.2007
I	**Own funds, as stated on the balance sheet, including:**	**3,675,517**	**3,434,911**
	Less:		
	- interests in subordinated financial entities	56,469	58,387
	- intangible assets, including:	1,283,326	1,284,078
	goodwill	*1,245,976*	*1,245,976*
II	**Risk-weighted assets and off-balance sheet liabilities (bank portfolio)**	**19,867,900**	**17,444,865**
III	**Total capital requirement, including:**	**2,435,448**	**2,137,404**
	- capital requirement to cover credit risk (II*8%)	1,589,432	1,395,589
	- capital requirement to cover counterparty risk	272,222	123,926
	- capital requirement to cover excess exposure concentration and large exposures limit	82,835	356,051
	- total capital requirements to cover market risk	132,313	253,531
	- capital requirement to cover operational risk	347,112	-
	- other capital requirements	11,534	8,307
	Capital adequacy ratio (I/III*12.5)	**12.07%**	**12.86%**

As at 31 December 2008, capital adequacy ratio of the Group stood at 12.07%, down 0.79 percentage points from its value as at the end of 2007. This resulted mainly from an increase in operational risk and also credit risk and counterparty risk related additional capital requirements. The increase was partially compensated by decrease in excess exposure concentration and large exposure limit and market risk requirements.

Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in 2008

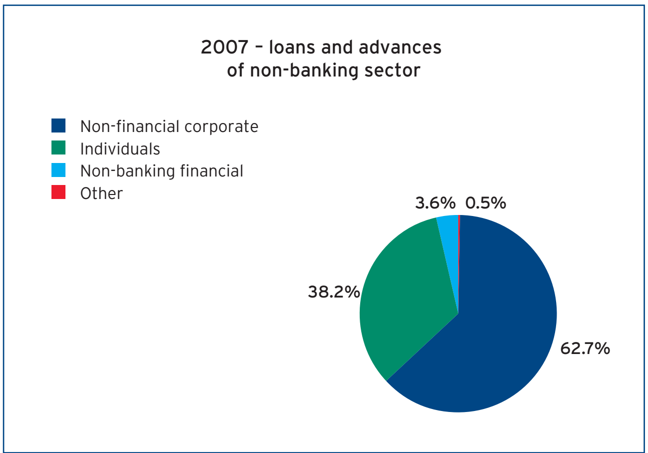
Lending and other risk exposures

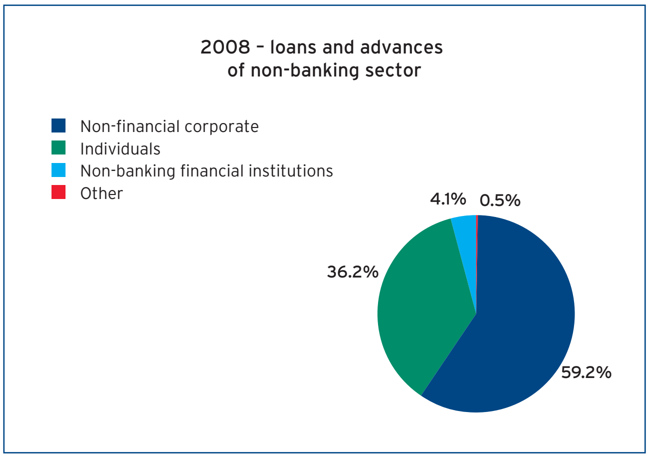
Lending

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

Lending to non-bank customers, gross

PLN '000	As at		Change	
	31.12.2008	31.12.2007	PLN '000	%
Loans in PLN	13,384,052	12,759,315	624,737	4.9%
Loans in foreign currency	2,581,936	1,615,319	966,617	59.8%
Total	**15,965,988**	**14,374,634**	**1,591,354**	**11.1%**
Loans to non-financial sector	15,239,896	13,791,665	1,448,231	10.5%
Loans to financial sector	654,495	522,317	132,178	25.3%
Loans to public sector	71,597	60,652	10,945	18.0%
Total	**15,965,988**	**14,374,634**	**1,591,354**	**11.1%**
Non-financial corporates	9,454,807	9,016,473	438,334	4.9%
Individuals	5,774,318	4,767,344	1,006,974	21.1%
Non-bank financial entities	654,495	522,317	132,178	25.3%
Public entities	71,597	60,652	10,945	18.0%
Other non-financial receivables	10,771	7,848	2,923	37.2%
Total	**15,965,988**	**14,374,634**	**1,591,354**	**11.1%**





As at December 2008 gross credit exposure to the non-bank customers sector amounted to PLN 15,966 million, representing an increase of 11.1% compared to 31 December 2007. The largest part of that credit portfolio, being loans to non-financial corporates (59.2%), increased by 4.9% in 2008. Loans to individuals grew in comparison with the end of 2007 by 21.2% to PLN 5,774.3 million. Their share in total gross loan receivables increased by 3 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 2008 the currency structure of loans outstanding changed slightly as compared with the end of 2007. The share of foreign currency loans, which in December 2007 stood at 11.2%, rose to 16.2% by December 2008. Worth underscoring is the fact that the Group grants foreign currency loans to clients and customers who have foreign currency cash flows or to the entities which, in the Group's opinion, are able to predict or absorb the currency risk without significant threat to their financial position.

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

Concentration of exposures to non-financial borrowers

PLN '000	31.12.2008			31.12.2007		
	Balance sheet outstanding*	Off-balance sheet outstanding	Total outstanding	Balance sheet outstanding*	Off-balance sheet outstanding	Total outstanding
GROUP 1	344,592	408,274	752,866	443,585	159,694	603,279
GROUP 2	187,916	311,341	499,257	132,638	473,595	606,233
GROUP 3	135,195	327,636	462,831	167,690	141,592	309,282
GROUP 4	267,359	179,323	446,682	186,218	298,882	485,100
GROUP 5	86,728	235,094	321,822	21	360,522	360,543
GROUP 6	6	312,102	312,108	10	125,425	125,435
GROUP 7	113,757	188,303	302,060	36,406	255,205	291,611
GROUP 8	238,175	38,605	276,780	46,129	93,333	139,462
GROUP 9	111,534	164,381	275,915	3,573	127,666	131,239
GROUP 10	245,000	5,000	250,000	75,294	5,000	80,294
Total 10	**1,730,262**	**2,170,059**	**3,900,321**	**1,091,564**	**2,040,914**	**3,132,478**

** Excluding equity and other securities exposures*

Loan portfolio quality

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

As at 31 December 2008, the share of loans at risk of impairment constituted 12.3% of total portfolio while as at 31 December 2007 this constituted 11.8% of total portfolio. The slight increase came primarily from the classifiable portfolio accounted for individually.

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

	As at			
	31.12.2008		31.12.2007	
	PLN '000	% share	PLN '000	% share
Loans to non-banking sector, gross				
Not at risk of impairment	13,996,737	87.7%	12,677,263	88.2%
At risk of impairment	1,969,251	12.3%	1,697,371	11.8%
accounted for individually	1,426,990	8.9%	1,209,816	8.4%
accounted for collectively, on a portfolio basis	542,261	3.4%	487,555	3.4%
Total loans to non-banking sector, gross	**15,965,988**	**100.0%**	**14,374,634**	**100.0%**

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

As at 31 December 2008 the impairment of the portfolio was PLN 1,499.1 million, which represented slight increase from PLN 1,400.4 million at the end of December 2007. The highest increase in impairment losses, of PLN 33.5 million, occurred in the portfolio accounted for individually, which represented a 3.3% growth compared to December 2007. The provision coverage index fell from 10.0% in December 2007 to 9.4% in December 2008, a result of a slight increase in total impairment losses trailing increment in loan receivables by nearly PLN 1.6 billion over the same period.

Impairment of the non-bank loan portfolio

PLN '000	As at		Change	
	31.12.2008	31.12.2007	PLN '000	%
Impairment due to incurred but not reported (IBNR) losses	70,701	49,845	20,856	41.8%
Impairment of receivables	1,428,399	1,390,533	37,866	2.7%
accounted for individually	1,038,408	1,004,895	33,513	3.3%
accounted for collectively, on a portfolio basis	389,991	385,638	4,353	1.1%
Total impairment	**1,499,100**	**1,440,378**	**58,722**	**4.1%**
Total provision coverage index	9.4%	10.0%		
Provision coverage index for receivables at risk	76.1%	84.9%		

Off-balance sheet exposures

As at 31 December 2008 off-balance sheet exposures of the Group amounted to PLN 13,526.5 million, representing an increase of 1.2% as compared with 31 December 2007. The largest change related to guarantees, which rose by PLN 190.1 million or 8.8%. Committed loans were the most prominent item in off-balance sheet contingent liabilities (80.9%); representing committed, but currently unutilised credit lines and current account overdraft facilities.

Off-balance sheet exposures

PLN '000	As at		Change	
	31.12.2008	31.12.2007	PLN '000	%
Guarantees	2,349,068	2,158,948	190,120	8.8%
Letters of credit issued	188,228	146,673	41,555	28.3%
Third-party confirmed letters of credit	10,141	13,131	(2,990)	(22.8%)
Committed loans	10,949,511	10,874,042	75,469	0.7%
Underwriting	29,500	172,000	(142,500)	(82.8%)
Total	**13,526,448**	**13,364,794**	**161,654**	**1.2%**
Provisions for off-balance sheet liabilities	8,520	13,574	(5,054)	(37.2%)
Provision coverage index	0.14%	0.10%		

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

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

External funding

As at 31 December 2008 overall external funds held by the Group reached PLN 29,345.5 million, which was PLN 1,345.5 million or 4.8% higher than at the end of the year 2007.

External funding

w PLN '000	As at		Change	
	31.12.2008	31.12.2007	PLN '000	%
Due to financial sector	**7,922,260**	**7,085,042**	**837,218**	**11.8%**
Funds on current accounts, including:	2,089,692	2,434,363	(344,671)	(14.2%)
- funds on current accounts of banks and other monetary financial institutions	*1,212,394*	*2,190,764*	*(978,370)*	*(44.7%)*
Deposits, including:	5,828,349	4,609,805	1,218,544	26.4%
- deposits of banks and other monetary financial institutions	*2,122,493*	*1,705,572*	*416,921*	*24.4%*
Accrued interest	4,219	40,874	(36,655)	(89.7%)
Due to non-financial sector	**19,935,072**	**19,811,369**	**123,703**	**0.6%**
Funds on current accounts, including:	7,476,940	8,050,347	(573,407)	(7.1%)
- corporate clients	*3,336,662*	*3,939,403*	*(602,741)*	*(15.3%)*
- individuals	*3,181,256*	*3,498,981*	*(317,725)*	*(9.1%)*
- budgetary units	*611,357*	*225,596*	*385,761*	*171.0%*
Deposits, including:	12,431,216	11,748,246	682,970	5.8%
- corporate clients	*8,457,649*	*9,213,611*	*(755,962)*	*(8.2%)*
- individuals	*2,291,343*	*1,695,854*	*595,489*	*35.1%*
- budgetary units	*1,171,453*	*332,744*	*838,709*	*252.1%*
Accrued interest	26,916	12,776	14,140	110.7%
Other liabilities, including:	**1,488,166**	**1,103,592**	**384,574**	**34.8%**
Loans received	1,253,420	795,544	457,876	57.6%
Sell-Buy-Backs	-	69,155	(69,155)	(100.0%)
Accrued interest	4,818	4,085	733	17.9%
Total external funding	**29,345,498**	**28,000,003**	**1,345,495**	**4.8%**

Within the liabilities towards non-financial sector category the greatest change involved contraction by PLN 978.4 million or 44.7% in funds on current accounts of banks.

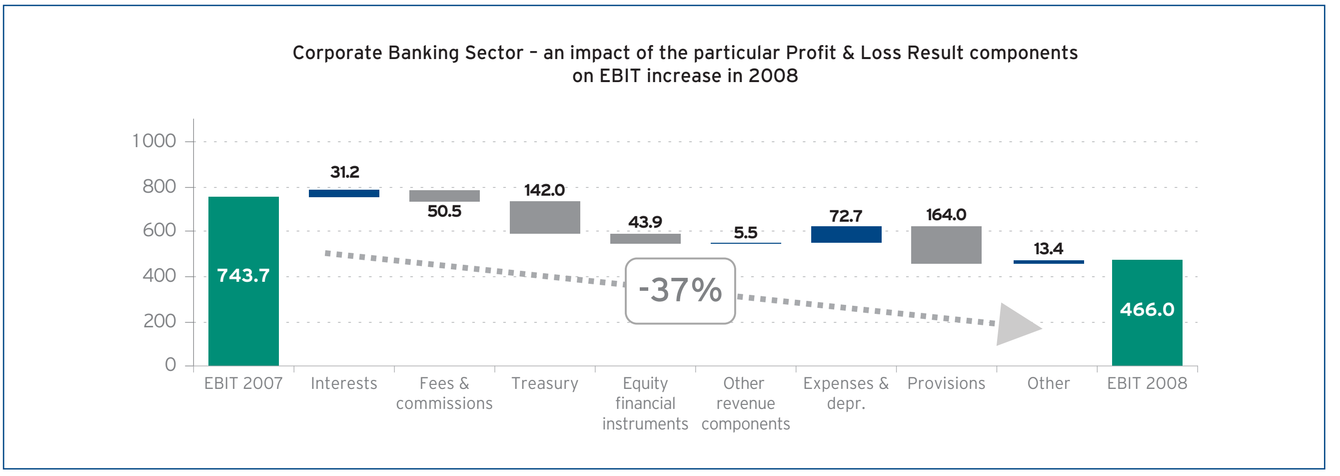
Within the liabilities towards non-financial sector category the highest growth occurred in term deposits of budgetary units: of PLN 838.7 million or 252.1%. At the same time term deposits of individuals rose by PLN 595.5 million or 35.1%.

Liabilities to non-bank customers and clients

w PLN '000	As at		Change	
	31.12.2008	31.12.2007	PLN '000	%
Liabilities towards:				
Individuals	5,528,996	5,227,134	301,862	5.8%
Non-financial economic entities	12,298,482	13,776,836	(1,478,354)	(10.7%)
Non-profit institutions	451,278	374,503	76,775	20.5%
Non-bank financial institutions	4,581,503	3,279,105	1,302,398	39.7%
Public sector	1,784,515	558,472	1,226,044	219.5%
Other liabilities	73,070	94,215	(21,146)	(22.4%)
Total	**24,717,844**	**23,310,265**	**1,407,579**	**6.0%**
PLN	20,575,953	18,814,665	1,761,289	9.4%
Foreign currency	4,141,891	4,495,600	(353,709)	(7.9%)
Total	**24,717,844**	**23,310,265**	**1,407,579**	**6.0%**

Corporate and Investment Banking

Summary segmental results



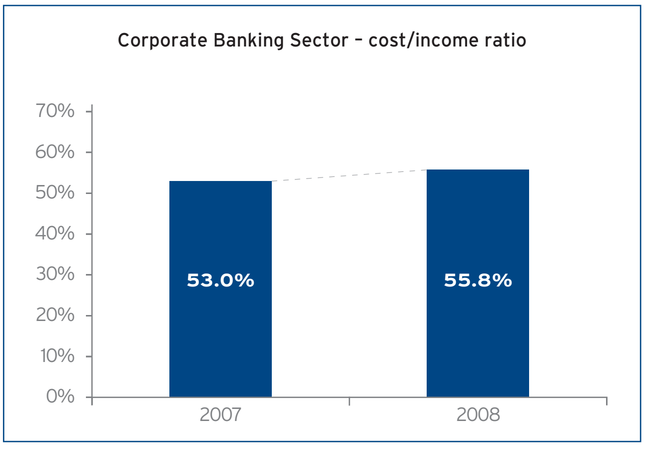
In 2008 gross profit of the Commercial Bank declined in YOY terms, the key factors of which included:

- Net impairment losses, which amounted to PLN 63.6 million in 2008 compared to PLN 100.4 million net impairment loss releases in 2007 (PLN 164 million negative impact on net result);
- PLN 50.5 million decline in net fees and commissions; due to lower income on custody and depositary services and on securities brokerage services;
- Decline in net income on investment equities; primarily an 'effect of higher base'. i.e. a number of major scale transactions were realised in 2007 totalling PLN 43.7 million, which included sales of: a minority share stake in NFI Empik Media & Fashion, shares in Stalexport S.A. and shares in NFI Magna Polonia S.A.;
- PLN 142 million decline in treasury income, which includes PLN 169.1 million decline in net gains on financial instruments held for trading and on revaluation – resulting primarily from value adjustment due to increase counterparty credit risk – and PLN 27.1 million growth in net gains on investment debt securities.

The factors which had a positive impact on gross profit of the Commercial Bank in YOY terms included:

- PLN 72.7 million decline in overheads and general administrative expenses and depreciation; primarily because of lower depreciation and employee payroll costs;
- PLN 31.2 million rise in interest income; primarily an effect of higher income on loans and other non-financial sector receivables as well as higher income on deposits in other banks.

The segment's overall cost-income effectiveness was slightly worse. In the course of the year cost/income ratio came up by 2.8 p.p..



Transaction services

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

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

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

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

Transaction servicing

a) Cash management products

Reserved Account

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

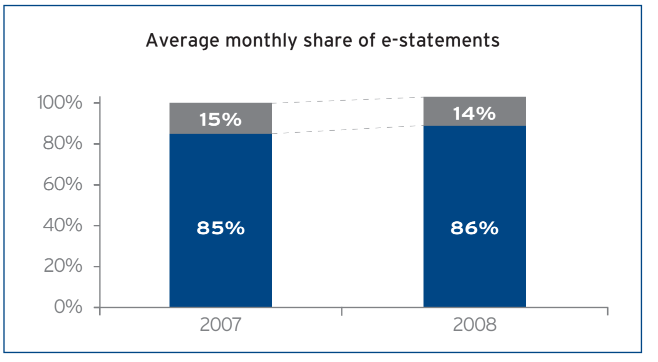
b) Liquidity management products

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

c) Electronic Banking

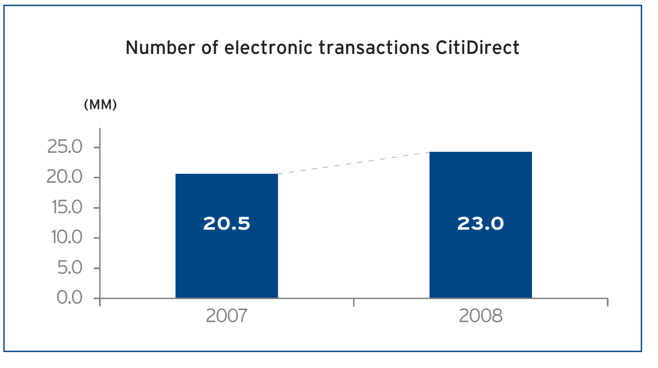
In 2008 the Bank continued to collaborate with the largest suppliers of Enterprise Resource Planning (ERP) systems in Poland. As a result it has improved compatibility between the financial and accounting systems its clients use and its CitiDirect electronic banking platform. This has facilitated distribution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

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



At the end of 2008 the number of corporate clients activated in the CitiDirect electronic banking system reached nearly 9,500. Compared to the score at the end of 2007, that number rose by approximately 13%. The CitiDirect electronic banking system processed a total of over 23 million transactions, which was over 2.5 million more than in 2007.

The scale of bank statements delivered to clients in the electronic form only remains high having presently reached approximately 86%.



d) Payments and receivables

Unikasa

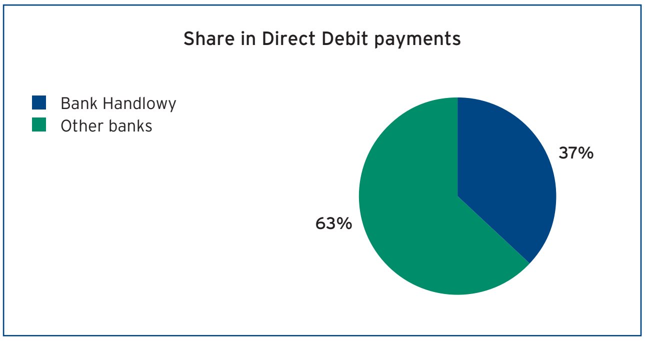
Unikasa is a modern product that facilitates servicing of the Bank customers' payables and allows payers settlement of their bills for products and services in the most frequently visited locations, such as hyper- and supermarket chains, petrol stations and the Bank's Customer Service Points. In 2008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

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

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

Direct Debit

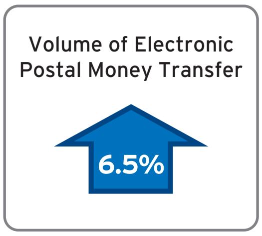
The Bank is a leader in Polish direct debit market, with a 37% market share. In 2008 the Bank launched Comfort Direct Debit, a new product. This new solution represents a functional expansion of the Bank's current offer to include mobile technology, which involves notification of payers by their creditors of any approaching Direct Debit payment dates in the form of SMS messages. At reception of relevant notice, the payer can authorise or postpone execution of their Direct Debit by sending appropriate response message. The new service is highly consistent with the Bank's strategy of launching mobile payment products.



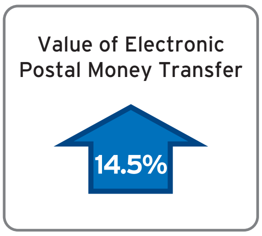
SpeedCollect

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

Electronic Postal Money Transfers

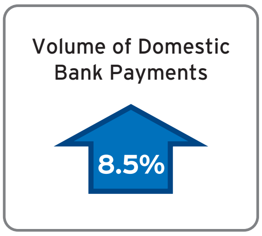


Electronic Postal Money Transfers are a product addressed to corporate clients transferring funds in cash form to private individuals. In the year 2008 there was a 6.5% increase in the executed money transfers compared to a year earlier while the value of these transfers rose by nearly 14.5%.



For the Consumer Bank customers the Bank activated Send Cash (Wyślij Gotówkę) service, which operates in the same way as the Electronic Postal Money Transfers offered to corporate clients. The service allows for simple and safe transfer of cash by individuals to any place throughout Poland.

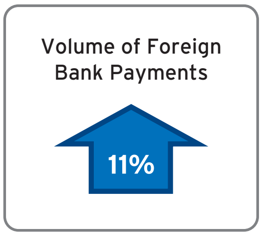
Domestic Bank Transfers



The volume of Domestic Bank Payments serviced by the Bank in 2008 increased by 8.5% compared to a year earlier.

In the course of the year 2008 the Bank implemented a project aimed at optimising the cost of servicing payments via the Elixir system. The modifications made to the operating process allow the Bank to send out the same volume of payments at lower cost.

Foreign Bank Transfers



The volume of Foreign Bank Payments serviced by the Bank in 2008 increased by 11% compared to a year earlier.

One of the Bank's priorities is achievement of complete integration between its euro payment solutions and the payment system used throughout the European Union. The Bank continually adjusts its offer to relevant EU directives. Worthy of particular mention is the launch of SEPA (Single European Payments Area) payments, i.e. euro payments serviced in accordance with uniform rules. The Bank was one of a few banks in the Polish market to be ready from the very first day of SEPA implementation for both acceptance and dispatch of payments under the new system. As an expression of respect for the Bank's commitment and openness to change and appreciation for the effort of implementation of the SEPA project, the Polish Bank Association singled it out as the SEPA Leader in Poland. The Bank treats retention of its position of leadership in the Polish market of SEPA payments as a priority objective. In continuation of the success of adding the SEPA payments do its offer in early 2008, the Bank has worked to further optimise the service. It completed work aimed at automation and broadening of the time band in which payments are processed in the working day. These changes resulted in improved effectiveness of the SEPA service, which should translate into increased customer satisfaction.

In response to recommendations of the European Central Bank, the Bank joined the TARGET2 clearing system. The TARGET2 platform supports rapid settlement of euro transactions in real time within the European Union. Previously the payment transfer process between respective EU countries required involvement of at least two clearing systems. Now a single system is used to clear all, which increases precision and security of settlements.

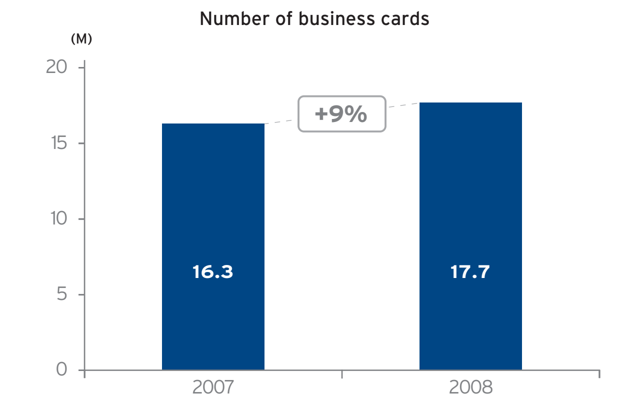
Extensive changes were introduced in the field of foreign payments with the aim of optimising their charging rules. The streamlined and more transparent fee structure is expected to translate into increased customer satisfaction.

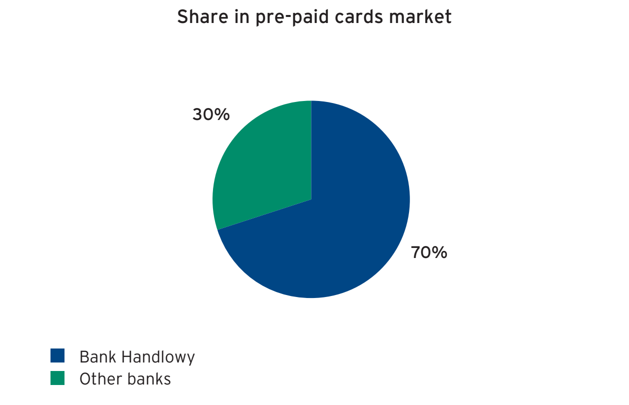
e) Card products

The Bank holds an uncontested position of leadership in the Polish market of prepaid cards. It held a 70% market share at the end of 2008. The Bank's prepaid cards are most frequently used under loyalty, promotional and incentive programs as they serve as an excellent instrument of social benefit distribution. In an effort to further disseminate information on its prepaid cards, the Bank organised a series of regional conferences for potential public sector clients. It also continued to actively promote its prepaid cards among corporate clients. At many conferences and seminars potential clients could learn of the many product benefits.

In 2008 the Bank issued over 200,000 new prepaid cards, which represents a 34% growth compared to 2007. In 2008 turnover on prepaid cards rose by over 42% compared to 2007. At the end of December 2008 the number of actively used prepaid cards exceeded 370,000, which is above 50% growth compared to the number at the end of 2007.

The Bank has sought to strengthen its position in business cards segment. At the end of 2008 the number of issued cards of that type reached 17,700, which constitutes nearly 9% growth compared to 2007. Implementation of a new service addressed to the Bank's business card users is also worth underscoring. Business card holders can now receive bank statements in PDF format as attachments to email messages. It is expected that the new form of bank statement distribution is going to increase customer service satisfaction further. The new service cuts down substantially on the time of document delivery to the client and reduces archiving costs.





f) Cash products

Many transactions continue to be settled in cash in the Polish market. The Bank provides its clients with comprehensive cash management services. In addition to the traditional payments and withdrawals, the Bank offers a broad range of supplementary solutions, such as: cash convoy services, secure payments in Polish Post outlets, identification of mass payments (SpeedCash), electronic transfer of documentation, sale of secure envelopes and co-operation with other banks in purchase and sale of legal tender.

In 2008 the Bank maintained the upward trend in value of the handled cash. Once more value of cash the Bank processes exceeded PLN 50 billion.

Corporate clients taking advantage of the cash products portfolio benefited in the significant expansion of the cash acceptance and disbursement network. Since the beginning of 2008 over 50 branches, previously serving only retail customers, have been also opened to corporate clients. As a result of these actions, the number of outlets executing cash transactions of corporate clients in 2008 more than doubled compared to a year earlier.

In 2008 the Bank continued actions aimed at expansion of the cash handling centres available to its clients. It is expected that adding of new locations of this type is going to increase customer service satisfaction further. In addition to this the benefits accruing to the Bank include optimisation of costs and diversification of risk.

With continued improvement of customer satisfaction in view, the Bank added electronic bank payment receipt (eBDW) to its offer of closed cash payments. The new solution simplifies the closed payment packet preparation process while the benefits to the Bank include cost savings and elimination of the risk of error.

g) EU Office

The Bank has been active in promoting absorption of EU funds in Poland. In 2008 it continued its promotion and information campaign focusing on the new 2007-2013 programming period. Actions were addressed to the Bank's current and potential clients. In this context representatives of the Bank participated in many meetings devoted to various aspects of innovation. The training courses and meeting created possibilities for presentation of opportunities for co-financing of projects with EU funds. The meetings also presented the benefits of the Technological Loan and of drawing on the EU Guarantee Fund. The campaign was primarily addressed to representatives of the small and medium enterprise sector (SMEs).

The Bank's branches in Gdańsk, Białystok, Rzeszów, Kraków, Kielce and Wrocław organised EU Advisory Open Days. At the Open Days all the interested parties were provided with practical knowledge on how to secure supplementary funding for implementation of investment projects from EU funds. The campaign was addressed to 2,500 firms of the SMEs segment.

The Bank's representatives participated in Expert Days held at the Warsaw School of Economics. The Expert Days events focused on the opportunities for appropriation of the EU funds earmarked for business start-ups, operation and development.

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

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

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

Trade finance products

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

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

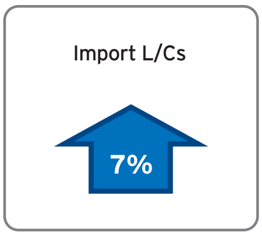
An initiative was undertaken with the aim of better utilising the global resources of Citigroup in this respect. The highly developed Citigroup network is going to be used as a platform for expansion of trade finance services, particularly for increasing the number of the letters of credit (L/Cs) notified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

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

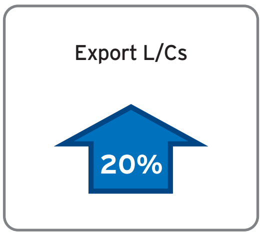
In parallel to acquiring new factoring industry clients, the Bank also made sure that its existing customer base retains adequate portfolio quality. In the present continually shifting macroeconomic landscape, implementation of an 'early warning system' vis-à-vis factoring products proved a far-sighted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

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

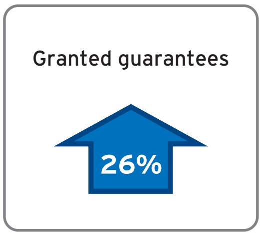
- in value terms, opened import L/Cs grew by 7%, opened export L/Cs grew by 20% while granted guarantees grew by 26%;



- granting of a customs guarantee to one of the world's largest courier service firms;
- issuance of import L/Cs to one of Poland's biggest chemical companies and one of the biggest nitrogen fertiliser and plastics manufacturers;
- acceptance of export L/Cs for one of the world's biggest steel manufacturers;



- launch of a trade receivables discounting program for a telecommunication services leader;
- approval of an L/C for a global telecommunications and IT leader;
- underwriting a securities issue for a multinational machinery engineering company;
- issuance of a series of L/Cs for leading companies and institutions, particularly representatives of steel, crude and cosmetics trading sectors;



- launch of a Supplier Financing Program for a global vegetable oil production major;
- launch of limited recourse trade receivables discounting programs for a global leader in manufacture of electronic subassemblies;
- launch of a Distributor Financing Program for a global tobacco company; and
- granting of an advance repayment bond to an aircraft manufacturer.

Custody and depositary services

The Bank provides custody services on the basis of Polish regulations and in compliance with international depositary service standards. It offers these service to investors and international securities market intermediaries, and has been successfully meeting the requirements of the largest and most demanding institutional clients.

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

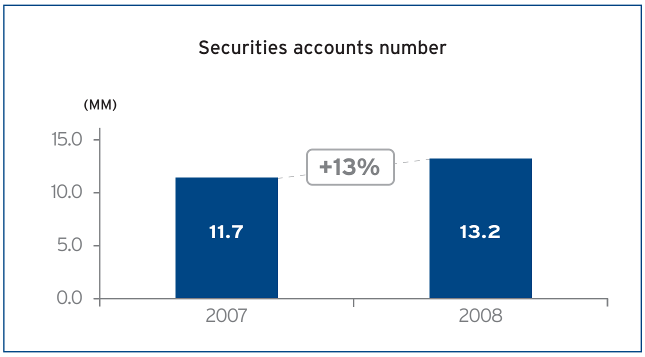
As part of its statutory activities provided on the basis of a permit of the Securities and Exchange Commission (presently the Polish Financial Supervision Authority), the Bank operates securities accounts, settles securities trades, ensures servicing of dividend and interest payments, performs asset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

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

As at 31 December 2008 the Bank maintained over 13,000 securities accounts; representing nearly 13% YOY growth.

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

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



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

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

Treasury

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

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

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

Commercial Bank

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

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

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

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

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

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

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

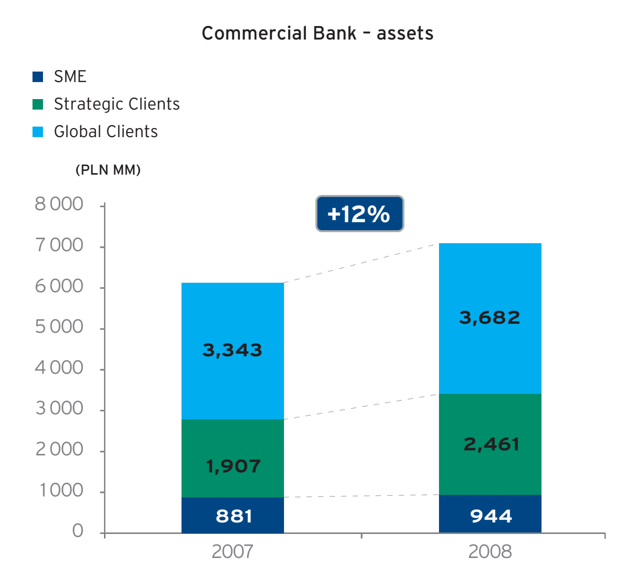
The Bank has continued to pursue the strategy of sustainable asset base growth supported through efficient fund allocation.

Assets

PLN million	31.12.2008	31.12.2007*	Change	
			Value	%
Commercial Bank including:	**9,773**	**8,693**	**1,080**	**12%**
SMEs	944	881	63	7%
MMEs	1,405	1,572	(167)	(11%)
Public Sector	97	93	4	4%
Global Clients	3,682	3,343	339	10%
Strategic Clients	2,461	1,907	554	29%

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

As at the end of 2008 the Bank registered over 12% YOY growth in the Commercial Bank assets. With the exception for the MME segment, all the other segments registered growth, with 29% growth in the Strategic Clients segment being the highest of these.



Liabilities

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

As at the end of 2008 the Bank registered 6% YOY contraction in the Commercial Bank liabilities. With the exception for the Public Sector companies segment, all the other segments registered declines, with 27% fall in the MMEs segment being the deepest of these.

Key events in the Small and Medium Enterprises segment

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

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

As it launched the refreshed SME product packages in October 2008, the Bank also repositioned and provided them with new visualisations, including new package names.

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

Key events in the Middle Market Enterprises segment

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

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

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

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

Key events in the Global Clients segment

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

Since implementation of true cash pooling, we have been able to offer our clients a modern and effective liquidity management tool. We also implemented a number of trade finance projects.

Key events in the Strategic Clients segment

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

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

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

Brokerage

The Group offers brokerage services on the capital market through Dom Maklerski Banku Handlowego S.A. (DMBH), a wholly-owned subsidiary of the Bank.

DMBH ranked second in the equities trading market.

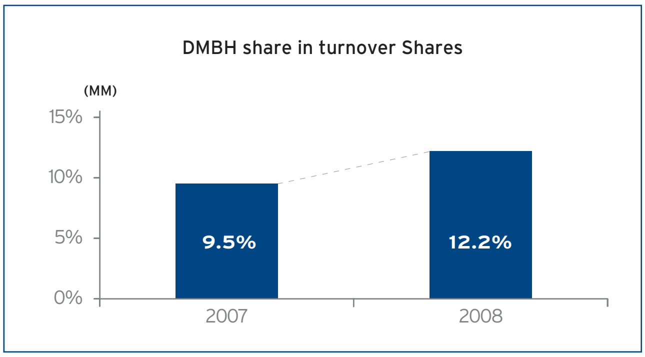
Value of equity trades and derivatives trading volumes executed by DMBH in 2008

	2008	2007	Percentage change	% of total trading in 2008	% of total trading in 2007
Equities (PLN million)	39,101	43,811	(10.75%)	12.19%	9.47%
Futures and options ('000 units)	571	379	50.66%	2.34%	2.04%
Number of investment accounts (units)	9,812	10,287	(4.62%)	-	-

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

The number of investment accounts DMBH operated for its clients as at the end of 2008 exceeded 9,800.

Financial result of DMBH in 2008 was significantly affected by the decline in equities trading in YOY terms; a response to downturn in the domestic and global financial markets. The increased risk averseness, redemptions of investments in domestic trust funds and expectations of economic slowdown in Poland magnified averseness to equity investment risk and led to decline in investor activity. On another level, the resultant change in structure of investors operating on WSE (increased participation of institutional vis-à-vis retail investors) had a positive impact on DMBH's share in market trading.



A number of new channels of distribution of the DMBH securities brokerage services were put into place in 2008. DMBH entered into an agreement with the Bank for establishment of Order Acceptance Points in the Bank network, which provide brokerage services to customers of the Bank.

In the final quarter of 2008 the Bank activated fully its internet access channel for investment accounts. The functionalities of the internet tool include, among others, on-line execution of transactions on WSE, access to market offers and use of funds deposited on personal accounts in the Bank. New, lower commission rates apply to all of the transactions executed on line. DMBH expects to fully benefit from internet-based investor activity in 2009 and the following years.

As at the end of 2008 DMBH acted as Market Maker for 38 companies, which represented 10.2% of all shares traded on WSE. Additionally, the Proprietary Investments Unit performed the same function in respect of WIG20 index linked futures contracts and MW20 index investment units. The number of the companies provided with market making services included foreign companies with parallel listings on their home markets. This group included the following, which remained in the portfolio of DMBH: MOL and ORCO Property Group.

Retail Office of DMBH intermediated in execution of off-market transactions.

Value of the private market transactions cleared through DMBH in 2008 reached approximately PLN 676,000.

In the year 2008 DMBH arranged the following new share issues:

1. Inter Cars S.A. – in March 2008 DMBH completed a merger between Inter Cars S.A. and JC Auto S.A. (both listed companies) through a public issue addressed to shareholders of JC Auto S.A., with transaction value of PLN 201,560,000. DMBH acted as the issue offeror; and
2. Elektrobudowa S.A. – in January 2008 DMBH completed secondary public offering of the Company's D series shares, a rights issue of PLN 89,677,000. DMBH acted as the issue offeror.

Value of the two abovementioned issues reached PLN 291,237,000.

Summary Income Statement and Balance Sheet data*

Company	Head Office	% of authorised capital held by the Bank	Total assets as at 31.12.2008	Equity as at 31.12.2008	Net profit/loss for 2008
			PLN '000		
Dom Maklerski Banku Handlowego S.A.	Warszawa	100.00	458,339	92,156	9,715

* *Pre-audit data*

Leasing

The Group operates its leasing business through Handlowy-Leasing Sp. z o.o., a wholly-owned subsidiary of the Bank.

As at the end of 2008 net value of leasing assets (NAV) reached PLN 682 million, a 4.8% decline YOY.

Structure of the leased assets did not did not change in the course of 2008. Transport vehicles continued to dominate representing 64.8% of NAV, with 9.8% decline compared to 2007. Machinery and equipment represented 35.2% of NAV, with year-end value totalling PLN 239.8 million, a 6.2% growth YOY.

Net asset value of leases

PLN million	2008	2007*	Change	
	PLN million			%
Value of leases contracted in the period	682.0	716.3	(34.3)	(4.8%)
- for vehicles	442.2	490.4	(48.2)	(9.8%)
- for machinery and equipment	239.8	225.9	13.9	6.2%

** The comparative data in respect of 2007 differ from those presented in the Report on Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in 2007 because of a change in the methodology. The methodological change arises from application of terms of reference of the Polish Leasing Association.*

In 2008 Handlowy-Leasing proceeded with the portfolio diversification and market penetration strategy. Its product development and marketing activities were addressed at the construction machinery and the processing machinery and equipment (metal, wood, plastics) markets. Handlowy-Leasing took active part in the significant sector events and trade fairs. The Product Directors worked with a group of advisers on developing collaborative relations with leading equipment suppliers and manufacturers.

The decline in NAV of leases that occurred in the first half of 2008 was primarily attributable to a major slowdown in uptake of heavy vehicles and delays in investment decision of clients intending to take advantage of EU funding.

In the second half of 2008 Polish enterprises began to gradually experience consequences of the developing global recession. The scale of investments into fixed assets declined dramatically. This translated indirectly into reduced proclivity of enterprises for undertaking new financial obligations. In the fourth quarter of 2008 the economy slowed down visibly.

In 2008 the Company also aimed at steadily improving recognition of its Handlowy-Leasing brand in selected segments.

The Company expanded its offer as it launched a novel a Handlowy-Leasing Adwokat product, a litigation insurance coverage package and a Car Fleet Management.

Summary Income Statement and Balance Sheet data*

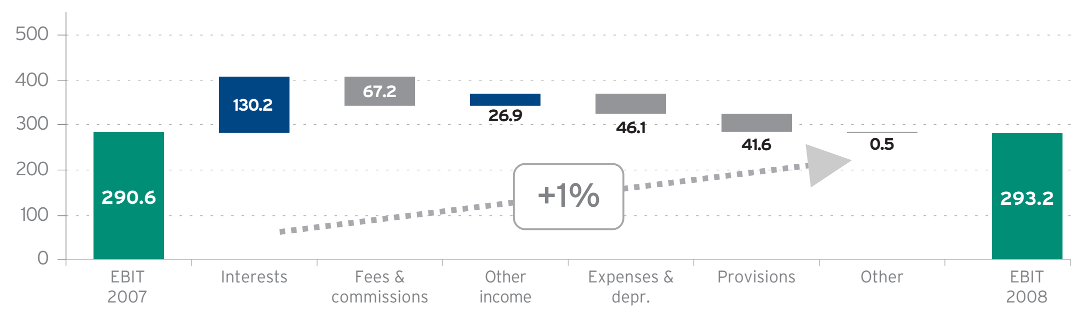
Company	Head Office	% of authorised capital held by the Bank	Total assets as at 31.12.2008	Equity as at 31.12.2008	Net profit/loss for 2008
				PLN '000	
Handlowy-Leasing Sp. z o.o.	Warszawa	100.00	1,556,142	178,830	5,555

** Pre-audit data*

Retail Banking

Summary segmental results

Retail Banking, impact of respective Profit & Loss components on EBIT in 2008



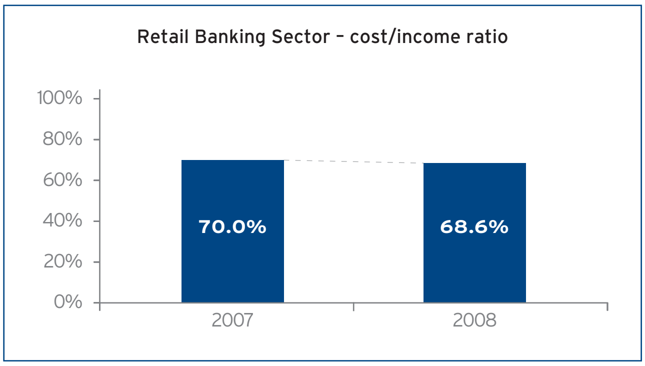
In 2008 the Consumer Bank achieved 1% YOY gross profit growth. The key contributors included:

- PLN 130.2 million or 19.4% growth in net interest income; primarily an effect of the credit card portfolio and the cash loan portfolio growth;
- PLN 26.9 million growth in other income; primarily coming from: release of a provision in an amount of PLN 10 million posted on account of a penalty imposed by the Office of Competition and Consumer Protection in connection with proceedings relating to 'interchange' charges in the banking sector; substantial, PLN 8.2 million dividend income; and additional PLN 3.8 million operating income on account of granted VISA

Incorporated shares.

The factors which had a negative impact on gross profit of the Consumer Bank in YOY terms included:

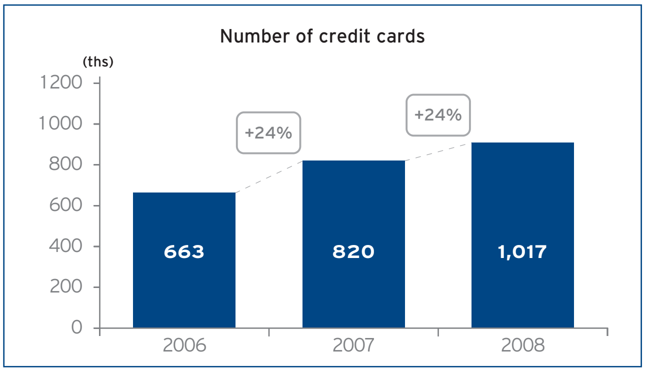
- PLN 67.2 million or 15.8% YOY decline in net fees and commissions; primarily because of lower income realised on sale of insurance and investment products;
- PLN 46.1 million YOY raise in costs; due to increased technological expenditures incurred in development of the Bank's systems and raise in cost of external suppliers, which included expenses of customer acquisition and customer portfolio servicing;
- higher YOY net impairment losses (PLN 41.6 million negative impact on net profit); the increase in charge-offs was driven by growth of loan and credit card portfolios and the growing share of delinquent loan receivables.



In 2008 the Consumer Bank improved its overall cost-income effectiveness. In the course of the year cost/income ratio came down by 1.4%, indicating that YOY income growth was stronger than escalation of costs.

Credit cards

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



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

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

Year 2008 was highly successful in terms of the partnership programs operated by the Bank. Co-branded cards constituted 85% of the total number credit cards the Bank acquired, the highest number to date in the history of Citibank Credit Cards.

By the end of the year the Bank had two products of that type with portfolio size exceeding 100,000: Citibank-BP Card and Citibank-Plus Card. At the end 2008 these portfolios numbered 261,000 and 123,000 respectively while the number of new cards acquired in the year reached 120,000 and 99,000 respectively.

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

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

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

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

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

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

Consumer Bank

Bank accounts

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

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

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

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

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

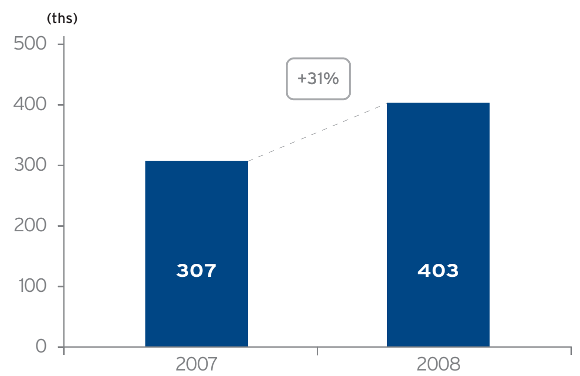
The Bank also rolled out in its branch network a new sales process, which supports acquisition of customers seeking a comprehensive relationship with the Bank. The first contact with the customer is used to offer them the complete range of the available products, which on the basis of data captured in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

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

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

As a result of these promotional campaigns the number of current account in PLN the Bank operated at the end of 2008 exceeded 403,000, a 31% growth over the end of the year 2007.

Number of current accounts in PLN



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

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

Credit products

Cash Loan

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

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

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

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

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

In the autumn season the Bank promoted debt consolidation loans. In October it ran a campaign with promotional message of The More You Consolidate, The More You Gain, in which each customer consolidating at least one loans in another bank pays reduced commission fee of just 1% plus interest reduced vis-à-vis the standard rate by 0.5% to 1%; this depending on the consolidated debt amount.

The campaign was continued in November on slightly modified terms. The customers taking advantage of the consolidation offer obtained interest terms reduced in relationship to the standard rate by as much as 2%; depending on the consolidated debt amount. The campaign received support in the national press and on the radio. The result was a 30% growth in the consolidation loan sales on average sales of the preceding 3 months.

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

Credit Line

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

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

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

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

Secured Credit Line

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

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

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

Mortgage products

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

Investment and insurance products

a) Investment products

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

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

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

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

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

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

Structured products

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

- Agricultural Products and Water subscriptions, with a bonus the customer is entitled to at the end of the insurance coverage period dependant on value growth of a Basket comprised of futures contracts for delivery of agricultural commodities (wheat, maize, soybean) and S&P Global Water Index EUR (based on shares of 50 leading and largest companies involved in water related businesses);
- Gold and Platinum subscriptions, with a bonus dependent on performance of gold and platinum prices;
- Climate Change subscriptions, with a bonus dependent on value evolution of a basket comprised of 40 enterprises involved in recovery and limiting consequences of climate change;
- Riches of Russia subscriptions, based on investments in stocks of five major Russian companies operating the oil and gas sector and the mining sector (Gazprom, Novatek, Rosneft, Surgutneftegaz and Severstal); and
- Trend Navigator subscription, within which insurance premiums collected from the customer are invested into a diversified portfolio covering 4 out of 6 pre-selected asset classes. The TrendSpotter Index the Trend Navigator subscription is based on represents a proprietary solution of Barclays Capital investment bank. The index basket offers the customers a choice of six different asset classes: Money Market, Bonds, Stocks, Minerals, Property Market and Hedge Funds. Product structure provides for investment of cash into assets achieving the highest yields in subsequent six-month periods. The four highest performing assets are assigned weights of 40%, 30%, 20% and 10% respectively. The remaining asset classes,

with the lowest return rates, are not included in the investment portfolio in a given six-month period. Periodic review of the basket and adjustment of the weights assigned to the respective asset classes in it against the backdrop of current price trends is another important feature of the product.

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

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

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

b) Insurance products

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

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

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

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

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

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

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

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

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

The Orchid Guaranteed Payout Plan is a funded life insurance product involving a single annuity payment with the option of additional payments. The product provides the insured with benefits of long term investing in the financial markets and delivers guaranteed income paid on periodic basis, which the customer is entitled to trigger at any time at completion of the 55 year of their life.

The product provides high level of assurance of payment of the guaranteed benefit. Furthermore value of the benefit is protected against volatility of the financial markets while, at the same time, allowing the insured to benefit from growth in these markets. The product provides high level of assurance of payment of the guaranteed benefit. Furthermore, value of the benefit is protected against volatility of the financial markets while, at the same time, allowing the insured to benefit from growth in these markets.

Achievements by respective distribution channels

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

Branch network

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

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

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

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

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

Currently the CitiFinancial branded network includes 122 number of outlets, including 96 own branches.

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

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

- the Senatorska 16 branch in Warsaw was expanded to include additional CitiGold zone;
- the consolidated branches in Zabrze and Rybnik were expanded and reopened for the public;
- the Consumer Bank branches in Zielona Góra and Lublin were expanded and reopened for the public;
- two Consumer Bank branches in Warsaw – at 24 Jana Pawła II street and at 7/9 Traugutta street – were merged into a single joint outlet with primary location at 11 Polna street;
- new branches in Koszalin at 9 Rynek Staromiejski and in Łódź at 5 Karskiego street were opened to corporate clients and retail customers;
- CitiFinancial branches in Łódź at Zgierska street and Gorkiego street and in Koszalin at Domina street were closed down;
- branches in Wrocław at 6/7 Ruska street and in Kraków at 7 Karmelicka street and 6 Podwale street were moved to new locations; and
- a CitiFinancial branch and a commercial bank branch in Mielec were consolidated into a single shared location at 8 Mickiewicza street;
- a branch in Mielec at 8 Mickiewicza street was refurbished and consolidated with a Commercial Bank branch originally at 2 Przemysłowa street.

Number of outlets, year-end comparison

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

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

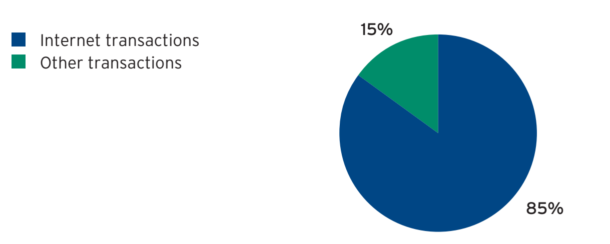
- Commercial Bank clients were served by 124 outlets;
- Consumer Bank customers were served by 125 outlets; and
- CitiFinancial customers were served by 122 outlets.

Electronic Banking and other remote service channels

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

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

Online transactions share



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

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

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

Developments in IT

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

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

The most important project implemented in 2008 in Operations and Technology was the One Bank Project, which aimed at exploiting the synergies of the merged Operations and Technology units of the Bank's corporate and retail banking parts. The project sought to upgrade customer service quality while reducing the Bank's operating costs. The project involved especially separated Technology Division, which brought together all of the technological units.

In 2008 the following solutions – contributing to modernisation of the product offer, improvement of product quality and competitiveness, and reduction of costs – were implemented:

Product offer and functional expansion projects:

- Adjustment of the systems to SEPA requirements in respect of servicing foreign bank transfers;
- Expansion of the Keep the Change program functionalities;

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

Process improvement and cost reduction projects:

- Automation of booking of incoming foreign transactions;
- Major modifications to the UWS application, which substantially cut down of the customer service time in branches and CitiPhone, among others, through streamlined processing of Sorbnet transactions;
- Modifications streamlining servicing of the system for recognition of tax on account and deposit interest;
- Implementation of a system streamlining and accelerating the uniform cash loan decision and authorisation process in all the Consumer Bank branches and the loan review team (ECUS – Cash Loan);
- Implementation of a system enabling credit line decision and authorisation process in branches and in credit review (ECUS – UOD);
- Implementation of the ATM management and debit card transaction authorisation systems: replacement of TP2 with TP2 Gold (hardware, operating system, database, software application);
- Expansion of the Aurum system; accelerating the card issuance process and enabling sale of credit cards through brokerage channels;
- Implementation of the ECS+ (Enhanced Card System) platform for servicing credit cards; enabling, among others, more flexible credit pricing management, expansion of the insurance functionality, implementation of cards with a microprocessor and enriching of offers addressed to the CitiBusiness segment;
- Implementation of a comprehensive platform supporting the sale of investment, insurance and deposit products; helping customers to define and achieve their financial goals by enabling their and their advisers to monitor utilised products and their transaction histories;
- Mobile payments enabling execution of payments via mobile handsets;
- Implementation of the Cash Back functionality for holders of debit cards;
- Implementation of a functionality facilitating use of funds on bank accounts in securities brokerage transactions;
- Changes to the system used by branches and CitiPhone cutting down on customer service time and upgrading customer service;
- Migration of the MasterCard link to BankNet; in compliance with MasterCard requirements;
- Transfer of the redundant retail customer data processing centre from Singapore to Hong-Kong; sanctioned by the Polish Financial Supervision Authority;
- Preparations for migration of bank applications module to a new desktop platform;
- Functional expansion of the acquisition process module in the CRM software application;
- Completion of the Data Warehouse functionality implementation; aimed at increasing effectiveness of processing reporting and analysis in various parts of the Bank;
- Implementation of a functionality enabling issuance of cards with embedded microprocessors;
- Implementation of the FX authorisations functionality in FlexCube, the Bank's main transaction system; reducing the number of FX transactions booked manually;
- Implementation of new modules to the CRM OPS application on the Lotus Domino platform. The new module supports calculation of corporate income tax, reconciliation of data and transfer of CIT-10R and IFT2 applications to Tax Office. As a result, a time consuming process has been streamlined with scope for error eliminated;
- Transfer of the RCS software application production environment to a new hardware platform; leading to substantial growth in productivity of the RCS electronic banking system and substantial reduction of the settlement session time overrun risk;
- Implementation of an expansion to the CitiGateway application software supporting local settlements via the National Clearing House (KIR);
- Implementation of the GERS system, a fully automated tool for review of users and authorisations in all database environments and platforms, such as: Oracle, SQL or Sybase; implementation of the system on all the databases under administration;
- Implementation of a number of expansions in the FlexCube system as required by the Regional Clearing Centre in Olsztyn, including: increase of transaction processing authorisation limits and introduction of supplementary verification elements;
- GIIF – implementation of the local regulator's requirements in order to ensure legal compliance. The solution enables tracking every financial transaction's original initiator;
- Modernisation of the hardware infrastructure for XDDS, a software application used for generation and distribution of customer account statements; cutting down on the time required for preparation of the electronic account statements by 20%;
- Implementation of the first module of the Focus software application as required by the Regional Clearing Centre in Olsztyn;
- OneSME – integration of CitiBusiness CRM and SME1234 software applications on the Lotus Domino platform in order to reflect the new organisational structure of the Commercial Bank Division and the Small and Medium Enterprises Product Development Department;
- Build-out of the L700 tape library, from 384 to 666 slots, which constituted long term strategic action aimed at ensuring proper level of data backup on infrastructural servers;
- Building of a redundant core for Avaya PBX, which supports the Call Centre services delivered through multiple scattered locations (e.g. CitiPhone agents in Warsaw, Łódź and Katowice form a single virtual Call Centre team).

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

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

- Substantial build-out of the Autodialer system, with the aim of increasing work efficiency of telephone sales and collection units;
- Implementation of an advanced system supporting SMS text communication;
- Continued expansion of the offer addressed to expatriate Poles: enabling international cash transfers in real time;
- Implementation of a system that facilitates surveillance and prevention of transactions executed with stolen debit cards;
- Implementation of a capability for immediate loan application assessment and issuance of EMV cards at the branch level;
- Implementation of a new debt card, which will replace the existing debt cards;

- Implementation of subsequent modules of the Focus system (required by the Regional Clearing Centre in Olsztyn); to enable elimination of EUC tools and improvement of review processes throughout the bank;
- Implementation of the Feniks system based on EMC Documentum software, which will enable modelling of business processes and upgrade electronic document processing;
- Upgrading of the Promak system; further development of the currently used platform;
- Implementation of the new ESDK system (electronic message distribution system) within the Custody Services Office serving messaging with the National Depository for Securities. The project must be implemented by the end of March 2009 in respect of all capital market participants;
- Implementation of Predictive Autodialer, which will automate the business processes in banking product sales.

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

Equity investments

All capital investments of the Bank are classified as part of either the strategic or the divestment exposures portfolios. In 2008 the Group 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 Group's offer. In managing its divestment portfolio the Bank aimed to: optimise financial result on the transactions and to minimise the risk inherent in such transactions.

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.

Divestment portfolio

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

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

Other information about the Group

Rating

The Bank has a full rating of Moody's Investors Service ('Moody's') international rating agency. In 2008 there were the following rating changes:

- on 23 April 2008 Moody's notified the Bank on a change of the prospect for rating of long-term domestic currency deposits: from stable to negative. This change was a consequence of the Moody's decision to reduce the rating of the financial strength outlook of Citibank NA to negative. The agency maintained the stable perspective for the rating of the financial strength of Bank Handlowy w Warszawie S.A.;
- on 19 December 2008 Moody's reduced its rating for the Bank's long-term domestic currency deposits from Aa3 to A2 with stable outlook. The rating decision was a consequence of the Moody's decision to change ratings for Citigroup Inc. and Citibank N.A. on 18 December 2008. At the same time, the rating agency retained the previous financial strength outlook rating of the Bank at C- and the rating for the Bank's long-term currency deposits at A2, both with stable outlook. The Moody's also maintains unchanged the ratings for short-term currency and Polish zloty deposits of the Bank at Prime-1;
- on 20 January 2009 the Moody's rating agency changed the rating outlook, previously stable, and placed it on the watch list, with a possibility of downgrading its ratings for the Bank's long-term currency and Polish zloty deposits, and the Bank's financial strength. The Bank's ratings, being the assessment of its long- and short-term liabilities and of its financial strength, remain unchanged (A2, P-1 and C- respectively). The change described here was a consequence of the rating decisions adopted in respect of Citigroup Inc. and Citibank N.A. on 16 January 2009;
- on 3 March 2009 the Moody's rating agency downgraded local and foreign currency deposit ratings of the Bank to A3 from A2 on rating under review for possible downgrade. The short-term deposit ratings were downgraded to P-2 from P-1. Bank Financial Strength Rating (BFSR) of C- was not affected and remains on review for possible downgrade. The change described here was a consequence of the rating decisions adopted in respect of Citigroup Inc. and Citibank N.A. on 27 February 2009.

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

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

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

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

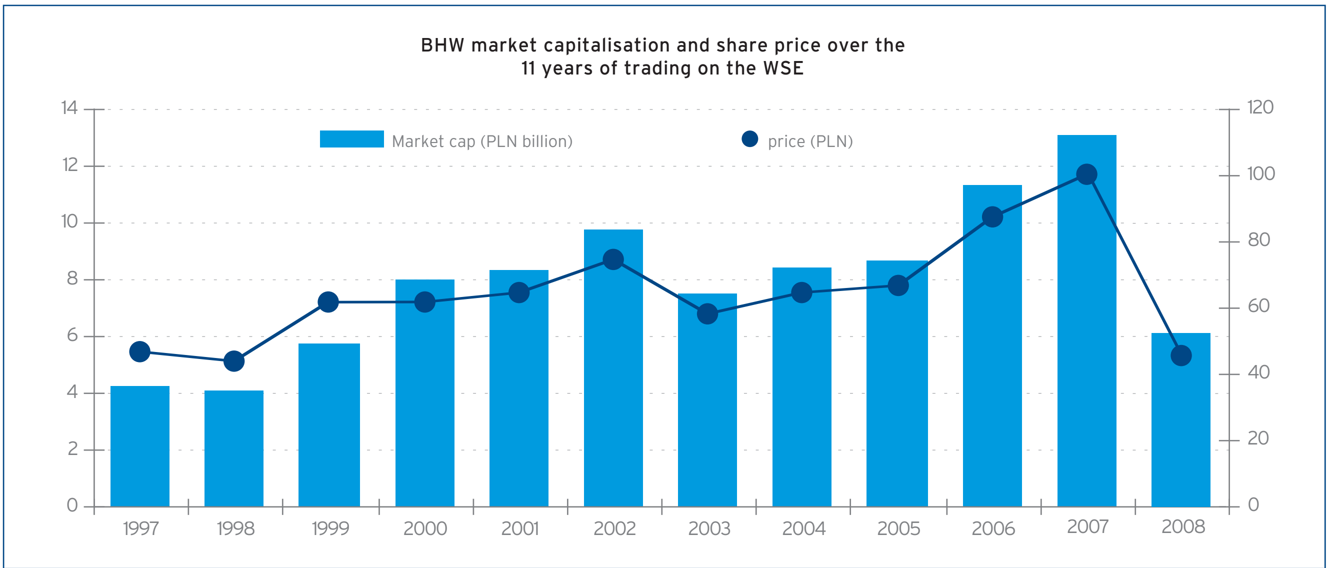
The Bank's shareholding structure and performance of its stock on the Warsaw Stock Exchange

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

Number of shares held by Pioneer Pekao Investment Management S.A. stands at 6,547,467 representing 5.01% participation in the share capital and votes at the GSM.

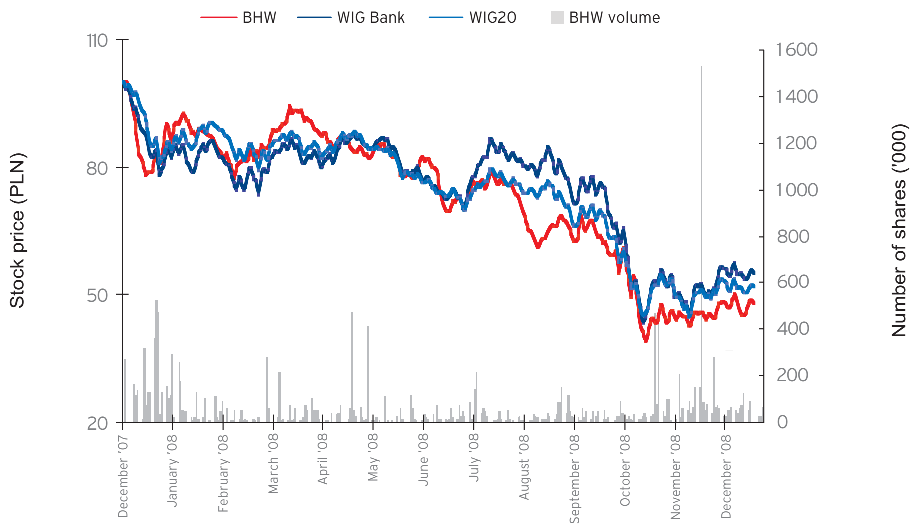
The remaining shares (26,117,433, equivalent to 19.99% of the share capital) constitute free float, in other words, remain in free trading and are listed on WSE.

Eleven years elapsed since floatation of Bank Handlowy w Warszawie S.A. on WSE. The year 2008 was a period in which the Bank's share price experienced declines; its market capitalisation at the end of 2008 stood at PLN 6.3 billion (compared to PLN 13.1 billion at the end 2007). It market price ratios were as follows: price to earnings (P/E) at 10.4 (13.7 in 2007); price to book value (P/BV) at 1.1 (2 in 2007).



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

BHW share price and trading volume against
WIG-Banks and WiG20 market indices
(28/12/2007=100)



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

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

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

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

Compared to the other WIG-Banks equities (the sub-index lost 438%), the Bank's stock lost what was the average of the sector. Price reductions of some Polish banks reached over 70%. The Bank's 'result' was only slightly below that of the WIG20 index, which registered a 47.7% decline.

Interest rates

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

As at 31 December 2008:

in %	Commercial Bank			Consumer Bank		
	PLN	EUR	USD	PLN	EUR	USD
ASSETS						
Receivable from financial and non-financial sector entities						
- fixed term	7.24	4.63	3.11	19.17	4.14	7.4
Debt securities	5.57	4.08	5.49	-	-	-
LIABILITIES						
Payable to financial and non-financial sector entities						
- fixed term	5.53	2.95	1.87	7.39	3.78	2.93

As at 31 December 2007:

in %	Commercial Bank			Consumer Bank		
	PLN	EUR	USD	PLN	EUR	USD
ASSETS						
Receivable from financial and non-financial sector entities						
– fixed term	5.77	5.59	5.06	19.63	6.75	9.05
Debt securities	5.29	3.57	4.83	-	-	-
LIABILITIES						
Payable to financial and non-financial sector entities						
– fixed term	4.36	4.52	5.03	4.21	3.36	3.92

Awards and honours

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

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

Engagement in cultural patronage and social responsibility projects

Social responsibility projects

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

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

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

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

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

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

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

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

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

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

ZrozumFinanse.pl, Banks's educational portal was visited by over 500,000 users in 2008. The project was launched in November 2007 and hence developed and evolved ever since. Its innovative segmentation allocates users into three groups: Singles, Couples and Families. Website content that has enjoyed unabating popularity is the Strategic Game, a financial management simulation game. The player's task over the game's 30 rounds (each symbolising one month in their life) is to manage their personal finances in such a way as to maximise their financial resources by the game' end, this including: cash, savings (deposits, investment trust funds), personal property (e.g. a vehicle) and real property (e.g. a flat), and the relevant financial security instruments (pension fund, life insurance policy).

To facilitate navigation and access to its content, the portal has been structured into respective sections, in which content is grouped thematically. The visitor is provided with the choice of the following: Step By Step, Financial World, What Do You Do When, Know the Consequences, Topic of the Day and Glossary. The varied selection of multimedia solutions includes presentations, films and survey presenting the practical aspects of respective banking products.

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

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

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

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

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

Cultural patronage

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

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

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

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

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

Special purpose investment vehicle companies

In 2008 the Group conducted its capital investment operations through its three investment companies, their operations financed by the Bank through reverse capital increases, subordinated and other loans, and from their own earnings. As the Group intends to limit the scale of this type of operations, the investment companies are going to be successively divested or liquidated. As per the data available at the date of preparation of the financial statements (interim, unaudited), summary financial data of these entities, as at 31 December 2008, were as follows:

Company	Head Office	% of authorised capital held by the Bank	Total assets as at 31.12.2008	Equity as at 31.12.2008	Net profit /loss for 2008
		%	PLN '000		
Handlowy Inwestycje Sp. z o.o.	Warsaw	100.00	16,762	12,403	1,568
Handlowy Investments S.A	Luxembourg	100.00	28,625	28,189	(6,007)
Handlowy Investments II S.a.r.l	Luxembourg	80.97	7,125	6,930	(1,587)

Significant risk factors relating to the Group's operations

Major risk factors and threats to the Group's operating environment

Economy

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

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

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

Regulatory risk

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

The most relevant of these regulations include and cover:

- acceptable concentration of loans and total receivables (Banking Law Act);

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

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

Competition within the banking sector

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

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

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

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

Major risk factors and threats connected with the Group and its operations

Liquidity risk

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

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

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

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

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.

Interest rate risk

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

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.

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.

Operating risk

The Group 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 Group. Operating risk does not include the reputational risk, the strategic risk or the risk of potential losses arising from decisions relating to undertaking the credit risk, the market of potential, the liquidity risk or the insurance and underwriting activity risk.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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.

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

The Group's general development objectives

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

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

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

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

Corporate and Commercial Bank

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

At the end of 2008 the Bank's market share in corporate loans reached 3.3% compared to 4.2% at the end 2007 while its share in corporate deposits stood at 7.4% and 8.5% respectively. The market share of DMBH, the Group entity specialising in securities brokerage, measured as a percentage of WSE trading, rose from 9.5% in 2007 to 12.2% in 2008. As a result, DMBH ascended to the second position in the market as it retained its position of leadership in serving the broker-dealer related needs of corporate clients.

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

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

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

Brokerage

Further development of securities brokerage has depended and continues to depend to a great extent on growth in the Polish capital market, which do not appear particularly promising for the years 2009-2010. Corporate entities constitute the dominant group among DMBH's clients in terms of their revenue contribution. DMBH aims to increase its market share in that segment, primarily through improved penetration of that customer group as well as through offering new products. Moreover, DMBH will improve further improve access to retail customers and cost effectiveness of serving them through close cooperation with the Consumer Bank. Another factor that can contribute to development of brokerage business is the initial public offerings market, yet because of the current capital market trends no major activity in that market is expected in the year 2009.

Leasing

The priorities set out for the Group's leasing activity in respective quarters of the year 2009 include:

- Further development of cross-selling with the Bank. One important element, which organises collaboration between the Bank and Handlowy-Leasing is the common platform located in the Commercial Bank division, which covers all SME clients. We expect that that One SME will have a positive impact on development of the scale of cross-selling between the leasing business and the Bank;
- Intensified activity in market segments including construction machinery, printing machinery, metalworking machinery and injection moulding machinery;
- Development of the product offer of Handlowy-Leasing;
- Growing sales in the smaller vehicles segment;
- Care for quality of the credit portfolio through adjustment of risk assessment criteria for respective sectors to the present state of the economy; applicable to all new transactions;
- Maintaining strict discipline in management the credit portfolio with parallel emphasis on minimising the cost of delinquent debt loss provisions.

In 2009, in view of the economic downturn, lower than earlier assumed investment indicators and global recession, which translate directly into reduced proclivity of enterprises for undertaking long term financial obligations, the Company expects no substantial growth in revenue from leasing of tangible fixed assets, i.e. machinery and equipment and smaller vehicles.

Achievement of financial result equivalent to that of the year 2008 is for the Company of crucial importance. Maintaining the scale of machinery and smaller vehicle leasing at the level of the year 2008 is also important. In the past year the Polish market registered a decline in sales of transport vehicles and the situation of the transport sector was assessed as difficult.

As concerns new products, Handlowy-Leasing plans to launch Car Fleet Management solution in January 2009. In collaboration with Toyota, it is going to offer its clients operating leases combined with complete fleet handling support.

Consumer Bank

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

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

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

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

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

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

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

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

Distribution network

In the course of the year 2009 the Bank will use its best endeavours in order to ensure appropriate level of customer service. It will, at the same time, respond to market developments as they occur. The plans include opening of 11 new partnership outlets: agencies. The Bank will also implement novel solutions aimed at streamlining and stepping up cash management services for the customers.

The priorities include increasing functionality and accessibility of remote distribution channels and further upgrading the qualifications of the Bank consultants, in particular those serving large entities that require more sophisticated financial products. In the case of the Consumer Bank substantial emphasis will be placed on further growth of internet usage (Citibank Online). As a target, internet is to become for private individuals the basic transaction medium.

Synergies

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

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

Declaration of Bank Handlowy S.A. regarding compliance with Corporate Governance rules

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

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

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

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

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

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

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

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

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

Internal control and risk management systems in the process of drawing up consolidated financial statements of the Capital Group of the Bank ('Group')

Consolidated financial statements of the Group 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 consolidated financial statements is subject to the Group'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 Group's financial statements, auditing the Group'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 Group'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 Group'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 Group'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 Group'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 Group'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 Group's COB plan.

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

The Group's internal audits are conducted by the Audit and Risk Review Department, a separate organizational unit of the Group, 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 Group'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 Banks'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 Group's internal control are considered.

Significant shareholdings

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

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

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

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

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

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

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

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

1) determines the strategy of the Company;
2) establishes and liquidates the Company's committees and determines their competences;

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

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

President of the Management Board:

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

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

Amendments to the Articles of Association

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

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

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

General Meeting procedure

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

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

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

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

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

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

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

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

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

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

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

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

General Meetings may be attended by the media.

Fundamental powers of the Company's General Meeting

The General Meeting should be convened to:

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

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

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

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

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

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

Shareholders' rights and their exercise method

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Management Board

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

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

Sławomir S. Sikora – President of the Management Board;

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

Peter Rossiter – Vice-President of the Management Board;

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

Witold Zieliński – Vice-President of the Management Board.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Supervisory Board

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

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

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

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

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

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

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

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

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

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

   as adopted by the Management Board of the Company;
6) granting prior consent to undertaking measures with respect to management of the Company's fixed assets with value exceeding 1/10 of the Company's share capital;
7) appointment of the Company's statutory auditor;
8) granting consent to employment and dismissal of the person in charge of the Audit and Risk Review Department upon the motion of the Management Board;

9) supervision over the Company's internal control system in line with the principles determined separately in the Company's Articles of Association and the Regulations of the Audit Committee;

10) any performances made by the Company and its related parties for the benefit of members of the Management Board as well as granting consent to entering into a material agreement by the Company or its subsidiary with the Company's related party, member of the Supervisory Board or Management Board as well as their related parties;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Supervisory Board Committees

Standing Committees of the Supervisory Board include:

1) Audit Committee; and

2) Remuneration Committee;

3) Risk and Capital Committee.

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

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

Audit Committee

The Audit Committee is composed of:

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

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

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

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

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

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

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

At least on an annual basis the Audit Committee meets:

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

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

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

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

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

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

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

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

Remuneration Committee

The Remuneration Committee is composed of:

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

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

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

The competences of the Remuneration Committee include:

1) evaluating the remuneration paid to members of the Company's Management Board against arm's length criteria. The evaluation involves analysis of reports prepared by independent experts or independent market research companies and providing the Supervisory Board with information on material changes to arm's length conditions for remunerating management board members of competitive entities;
2) evaluating the remuneration paid to members of the Company's Management Board with respect to their scopes of duties and their performance. The evaluation involves analyses of the relationship between remuneration paid to individual members of the Company's Management Board and the present scope of their duties and the performance of such duties by members of the Company's Management Board as well as informing the Supervisory Board of material changes in the relationship referred to above;
3) providing the Supervisory Board with recommendations as to the amount of remuneration paid to individual members of the Company's Management Board each time prior to its determination or modification. Recommendations are submitted following the assessment of qualifications and scopes of duties of each member of the Company's Management Board as well as suggestions as to the adequate remuneration. The suggestions presented by the

Remuneration Committee ought to apply to both the total amount of remuneration and its individual components;

4) performing a general assessment of the correctness of the remuneration policy adopted by the Company with respect to its management not being members of the Management Board.

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

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

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

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

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

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

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

Risk and Capital Committee

The Risk and Capital Committee is composed of:

1) Susan Blaikie – Chairman of the Committee;

2) Sabine Hansen – Member of the Committee;

3) Andrzej Olechowski – Member of the Committee;

4) Krzysztof Opolski – Member of the Committee.

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

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

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

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

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

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

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

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

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

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

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

Other information about Bank's authorities and Corporate Governance rules

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

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

PLN ('000)	Short terms salaries, awards and benefits		Capital assets granted
	Base salaries and awards	Other benefits	
Sławomir 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 Management Board in respect of the year 2007:

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

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

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

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

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

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

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

Remuneration paid and payable in respect of the years 2008 and 2007 to the persons managing subordinates of the Bank amounted to PLN 3,859,000 and PLN 2,059,000 respectively.

The persons supervising subordinates of the Bank did not receive remuneration neither in 2008 nor 2007.

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

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

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

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

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

Corporate Governance rules

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

Agreements concluded with registered audit company

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

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

PLN '000	Applicable to year	2008	2007
Audit fees for the Bank-parent company[1)]		741	741
Review fees for the Bank-parent company[2)]		366	366
Audit fees of subsidiary entities[3)]		427	447
Other assurance fees[4)]		-	12
		1,534	**1,566**

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

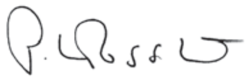
2) The contract fees for the review of the semi-annual stand-alone financial statements of the Bank and consolidated financial statements of the Bank Capital Group (agreement signed on 14 July 2008).

3) The audit fees of subsidiary entities include professional fees paid or payable to KPMG for the services relating to audits and reviews of the Bank's subsidiary services.

4) 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 of the Bank – the parent entity and subsidiary entities not abovementioned in points (1), (2) and (3).

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

Signatures of all Management Board Members

Date	Name	Position/function	Signature
12.03.2009	Sławomir S. Sikora	President of the Management Board	
12.03.2009	Michał H. Mrożek	Vice-President of the Management Board	
12.03.2009	Peter Rossiter	Vice-President of the Management Board	
12.03.2009	Sonia Wędrychowicz- -Horbatowska	Vice-President of the Management Board	
12.03.2009	Witold Zieliński	Vice-President of the Management Board